

# STATE OF MINNESOTA

## Office of the State Auditor



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

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MANAGEMENT AND COMPLIANCE REPORT  
PREPARED AS A RESULT OF THE AUDIT OF THE

**CITY OF SAINT PAUL**  
**SAINT PAUL, 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.

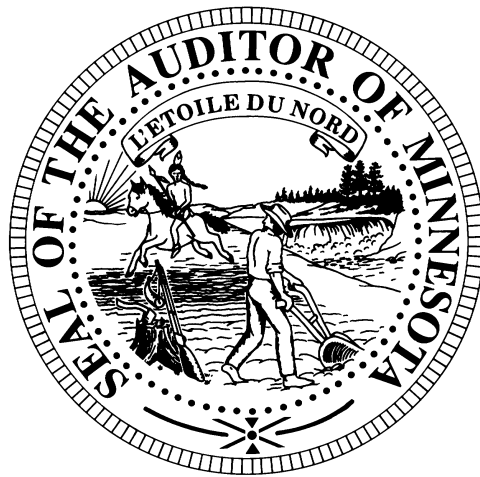
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CITY OF SAINT PAUL  
SAINT PAUL, MINNESOTA**

**Year Ended December 31, 2005**



**Management and Compliance Report**

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

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**CITY OF SAINT PAUL  
SAINT PAUL, MINNESOTA**

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**CITY OF SAINT PAUL  
SAINT PAUL, 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 basic financial statements of the City of Saint Paul.
- B. No matters involving internal control over financial reporting were 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*."
- C. No instances of noncompliance material to the financial statements of the City of Saint Paul 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 City of Saint Paul 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:
  - Community Development Block Grants/
  - Section 108 Loan Guarantees CFDA #14.248
  - Highway Planning and Construction CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$617,444.
- I. The City of Saint Paul was determined to be a low-risk auditee.

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

None.

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

None.

**IV. 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, accomplish 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 City of Saint Paul will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the City of Saint Paul 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 City of Saint Paul determines that the establishment of a trust is desirable in order to fund the OPEB, the City 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 City of Saint Paul will have to decide whether to hire an actuary.

GASB Statements 43 and 45 would be implemented for the years ended December 31, 2006 and 2007, respectively, for the City of Saint Paul.

The City of Saint Paul has made a determination that employees are provided OPEB. The City and its actuarial consultant, Van Iwaarden Associates, are presently exploring funding options. The City expects a completed actuarial valuation of its OPEB liability during the fall of 2006.

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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***

The Honorable Mayor and Members of the City Council  
City of Saint Paul, Minnesota

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 the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2005, and have issued our report thereon dated June 23, 2006. We did not audit the financial statements of the Saint Paul RiverCentre Convention and Visitors Authority, which represent 1 percent and 16 percent, respectively, and the Port Authority of the City of Saint Paul, which represent 31 percent and 22 percent, respectively, of the assets and program revenues of the aggregate discretely presented component units. Those financial statements were audited by 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. The financial statements of the Saint Paul RiverCentre Convention and Visitors Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Saint Paul'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Saint Paul'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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the City of Saint Paul complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Mayor, the City Council, the City's 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 23, 2006



**STATE OF MINNESOTA**  
**OFFICE OF THE STATE AUDITOR**

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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**

The Honorable Mayor and Members of the City Council  
City of Saint Paul, Minnesota

Compliance

We have audited the compliance of the City of Saint Paul, 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, 2005. The City of Saint Paul'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 City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City of Saint Paul's financial statements include the operations of the Housing and Redevelopment Authority (HRA) of the City of Saint Paul and the Port Authority of the City of Saint Paul, component units of the City, which expended \$3,751,376, and \$542,381, respectively, in federal awards during the year ended December 31, 2005. Our audit, described below, did not include the operations of the HRA because it had a separate single audit in accordance with OMB Circular A-133. Our audit also did not include the operations of the Port Authority because other auditors were engaged to perform 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 the City of Saint Paul'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 City's compliance with those requirements.

In our opinion, the City of Saint Paul 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 the City of Saint Paul 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 City'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 the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2005, and have issued our report thereon dated June 23, 2006. We did not audit the financial statements of the Saint Paul RiverCentre Convention and Visitors Authority, which represent 1 percent and 16 percent, respectively, and the Port Authority of the City of Saint Paul, which represent 31 percent and 22 percent, respectively, of the assets and program revenues of the aggregate discretely presented component units. Those financial statements were

audited by other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Saint Paul'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 Mayor, the City Council, the City's 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*

*/s/Greg Hierlinger*

PATRICIA ANDERSON  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: June 23, 2006

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**CITY OF SAINT PAUL  
SAINT PAUL, 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 Commerce</b>			
Direct Grant			
Grants for Public Works and Economic Development Facilities Economic Development Administration	11.300	\$ 77,908	\$ -
<b>U.S. Department of Housing and Urban Development</b>			
Direct Grants			
Community Development Block Grants/Entitlement Grants	14.218	\$ 11,750,687	\$ 2,529,553
Emergency Shelter Grants Program	14.231	333,541	333,395
Community Development Block Grants/Brownfields Economic Development Initiative (BEDI; Section 108)	14.246	765,041	765,041
<b>Total U.S. Department of Housing and Urban Development</b>		<b>\$ 12,849,269</b>	<b>\$ 3,627,989</b>
<b>U.S. Department of the Interior</b>			
Direct Grant			
Rivers, Trails, and Conservation Assistance Desnoyer Railing National Park Service	15.921	\$ 2,560	\$ -
Two Rivers Overlook Scenic Byways	15.921	6,192	-
<b>Total U.S. Department of the Interior</b>		<b>\$ 8,752</b>	<b>\$ -</b>
<b>U.S. Department of Justice</b>			
Direct Grants			
Missing Children's Assistance - Internet Crimes Against Children	16.543	\$ 256,656	\$ -
Local Law Enforcement Block Grant Program			
Local Law Enforcement Block Grant Program VIII	16.592	215,000	5,051
Local Law Enforcement Block Grant Program IX	16.592	133,343	54,509
Bulletproof Vest Partnership Program	16.607	5,041	-
Public Safety Partnership and Community Policing Grants			
Cops More 2002	16.710	67,447	-
Recruitment, Hiring, and Retention of Community Policing Officers	16.710	99,040	-
Value Based Initiative Grant	16.710	184,404	-
Edward Byrne Memorial Justice Assistance Grant Program			
Justice Assistance	16.738	26,222	-

**CITY OF SAINT PAUL  
SAINT PAUL, 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 Justice (Continued)</b>			
Passed Through Minnesota Department of Public Safety			
Juvenile Accountability Incentive Block Grants			
Disproportionate Minority Contact	16.523	245,910	-
2005 Juvenile Accountability Incentive Block Grants	16.523	96,485	-
Youth Achievers Program	16.523	12,000	-
Juvenile Justice and Delinquency Prevention Allocation to States			
Youth Achievers Program	16.540	38,000	-
Title IV - Delinquency Prevention Program			
Children's Crisis Response	16.548	50,000	-
National Institute of Justice Research, Evaluation, and Development Project Grants			
Coverdell Forensic	16.560	9,830	-
Edward Byrne Memorial Formula Grant Program			
Vietnamese Youth Education and Crime Prevention	16.579	7,711	-
Youth Health and Academic Enrichment	16.579	70,300	-
Econ Crime Prevention	16.579	7,114	-
Our Children Program	16.579	76,672	-
Youth Express Big and Huge Program	16.579	21,335	-
Narcotics Control Program - Surveillance	16.579	95,630	-
Youth Achievers Program	16.579	10,036	-
Strike Force Grant	16.579	35,000	-
National Incident Based Reporting System (NIBRS) Grant	16.733	94,050	-
Passed Through National Association of Police Athletic/ Activities Leagues, Inc.			
Part E - Developing, Testing, and Demonstrating Promising New Programs			
Police Athletic/Activities Leagues Youth Enrichment Program (PALYEP)	16.541	15,000	-
<b>Total U.S. Department of Justice</b>		<b>\$ 1,872,226</b>	<b>\$ 59,560</b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction			
Federal Highway Administration	20.205	\$ 4,172,618	\$ -
Intermodal Surface Transportation Efficiency Act			
Como Trail Tunnel	20.205	104,340	-

**CITY OF SAINT PAUL  
SAINT PAUL, 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 (Continued)</b>			
Passed Through Minnesota Department of Public Safety			
State and Community Highway Safety			
Safe and Sober	20.600	34,992	-
Speed Limit Enforcement Grant	20.600	3,491	-
Alcohol, Traffic Safety, and Drunk Driving Prevention			
Incentive Grants - Night Cap Grant	20.601	5,575	-
Interagency Hazardous Materials Public Sector Training and			
Planning Grants - 2004 Hazardous Materials Emergency			
Preparedness Grant Program			
	20.703	3,155	-
<b>Total U.S. Department of Transportation</b>		<b>\$ 4,324,171</b>	<b>\$ -</b>
<b>U.S. Equal Employment Opportunity Commission</b>			
Direct Grant			
Employment Discrimination - State and Local Fair Employment			
Practices Agency Contracts			
Equal Employment Opportunity - EEOC	30.002	<b>\$ 51,200</b>	<b>\$ -</b>
<b>Institute of Museum and Library Services, National Foundation on the Arts and the Humanities, Office of Library Services</b>			
Passed Through Minnesota Department of Education and the			
Friends of the Library			
Grants to States			
Assistive Technology	45.310	\$ 4,295	\$ -
Senior Grant	45.310	3,385	-
Needs Assessment	45.310	12,715	-
Passed Through the College of St. Catherine			
Grants to States			
Teaching/Learning Library	45.310	61,073	-
<b>Total Institute of Museum and Library Services</b>		<b>\$ 81,468</b>	<b>\$ -</b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Minnesota Department of Human Services			
Block Grants for Prevention and Treatment of Substance Abuse			
Night Moves Program	93.959	<b>\$ 65,000</b>	<b>\$ -</b>

**CITY OF SAINT PAUL  
SAINT PAUL, 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>Corporation for National and Community Service</b>			
Direct Grant			
Volunteers in Service to America (VISTA) AmeriCorps	94.013	\$ 233,553	\$ -
Passed through ServeMinnesota			
AmeriCorps	94.006	102,341	-
<b>Total Corporation for National and Community Service</b>		<b>\$ 335,894</b>	<b>\$ -</b>
<b>U.S. Department of Homeland Security</b>			
Direct Grants			
Assistance to Firefighters Grants			
2004 Assistance to Firefighters Grant	97.044	\$ 220,434	\$ -
Assistance to Firefighters Fire Prevention and Safety Programs	97.044	1,395	-
Passed through Minnesota Department of Public Safety			
State Domestic Preparedness Equipment Support Program			
2003 Federal Homeland Security Equipment Grant Program Part II	97.004	324,644	-
2003 Federal Homeland Security Equipment Grant Program Part I	97.004	12,181	-
2003 State Homeland Security Part II Critical Infrastructure Protection	97.004	75,165	-
2005 State Homeland Security Grant Program	97.004	8,237	-
2004 Law Prevention Terrorism Prevention	97.004	79,422	-
2004 Homeland Security Grant	97.004	73,535	-
Urban Areas Security Initiative			
Urban Areas Strategic Initiative	97.008	51,356	-
Homeland Security Grant Program			
2005 Law Prevention Terrorism Prevention	97.067	24,215	-
2005 Homeland Security Grant - Haz Mat	97.067	45,000	-
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 915,584</b>	<b>\$ -</b>
<b>Total Cash Federal Awards</b>		<b>\$ 20,581,472</b>	<b>\$ 3,687,549</b>
<b>Noncash Awards</b>			
U.S. Department of Housing and Urban Development			
Direct			
Community Development Block Grants/Section 108			
Loan Guarantees	14.248	3,303,625	3,303,625
<b>Total Federal Awards</b>		<b>\$ 23,885,097</b>	<b>\$ 6,991,174</b>

**CITY OF SAINT PAUL  
SAINT PAUL, MINNESOTA**

***Schedule 2  
(Continued)***

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

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 City of Saint Paul. It does not include \$3,751,376 and \$542,381 in federal awards expended by the HRA and Port Authority, respectively, component units of the City, which had separate single audits. The City of Saint Paul's reporting entity is defined in Note II to the financial statements.
2. The expenditures on this schedule are on the basis of accounting used by the individual funds of the City of Saint Paul. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis. The basis used for CFDA No. 14.248 is the value of new loans guaranteed during the year.
3. Pass-through grant numbers were not assigned by the pass-through agencies.