

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

MANAGEMENT AND COMPLIANCE REPORT OF THE

CITY OF DULUTH
DULUTH, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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**CITY OF DULUTH
DULUTH, MINNESOTA**

Year Ended December 31, 2004



Management and Compliance Report

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

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**CITY OF DULUTH
DULUTH, MINNESOTA**

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**CITY OF DULUTH
DULUTH, MINNESOTA**

Schedule 1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

This State Auditor's Management and Compliance Report includes the Duluth Economic Development Authority (DEDA) as it became a City-blended component unit in 2004.

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of the City of Duluth.
- B. Reportable conditions in internal control were disclosed by the audit of financial statements of the City of Duluth and are reported in the "Report on Compliance and on Internal Control Over Financial Reporting 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 the City of Duluth 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 Duluth 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:

Northeastern Minnesota Environmental Infrastructure and Resource Development Program	CFDA #12.XXX
Community Development Block Grant	CFDA #14.218
Workforce Investment Act - Adult Program	CFDA #17.258
Workforce Investment Act - Youth Activities	CFDA #17.259
Workforce Investment Act - Dislocated Workers	CFDA #17.260

- H. The threshold for distinguishing between Types A and B programs was \$341,350.
- I. The City of Duluth 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 ITEMS NOT RESOLVED

96-5 Departmental Internal Control

The limited number of office personnel within various City departments prevents a proper segregation of the revenue accounting functions necessary to ensure adequate internal accounting control. The revenue accounting functions consist of collecting and receipting fines, permits, licenses, utility billings, and miscellaneous revenues.

Such a situation is not unusual in small departmental operations or where cash collection is decentralized. However, the City's management should constantly be aware that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

We recommend that the City's management be aware of the lack of segregation of the accounting functions within City departments and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff. The City should consider centralizing the cash collection functions under the City Treasurer in order to strengthen the internal control over cash receipting.

Client's Response:

The City is aware that, in some departments, staffing levels may prevent an ideal segregation of duties. Mitigating controls are implemented when feasible. The City is implementing new accounting systems that may allow us to integrate departmental cash collections together with the City Treasurer's Office.

96-8 Sales and Use Tax Collections

The City Treasurer's Office audits, collects, and accounts for sales and use taxes. An independent party outside the City Treasurer's Office does not review the individual tax accounts. The tax collection function should be separate from the auditing and accounting functions.

We recommend the Finance Director review the internal control over the collection of sales and use taxes.

Client's Response:

The Minnesota Department of Revenue will be taking over responsibility for the City's sales and use tax function effective January 1, 2006.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-10 Policies and Procedures Manual

The City should update the accounting policies and procedures manual to cover current financial operations. Existing policies and procedures should be updated and new policies and procedures written for current accounting systems.

A manual helps to prevent the deterioration of key elements in the City's internal controls. A manual can often help to avoid circumvention of City policy. It provides assistance in training new personnel and provides a source of reference for current personnel.

We recommend the Finance Director update the accounting policies and procedures manual covering the current financial operations.

Client's Response:

The City Auditor's Office will work, as time permits, on updating accounting-related items within the City's Policies and Procedures Manual.

01-6

Premium Hours

Our review of the premium hours report for the year ended December 31, 2004, indicates that City employees accrued a total of 106,890 overtime and compensatory time hours worth approximately \$2,505,000. This is an increase of 12,322 hours from the prior year. Forty-three employees earned in excess of 400 premium hours, of which one employee was compensated for 1160 premium hours worth \$38,189.

The City limits the number of full-time employees for each department during the budget process. Department managers may be using premium hours in order to stay within these authorized limits. In addition, the City has limited the hiring of new staff. The City relies on the employees' supervisors to determine that hours compensated were necessary and were actually worked.

We recommend the City Administration and City Council carefully review the necessity of the premium hours compensated and consider the cost of premium hours versus additional staffing.

Client's Response:

The City continues to monitor the use of premium hours in all City Departments. The majority of premium hours are the result of having to fill shifts in Police and Fire operations to meet minimum staffing requirements. In addition, a hiring freeze has contributed to an increase in premium hours. The Administration believes the use of premium hours in some areas is less expensive than hiring additional employees, especially after considering the liability incurred for other post-employment benefits.

01-7

Special Assessment Debt Service Fund

The Special Assessment Debt Service Fund had a negative cash balance of \$896,579 after the February 1 principal and interest payments and remained negative through much of the year. The negative balance is caused by abatements, certification withdrawals, and bond costs not being funded.

We recommend the City administration estimate the unfunded amount each year and develop a plan to fund these amounts.

Client's Response:

The City Auditor's Office will review the funding mechanisms for the Special Assessment Debt Service Fund and evaluate the need for increased funding, if necessary.

03-2 Uncollectible Receivables Policy

The City does not have a formal policy addressing the proper procedures and authorization needed to write off uncollectible miscellaneous and billed receivables from the City's accounting records. Uncollectible accounts should be written off only in accordance with applicable legal and policy requirements and be approved by a responsible official who is not associated with the detailed receivable and cash functions.

We recommend a policy be adopted outlining the proper procedures to follow and authorization needed to write off uncollectible accounts.

Client's Response:

The City is in the process of installing new accounting systems and, as part of that project, will develop procedures for the write-off of uncollectible accounts.

03-3 Capital Equipment Budget

The City Council does not formally approve a capital equipment budget. The Council approves the equipment purchase contracts before each purchase. The equipment is then financed by capital notes, which are approved for issuance after most of the equipment has already been purchased. A formally approved capital equipment budget ensures that purchases are planned and that the necessary financing is considered before the actual purchase is made.

We recommend a budget for capital equipment expenditures and related financing be periodically approved prior to such purchases being made.

Client's Response:

The City will review the capital equipment process and investigate various means to obtain Council approval for the funding and purchase of capital equipment.

PREVIOUSLY REPORT ITEMS RESOLVED

Unpaid City Claims (03-1)

The Spirit Mountain Recreation Area Authority owed the City \$231,512 for insurance coverage and administrative service reimbursements.

Resolution

The City adopted resolution 05-0250R that established a payment schedule for the amounts owed by the Authority.

Promissory Note Delinquency (DEDA 02-1)

No payments had been received on a promissory note.

Resolution

A settlement agreement was developed.

Developer Loan Covenants (DEDA 02-2)

An employment reporting form had not been filed for a loan write-off.

Resolution

The reporting form was filed with the City.

Northwest Maintenance Facility Trust Accounts (DEDA 03-1)

Excess construction funds were credited to the trust account. Investment earnings were transferred to the wrong trust account.

Resolution

The trust administrator resolved the issues.

B. OTHER ITEMS FOR CONSIDERATION

Postemployment Health Care Benefits

The City provides post-employment health care benefits to retirees in accordance with the various union contracts. Expenses for health care benefits are recognized as reported claims when paid and include a provision for estimated claims

incurred but not yet reported to the City. The City does not report, nor do generally accepted accounting principles currently require the reporting of, a liability when the benefit is earned.

During 2004, retirees' health care claims of \$5,491,632 were paid. This is a 856 percent increase from the 1989 claims of \$574,578 and a \$383,157 increase (8 percent) from the 2003 claims. We believe the City's expenses will continue to increase dramatically because of increasing numbers of retirees receiving this benefit, longer life spans, ever increasing medical costs, and possible decreasing Medicare coverage. An actuary calculated the City's unfunded post-retirement benefit obligation for health care benefits as of December 31, 2002, to be approximately \$191,720,000.

We recommend the City continue seeking methods of controlling and funding this rising unfunded employee benefit.

Client's Response:

Changes were made in the most recent employee bargaining agreements that will help control future liabilities. In addition, a task force has been established to study retiree health care costs. The City will continue to seek ways to further control or reduce costs associated with postemployment benefits in conjunction with implementation of Governmental Accounting Standards Board Statement No. 43 and Statement No. 45.

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. OPEBs can include many different benefits offered to retirees such as health, dental, life and long-term care insurance coverage. Also, if retirees are included in an insurance plan and pay a rate similar to that paid for younger active

Schedule 1
(Continued)

employees, this implicit rate subsidy is considered an OPEB. In fact, local governments may be required to continue 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 statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

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

- Determine if the employees are provided OPEBs.
- If OPEB exists, will the government advance fund the benefits or pay as you go?
- Will a trust be established to hold assets that may be set aside to fund the OPEB?
- Obtain an actuary to determine the annual costs and liabilities that need to be recognized.

GASB Statements 43 and 45 are effective for years ended December 31, 2006 and 2007, respectively for the City.



PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mayor and City Council
City of Duluth

We have audited the financial statements of the City of Duluth as of and for the year ended December 31, 2004, and have issued our report thereon dated June 17, 2005. These financial statements include the Spirit Mountain Recreation Area Authority activities for the year ended April 30, 2004. We did not audit the financial statements of the Steam District #2 Enterprise Fund, which statements represent seven percent of the assets and seven percent of operating revenues of the total enterprise funds. Those financial statements were audited by other auditors. Separate management and compliance letters have been issued for the Duluth Airport Authority, the Duluth Entertainment and Convention Center Authority, Duluth Steam District #2, the Duluth Transit Authority, and the Spirit Mountain Recreation Area Authority. The letters for the Duluth Airport Authority and the Duluth Transit Authority included the reports required for a single audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Steam District #2 Enterprise fund 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 Duluth'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, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 96-5 and 96-8.

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 neither of the reportable conditions indicated above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Duluth'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 main 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 City of Duluth complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the City's management, the Mayor, and the City Council 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 17, 2005

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PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Mayor and City Council
City of Duluth

Compliance

We have audited the compliance of the City of Duluth 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, 2004. The City'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 Duluth's basic financial statements include the operations of the Duluth Airport Authority and the Duluth Transit Authority component units, which expended \$7,542,245 and \$4,353,060, respectively, in federal awards during the year ended December 31, 2004, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Duluth Airport Authority and the Duluth Transit Authority because they had separate single audits 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 Duluth'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 Duluth 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, 2004.

Internal Control Over Compliance

The management of the City of Duluth 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 basic financial statements of the City of Duluth as of and for the year ended December 31, 2004, and have issued our report thereon dated June 17, 2005. We did not audit the financial statements of the Steam District #2 Public Utility Enterprise Fund. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Duluth'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 City's management, the Mayor, the City 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 17, 2005

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**CITY OF DULUTH
DULUTH, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDING DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture			
Passed Through Great Lakes Commission Soil and Water Conservation	10.902	\$ <u>9,150</u>	\$ -
U.S. Department of Commerce			
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration Awards	11.419	\$ <u>79,398</u>	\$ -
U.S. Department of Defense - Army Engineers			
Direct			
Northeastern Minnesota Environmental Infrastructure and Resource Development Program			
Morgan Park Wastewater Collection System Improvements	12.unknown	\$ 350,000	\$ -
Environmental Assistance Grant Program	12.106	<u>132,000</u>	<u>-</u>
Total U.S. Department of Defense - Army Engineers		\$ <u>482,000</u>	\$ -
U.S. Department of Housing and Urban Development			
Direct			
Community Development Block Grant	14.218	\$ 4,147,582	\$ 2,324,363
Emergency Shelter	14.231	126,641	120,995
Home Investment Partnerships Program	14.239	<u>778,247</u>	<u>713,325</u>
Total U.S. Department of Housing and Urban Development		\$ <u>5,052,470</u>	\$ <u>3,158,683</u>
U.S. Department of Justice			
Direct			
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	\$ 71,685	\$ -
Local Law Enforcement Block Grant	16.592	64,315	-
Bulletproof Vest Partnership Program	16.607	<u>9,297</u>	<u>-</u>
Total U.S. Department of Justice		\$ <u>145,297</u>	\$ -
U.S. Department of Labor			
Passed Through Senior Service America, Inc. Senior Aides Program	17.235	\$ 101,512	\$ -

**CITY OF DULUTH
DULUTH, MINNESOTA**

*Schedule 2
(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDING DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Labor (Continued)			
Passed Through Minnesota Department of Employment and Economic Development			
Senior Employment Program	17.235	259,938	-
Workforce Investment Act - Adult Program	17.258	175,393	-
Workforce Investment Act - Youth Activities	17.259	254,508	-
Dislocated Worker	17.260	179,090	-
Total U.S. Department of Labor		\$ 970,441	\$ -
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	\$ 1,825,318	\$ -
Passed Through Minnesota Department of Public Safety			
Safety Incentive Grants for Use of Seatbelts	20.604	578	-
Total U.S. Department of Transportation		\$ 1,825,896	\$ -
U.S. Environmental Protection Agency			
Direct			
Environmental Protection Consolidated Research	66.500	\$ 38,848	\$ -
Brownfield Assessment and Cleanup Cooperative Agreements	66.818	196,350	-
Environmental Education Grants	66.951	15,000	-
Passed Through Minnesota Department of Employment and Economic Development			
Capitalization Grant for Clean Water State Revolving Funds	66.458	2,197,778	-
Total U.S. Environmental Protection Agency		\$ 2,447,976	\$ -
U.S. Department of Health and Human Services			
Passed Through Arrowhead Regional Development Commission			
Senior Nutrition Program	93.045	\$ 201,901	\$ -

**CITY OF DULUTH
DULUTH, MINNESOTA**

Schedule 2
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDING DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
State Domestic Preparedness Equipment Support Program	97.004	\$ 56,795	\$ -
State and Local Homeland Security Exercise Support	97.006	24,264	-
Homeland Security Preparedness Technical Assistance	97.007	53,296	-
Public Assistance Grants	97.036	<u>29,443</u>	<u>-</u>
Total U.S. Department of Homeland Security		<u>\$ 163,798</u>	<u>\$ -</u>
Total Federal Awards		<u>\$ 11,378,327</u>	<u>\$ 3,158,683</u>

Notes to the 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 Duluth and does not include activities of its component units. The City's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the basis of accounting used by the individual funds of the City. Governmental funds use the modified accrual basis and proprietary funds use the accrual basis.
3. Pass-through grant numbers were not assigned by the pass-through agencies.