

CITY OF DUNKIRK, NEW YORK

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2010

CITY OF DUNKIRK, NEW YORK
YEAR ENDED DECEMBER 31, 2010

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DUNKIRK CITY COUNCIL
YEAR ENDED DECEMBER 31, 2010

MAYOR

RICHARD L. FREY

COUNCILMAN-AT-LARGE

Anthony J. Dolce

MEMBERS OF THE COUNCIL

FIRST WARD

Michael Michalski

SECOND WARD

Kevin Muldowney

THIRD WARD

Rose Floramo

FOURTH WARD

Stacy Szukala



70 East Main Street / Fredonia, New York 14063 / 716-672-4770 / Fax 716-679-1512

INDEPENDENT AUDITORS' REPORT

June 30, 2011

Honorable Mayor
Members of the City Council
Treasurer
City of Dunkirk
Dunkirk, New York 14048

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units and each major fund of the City of Dunkirk, New York, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Dunkirk, New York's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Dunkirk Housing Authority, which is shown as a component unit in the financial statements of the City of Dunkirk, New York. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Dunkirk Housing Authority, is based on the report of the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund and the aggregate remaining fund information of the City of Dunkirk, New York, as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2011, on our consideration of the City of Dunkirk, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison and schedule of funding progress – other postemployment benefit information on pages 3 through 10 and 44 through 47, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Dunkirk, New York's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The accompanying schedule of expenditures of New York State Department of Transportation assistance as listed in the table of contents is presented for the purpose of additional analysis as required by the New York State Department of Transportation and Draft Part 43 of the New York State Codification of Rules and Regulations, and is not a required part of the basic financial statements. The schedule of expenditures of New York State Department of Transportation assistance is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The City's basic financial statements include the operations of the Dunkirk Housing Authority which expended \$1,312,857 of federal awards which are not included in the City's schedule of expenditures of federal awards for the year ended December 31, 2010. Our audit, as described in our report on compliance and internal control over compliance applicable to each major federal program, did not include the operations of the above entity as other auditors were engaged to perform such audit in accordance with OMB Circular A-133.

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK AND ASSOCIATES, LLP

**CITY OF DUNKIRK, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010**

This discussion and analysis of the City of Dunkirk, New York's financial performance provides an overview of the City's financial activities for the year ended December 31, 2010. This document should be read in conjunction with the City's financial statements which begin on page 11.

FINANCIAL HIGHLIGHTS

- The General Fund reported a \$486,105 budgetary surplus for the year ended December 31, 2010 as shown on page 44. This amount compares to a budgetary deficit of \$556,348 for the year ended December 31, 2009.
- The General Fund reported an operating surplus of \$426,486 for the current year as compared to an operating deficit of \$663,916 for 2009.
- The Water Fund had an operating surplus of \$320,328 for the current year as compared with an operating deficit of \$424,100 for 2009. Continued Chautauqua County mandated repairs and upgrades to water infrastructure which were not anticipated budget items for year 2010.
- The Wastewater Treatment Fund had an operating deficit of \$335,202 for 2010 as compared with an operating deficit of \$297,413 for 2009. Phase 3 upgrades to the Wastewater Treatment Plant were in excess of \$250,000 due to unanticipated administrative and engineering fees to close the project.
- The City's net assets increased by \$1,028,692 as a result of the activity for the year ended December 31, 2010 as compared to a decrease of approximately \$1,108,872 as a result of 2009 activity.

USING THIS REPORT

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information regarding the City as a whole and present a longer-term view of the City's finances. Financial statements for each fund start on page 13. For governmental activities, these statements show how services were financed in the overall operation of the City in greater detail than the City-wide financial statements.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and Statement of Activities

The statement of net assets and statement of activities show information about the City as a whole. These statements include all assets and liabilities of the City using the accrual basis of accounting which is used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and the changes to them. The City's net assets – the difference between assets and liabilities – is a way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors need to be considered, such as changes in the City's property tax base and the condition of the City's roads and infrastructure, to assess the overall health of the City.

In the statement of net assets and the statement of activities, the City reports all its basic services as governmental activities. These services include public safety, public works, economic assistance, health, water treatment, wastewater treatment, economic development and general administration. Property taxes, sales taxes, departmental income and state and federal aid finance most of these activities.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our discussion and analysis of the City's major funds begin on page 13 and provide detail of the City's most significant funds on an individual basis rather than the City taken as a whole. Some funds are required to be established by state or local law or by the nature of the federal and state funding for their operation. The City has also segregated funds to account for their special purpose. Currently the City only utilizes governmental funds.

Governmental Funds

All funds of the City are considered governmental funds. This Section focuses on how revenue flows into and out of these funds and the balance of the funds at year-end which is available for future spending. These funds are reported using the modified accrual basis of accounting which measures cash and financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. This information helps determine the financial resources that can be spent to finance City programs. The relationship between the governmental activities (accrual basis) and the governmental funds (modified accrual basis) is provided in reconciliations on pages 14 and 16.

THE CITY AS TRUSTEE

The City is the trustee for assets held – due to a trust arrangement – which can be used only for the trust beneficiaries. These amounts are excluded from the City-wide financial statements because the City cannot use these assets to finance its day to day operations. The City is responsible for ensuring that the assets reported are used for their intended purpose.

THE CITY AS A WHOLE

The City's combined net assets increased to \$14.232 million from \$13.204 million for the year ended December 31, 2010. This is a result of an operational surplus of \$1.0 million. This compares to a decrease for the year ended December 31, 2009 of approximately \$1.1 million. Our discussion and analysis focuses on the net assets (Table 1) and the changes in net assets (Table 2) of the City's governmental activities.

Table 1 Net Assets (In Thousands)						
	Governmental Activities		Business - Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
<u>Assets</u>						
Current assets	\$ 7,744	\$ 5,628	\$ -	\$ -	\$ 7,744	\$ 5,628
Capital assets	23,083	21,377	-	-	23,083	21,377
Total assets	<u>\$ 30,827</u>	<u>\$ 27,005</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,827</u>	<u>\$ 27,005</u>
<u>Liabilities</u>						
Current liabilities	\$ 7,690	\$ 4,434	\$ -	\$ -	\$ 7,690	\$ 4,434
Long-term portion of obligations	8,905	9,367	-	-	8,905	9,367
Total liabilities	<u>\$ 16,595</u>	<u>\$ 13,801</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,595</u>	<u>\$ 13,801</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	\$ 12,273	\$ 13,592	\$ -	\$ -	\$ 12,273	\$ 13,592
Restricted	2,349	2,374	-	-	2,349	2,374
Unrestricted	(390)	(2,762)	-	-	(390)	(2,762)
Total net assets	<u>\$ 14,232</u>	<u>\$ 13,204</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,232</u>	<u>\$ 13,204</u>

Table 2
Changes in Net Assets
(In Thousands)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues						
Charges for services	\$ 6,663	\$ 5,719	\$ -	\$ -	\$ 6,663	\$ 5,719
Operating grants and contributions	1,931	1,701	-	-	1,931	1,701
Capital grants and contributions	450	2	-	-	450	2
General revenues						
Property taxes	4,560	4,595	-	-	4,560	4,595
Sales tax	2,223	2,157	-	-	2,223	2,157
PILOT payments	3,217	3,188	-	-	3,217	3,188
Investment earnings	54	15	-	-	54	15
Miscellaneous	2,629	2,561	-	-	2,629	2,561
Total revenues	<u>21,727</u>	<u>19,938</u>	<u>-</u>	<u>-</u>	<u>21,727</u>	<u>19,938</u>
Program expenses						
Council	58	56	-	-	58	56
Mayor	155	149	-	-	155	149
Financial	567	544	-	-	567	544
Staff	740	766	-	-	740	766
Shared services	735	667	-	-	735	667
Special items	366	436	-	-	366	436
Police department	4,774	4,445	-	-	4,774	4,445
Fire department	2,968	2,818	-	-	2,968	2,818
Other public safety	243	232	-	-	243	232
Transportation	2,091	1,703	-	-	2,091	1,703
Economic assistance and opportunity	47	45	-	-	47	45
Culture and recreation	967	1,241	-	-	967	1,241
Water treatment	2,365	2,351	-	-	2,365	2,351
Wastewater treatment	2,442	3,249	-	-	2,442	3,249
Home and community service	1,887	1,997	-	-	1,887	1,997
Interest on long-term debt	293	348	-	-	293	348
Total expenses	<u>20,698</u>	<u>21,047</u>	<u>-</u>	<u>-</u>	<u>20,698</u>	<u>21,047</u>
Increase in net assets	<u>\$ 1,029</u>	<u>\$ (1,109)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,029</u>	<u>\$ (1,109)</u>

Table 3 presents the cost of the City's five largest governmental programs: police department, fire department, transportation, water treatment and wastewater treatment as well as the net cost (total cost less revenues generated by the activities). The net cost shows the final cost paid by the City's taxpayers and other general revenue sources of each of these functions.

Table 3
Governmental Activities
(In Thousands)

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Police department	\$ 4,774	\$ 4,445	\$ 4,329	\$4,031
Fire department	2,968	2,818	2,968	2,816
Transportation	2,091	1,703	1,168	1,446
Water treatment	2,365	2,351	(197)	262
Wastewater treatment	<u>2,442</u>	<u>3,249</u>	<u>(623)</u>	<u>641</u>
Totals	<u>\$14,640</u>	<u>\$14,566</u>	<u>\$ 7,645</u>	<u>\$9,196</u>

THE CITY'S FUNDS

General Governmental Functions

As the City completed the year, its governmental funds (as presented on page 13) reported a combined fund balance of \$1.163 million which reflects a decrease of \$1.066 million from last year's total of \$2.229 million. During 2010, the City's capital expenditures exceed its related revenues by approximately \$1.47 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

The significant variances between the originally adopted budgets for 2010 and 2009 and the final budget are detailed as follows:

	2010	2009
Original budget	\$ 13,928,419	\$ 14,317,477
Additional appropriations	160,559	140,833
Encumbrance carryover	<u>430,397</u>	<u>502,430</u>
Final Budget	<u>\$ 14,519,375</u>	<u>\$ 14,960,740</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2010, the City had \$23.083 million (net of accumulated depreciation) in a broad range of capital assets including land, buildings, water mains, sewer lines, roads, sidewalks, machinery and equipment. This represents a net increase of approximately \$1.706 million for the year.

Table 4
Capital Assets at Year-End (Net of Depreciation)
(In Thousands)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land and improvements	\$ 151	\$ 151	\$ -	\$ -	\$ 151	\$ 151
Construction in progress	14,061	12,033	-	-	14,061	12,033
Infrastructure	34,704	34,704	-	-	34,704	34,704
Buildings and improvements	12,415	12,398	-	-	12,415	12,398
Machinery and equipment	16,140	15,290	-	-	16,140	15,290
Accumulated depreciation	<u>(54,388)</u>	<u>(53,199)</u>	<u>-</u>	<u>-</u>	<u>(54,388)</u>	<u>(53,199)</u>
Total	<u>\$ 23,083</u>	<u>\$ 21,377</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,083</u>	<u>\$ 21,377</u>

Debt

At year end, the City had \$10.810 million in bonds and notes outstanding as compared to \$7.785 million outstanding at December 31, 2009. See Note 8 on pages 37 through 42 for additional details).

Table 5
Outstanding Debt at Year-end
(In Thousands)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 5,710	\$ 6,135	\$ -	\$ -	\$ 5,710	\$ 6,135
Bond anticipation notes	\$ 5,100	\$ 1,650	\$ -	\$ -	\$ 5,100	\$ 1,650

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2011 budget, tax rates, and fees that will be charged for activities. One of these factors is the economy. Full valuation of property in the City decreased from \$605,138 million in 2009 to \$604,566 million in 2010. The taxable valuation of real property within the City increased from \$278,697 million in 2009 to \$278,861 million in 2010. This increase is attributed to the expiration of negotiated PILOT agreements.

The City, along with many other municipalities, is faced with many mandatory increases beyond the City's control. There is a mandatory increase in the pension fund, medical and liability insurance and worker's compensation ranging in double digits. The City is also faced with the challenge of declining revenues in the General, Water Funds and Wastewater Treatment Funds.

These current indicators are consistent with those we used when adopting the General Fund budget for 2011. In developing the 2011 General Fund budget, the City appropriated \$100,000 of the tax stabilization reserve.

The City's general fund balance is not expected to decrease by the close of 2011. However, due to economic conditions and anticipated revenues not realized, the City may realize a decrease in the general fund balance at year end. Nonetheless, the City's unreserved fund balance remains positive, we maintain healthy bond ratings (AAA from Standard & Poor's), and the City does not anticipate cash flow problems in 2011 and 2012.

Waste Water rates were increased effective with the first quarterly billing of 2011, to offset the deficit of 2010 and to meet the additional expenses facing the City in 2011.

The City expects another challenging budget year for 2011, as New York State mandates continue to increase, investment income remains at record lows, and health and other benefit costs continue to increase.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. If you have any questions or need additional information, contact Mark A. Woods, City Treasurer, City Hall, 342 Central Avenue, Dunkirk, New York 14048; Phone (716) 366-9863.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

PRIMARY GOVERNMENT

<u>ASSETS</u>	<u>PRIMARY GOVERNMENT</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
CURRENT ASSETS:				
Cash and cash equivalents	\$ 4,853,039	\$ -	\$ 4,853,039	\$ 978,979
Investments	-	-	-	658,822
Receivables (net, where applicable of allowances for estimated uncollectibles)				
Taxes	378,114	-	378,114	-
Accounts receivable	1,521,068	-	1,521,068	16,202
Due from fiduciary funds	10,528	-	10,528	-
Due from other governments	640,106	-	640,106	32,309
Prepaid expenses	340,693	-	340,693	17,321
Other assets	-	-	-	16,289
Total current assets	7,743,548	-	7,743,548	1,719,922
NONCURRENT ASSETS:				
Capital assets:				
Land and improvements	151,155	-	151,155	1,257,808
Construction in progress	14,060,654	-	14,060,654	-
Infrastructure	34,704,071	-	34,704,071	-
Buildings and improvements	12,415,511	-	12,415,511	13,803,594
Machinery and equipment	16,140,380	-	16,140,380	960,753
Accumulated depreciation	(54,388,387)	-	(54,388,387)	(9,061,119)
Total noncurrent assets	23,083,384	-	23,083,384	6,961,036
TOTAL ASSETS	\$ 30,826,932	\$ -	\$ 30,826,932	\$ 8,680,958

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 287,130	\$ -	\$ 287,130	\$ 27,800
Accrued liabilities	224,631	-	224,631	67,757
Accrued interest payable	109,306	-	109,306	-
Due to other governments	958,631	-	958,631	43,447
Bond anticipation notes payable	5,100,000	-	5,100,000	-
Current portion of long-term obligations	1,010,000	-	1,010,000	-

Total current liabilities

7,689,698 - 7,689,698 139,004

NONCURRENT LIABILITIES:

Noncurrent portion of long-term obligations

8,904,829 - 8,904,829 208,437

TOTAL LIABILITIES

16,594,527 - 16,594,527 347,441

NET ASSETS

Invested in capital assets, net of related debt

Restricted for:

Capital equipment	368,854	-	368,854	-
Tax stabilization	581,317	-	581,317	-
Employee benefits	513,188	-	513,188	-
Street improvements	425,923	-	425,923	-
Encumbrances	460,108	-	460,108	-
Future expenditures	-	-	-	188,358
Unrestricted	(390,369)	-	(390,369)	1,184,123

12,273,384 - 12,273,384 6,961,036

TOTAL NET ASSETS

14,232,405 - 14,232,405 8,333,517

TOTAL LIABILITIES AND NET ASSETS

\$ 30,826,932 \$ - \$ 30,826,932 \$ 8,680,958

See notes to financial statements.

**CITY OF DUNKIRK, NEW YORK
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010**

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS											
PRIMARY GOVERNMENT											
PROGRAM REVENUES											
Business-type											
Governmental											
Activities											
Total											
Component											
Units											
Expenses											
Charges for											
Services											
Contributions											
Capital											
Grants and											
Contributions											
Operating											
Grants and											
Contributions											
Total											
\$	58,916	\$	-	\$	-	\$	-	\$	(58,916)	\$	-
	154,816		-		-		-		(154,816)		-
	567,372		-		-		-		(567,372)		-
	739,598		117,874		-		-		(621,724)		-
	734,942		55,547		4,285		-		(675,110)		-
	365,740		-		-		-		(365,740)		-
	4,774,162		-		445,159		-		(4,329,003)		-
	2,967,900		-		-		-		(2,967,900)		-
	243,034		-		(12,835)		-		(255,869)		-
	2,091,430		1,702		471,499		450,112		(1,168,117)		-
	46,731		3,500		-		-		(43,231)		-
	966,702		93,100		106,179		-		(767,423)		-
	2,365,538		2,562,850		-		-		197,312		-
	2,441,687		3,064,616		-		-		622,929		-
	1,886,486		763,758		916,353		-		(206,375)		-
	293,449		-		-		-		(293,449)		-
Total governmental activities	20,698,503		6,662,947		1,930,640		450,112		(11,654,804)		-
Total business-type activities	-		-		-		-		-		-
Total primary government	\$ 20,698,503		\$ 6,662,947		\$ 1,930,640		\$ 450,112		(11,654,804)		-
Component units											
Dunkirk Free Library	\$ 263,358		\$ 5,996		\$ 21,889		-		-		(235,473)
City of Dunkirk Industrial Development Agency	7,326		-		-		-		-		(7,326)
Dunkirk Housing Authority	1,717,102		638,220		700,874		611,983		-		233,975
Total component units	\$ 1,987,786		\$ 644,216		\$ 722,763		\$ 611,983		-		(8,824)
General revenues:											
Taxes:											
Property taxes									4,560,453		-
Sales taxes									2,223,014		-
PILOT payments									3,217,348		-
Payment from City of Dunkirk, New York									-		170,000
Grants and contributions not restricted to specific programs									-		50,550
Investment earnings									54,177		13,967
Miscellaneous									2,628,504		-
Gain on sale of capital assets									-		(25,367)
Total general revenues, special items and transfers									12,683,496		209,150
Change in net assets									1,028,692		200,326
NET ASSETS - beginning									13,203,713		8,133,191
NET ASSETS - ending									\$ 14,232,405		\$ 8,333,517

CITY OF DUNKIRK, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	General Fund	Water Fund	Wastewater Treatment Fund	Special Grant Fund	Capital Projects Fund	Total Governmental Funds
<u>ASSETS</u>						
Cash and cash equivalents	\$ 1,468,816	\$ 234,143	\$ 81,628	\$ 1,460	\$ 3,066,992	\$ 4,853,039
Receivables, net						
Taxes	378,114	-	-	-	-	378,114
Accounts receivable	490,103	521,390	509,575	-	-	1,521,068
Due from other governments	550,751	-	-	18,260	71,095	640,106
Due from other funds	5,903,831	393,709	747,922	97,461	1,637,537	8,780,460
Prepaid expenses	293,389	21,024	26,280	-	-	340,693
TOTAL ASSETS	\$ 9,085,004	\$ 1,170,266	\$ 1,365,405	\$ 117,181	\$ 4,775,624	\$ 16,513,480
<u>LIABILITIES AND FUND BALANCES</u>						
LIABILITIES:						
Accounts payable	\$ 123,151	\$ 26,058	\$ 80,379	\$ 21,403	\$ 36,139	\$ 287,130
Accrued liabilities	160,892	39,379	22,478	-	1,882	224,631
Due to other governments	958,631	-	-	-	-	958,631
Due to other funds	2,132,509	1,836,742	2,811,324	29,543	1,959,814	8,769,932
Bond anticipation notes payable	-	-	-	-	5,100,000	5,100,000
Deferred revenue	10,295	-	-	-	-	10,295
TOTAL LIABILITIES	3,385,478	1,902,179	2,914,181	50,946	7,097,835	15,350,619
FUND BALANCES:						
Reserved for:						
Capital equipment	368,854	-	-	-	-	368,854
Tax stabilization	581,317	-	-	-	-	581,317
Employee benefits	513,188	-	-	-	-	513,188
Street improvements	425,923	-	-	-	-	425,923
Encumbrances	352,245	12,397	95,466	-	-	460,108
Unreserved (deficit), reported in:						
General fund	3,457,999	-	-	-	-	3,457,999
Special revenue fund	-	(744,310)	(1,644,242)	66,235	-	(2,322,317)
Capital projects fund	-	-	-	-	(2,322,211)	(2,322,211)
TOTAL FUND BALANCES	5,699,526	(731,913)	(1,548,776)	66,235	(2,322,211)	1,162,861
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,085,004	\$ 1,170,266	\$ 1,365,405	\$ 117,181	\$ 4,775,624	\$ 16,513,480

CITY OF DUNKIRK, NEW YORK
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

Fund balances - total governmental funds \$ 1,162,861

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Those assets consist of:

Land	\$ 151,155
Construction in progress	14,060,654
Infrastructure, net of \$32,028,799 accumulated depreciation	2,675,272
Buildings and improvements, net of \$9,701,151 accumulated depreciation	2,714,360
Equipment, net of \$12,658,437 accumulated depreciation	<u>3,481,943</u>
	23,083,384

Long-term liabilities applicable to the City's governmental funds are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in the governmental funds, but rather is recognized when due. All liabilities - both current and long-term - are reported in the statement of net assets. Long-term liabilities amounted to \$9,914,829 and accrued interest payable on long-term liabilities amounted to \$109,306.

(10,024,135)

Some receivables of the general fund and special grant fund are not available to pay for current-period expenditures and are therefore deferred in the governmental fund statements.

10,295

Net assets of governmental activities

\$ 14,232,405

CITY OF DUNKIRK, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2010

	General Fund	Water Fund	Wastewater Treatment Fund	Special Grant Fund	Capital Projects Fund	TOTAL Governmental Funds
REVENUES:						
Real property taxes	\$ 4,560,453	\$ -	\$ -	\$ -	\$ -	\$ 4,560,453
Sales tax	2,223,014	-	-	-	-	2,223,014
Property tax items	3,272,448	-	-	-	-	3,272,448
Non-property tax items	353,768	-	-	-	-	353,768
Departmental income	898,796	2,562,850	3,064,616	-	-	6,526,262
Shared services	538,235	-	-	-	-	538,235
Use of money and property	30,712	-	-	-	45,065	75,777
Licenses and permits	35,255	-	-	-	-	35,255
Fines and forfeitures	125,513	-	-	-	-	125,513
Sale of property and compensation for loss	2,553	28,110	-	-	-	30,663
Miscellaneous	163,553	12,516	9,618	-	13,903	199,590
State aid	2,404,464	-	-	-	41,290	2,445,754
Federal aid	2,769	-	-	916,353	408,822	1,327,944
Total revenues	14,611,533	2,603,476	3,074,234	916,353	509,080	21,714,676
EXPENDITURES:						
Current:						
Council	39,337	-	-	-	-	39,337
Mayor	102,985	-	-	-	-	102,985
Financial	398,790	-	-	-	-	398,790
Staff	503,675	-	-	-	-	503,675
Shared services	608,885	-	-	-	-	608,885
Special items	208,388	76,094	81,258	-	-	365,740
Police department	3,162,465	-	-	-	-	3,162,465
Fire department	1,893,192	-	-	-	-	1,893,192
Other public safety	187,654	-	-	-	-	187,654
Transportation	1,539,587	-	-	-	-	1,539,587
Economic assistance and opportunity	45,486	-	-	-	-	45,486
Culture and recreation	705,951	-	-	-	-	705,951
Home and community service	768,549	1,670,486	2,326,887	920,606	-	5,686,528
Employee benefits	3,885,795	478,712	461,101	-	-	4,825,608
Debt service:						
Principal	134,400	80,000	490,600	-	-	705,000
Interest	10,483	2,356	220,349	-	34,193	267,381
Capital outlay	-	-	-	-	2,027,554	2,027,554
Total expenditures	14,195,622	2,307,648	3,580,195	920,606	2,061,747	23,065,818
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	415,911	295,828	(505,961)	(4,253)	(1,552,667)	(1,351,142)
OTHER FINANCING SOURCES (USES):						
Transfers in	10,575	24,500	170,759	-	-	205,834
Transfers out	-	-	-	-	(200,834)	(200,834)
Proceeds of obligations	-	-	-	-	280,000	280,000
Total other financing sources (uses)	10,575	24,500	170,759	-	79,166	285,000
NET CHANGE IN FUND BALANCES	426,486	320,328	(335,202)	(4,253)	(1,473,501)	(1,066,142)
FUND BALANCES (DEFICIT) - beginning	5,273,040	(1,052,241)	(1,213,574)	70,488	(848,710)	2,229,003
FUND BALANCES (DEFICIT) - ending	\$ 5,699,526	\$ (731,913)	\$ (1,548,776)	\$ 66,235	\$ (2,322,211)	\$ 1,162,861

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2010

Net change in fund balances - total governmental funds	\$ (1,066,142)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlays (\$2,895,652) exceeded depreciation (\$1,189,573) in the current period.	1,706,079
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These include a change in deferred revenues of \$7,521.	7,521
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds in the current period.	425,000
Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These include the increases in compensated absences of \$17,698 and accrued interest of \$26,068.	(43,766)
Change in net assets of governmental activities	\$ 1,028,692

CITY OF DUNKIRK, NEW YORK
BALANCE SHEET
PROPRIETARY FUNDS
DECEMBER 31, 2010

	Business-Type Activities Enterprise Funds <u>Total</u>
<u>ASSETS</u>	
CURRENT ASSETS:	
Total current assets	\$ -
NONCURRENT ASSETS:	
Total noncurrent assets	-
TOTAL ASSETS	<u>\$ -</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES:	
Total current liabilities	\$ -
NONCURRENT LIABILITIES:	
Total long-term liabilities	-
TOTAL LIABILITIES	-
<u>NET ASSETS</u>	
TOTAL NET ASSETS	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ -</u>

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2010

	<u>Business-Type</u> <u>Activities</u> <u>Enterprise Funds</u> <u>Total</u>
OPERATING REVENUES:	
Total operating revenues	\$ -
OPERATING EXPENSES:	
Total operating expenses	-
OPERATING INCOME	-
NONOPERATING REVENUES (EXPENSES):	
Total nonoperating revenues (expenses)	-
NET INCOME	-
TOTAL NET ASSETS - beginning	-
TOTAL NET ASSETS - ending	\$ -

See notes to financial statements.

**CITY OF DUNKIRK, NEW YORK
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2010**

	<u>Business-Type</u> <u>Activities</u> <u>Enterprise Funds</u> <u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net cash provided by operating activities	\$ -
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Net cash provided by noncapital financing activities	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Net cash provided by capital and related financing activities	-
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net cash provided by investing activities	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	-
CASH AND CASH EQUIVALENTS - beginning	-
CASH AND CASH EQUIVALENTS - ending	\$ -
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ -
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ -

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2010

	<u>Agency Funds</u>	<u>Trust Funds</u>	<u>Total</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 25,232	\$ 96,480	\$ 121,712
TOTAL ASSETS	<u>\$ 25,232</u>	<u>\$ 96,480</u>	<u>\$ 121,712</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES:			
Accounts payable	\$ 20,704	\$ -	\$ 20,704
Due to general fund	4,528	6,000	10,528
TOTAL LIABILITIES	<u>25,232</u>	<u>6,000</u>	<u>31,232</u>
<u>NET ASSETS</u>			
Net assets held in trust	<u>-</u>	<u>90,480</u>	<u>90,480</u>
TOTAL NET ASSETS	<u>-</u>	<u>90,480</u>	<u>90,480</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 25,232</u>	<u>\$ 96,480</u>	<u>\$ 121,712</u>

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2010

**Trust
Funds**

ADDITIONS

Investment earnings	\$ <u>10</u>
TOTAL ADDITIONS	<u>10</u>

DEDUCTIONS

Transfer to General Fund for Culture and recreation expenditures	<u>5,000</u>
TOTAL DEDUCTIONS	<u>5,000</u>

CHANGE IN NET ASSETS	(4,990)
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NET ASSETS HELD IN TRUST

BEGINNING OF YEAR	<u>95,470</u>
END OF YEAR	<u>\$ 90,480</u>

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF NET ASSETS
COMPONENT UNITS
DECEMBER 31, 2010

	Dunkirk Free Library	Dunkirk Housing Authority	Dunkirk Urban Renewal Agency	City of Dunkirk Industrial Development Agency	Total
<u>ASSETS</u>					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 264,501	\$ 712,834	\$ -	\$ 1,644	\$ 978,979
Investments	-	658,822	-	-	658,822
Accounts receivable	-	16,202	-	-	16,202
Due from other governments	-	32,309	-	-	32,309
Prepaid expenses	-	17,321	-	-	17,321
Other assets	16,289	-	-	-	16,289
Total current assets	280,790	1,437,488	-	1,644	1,719,922
NONCURRENT ASSETS:					
Capital assets:					
Land and improvements	-	1,257,808	-	-	1,257,808
Buildings and improvements	798,330	13,005,264	-	-	13,803,594
Machinery and equipment	162,776	797,977	-	-	960,753
Accumulated depreciation	(193,075)	(8,868,044)	-	-	(9,061,119)
Total noncurrent assets	768,031	6,193,005	-	-	6,961,036
TOTAL ASSETS	\$ 1,048,821	\$ 7,630,493	\$ -	\$ 1,644	\$ 8,680,958
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES:					
Accounts payable	\$ -	\$ 27,800	\$ -	\$ -	\$ 27,800
Due to other governments	-	43,447	-	-	43,447
Other current liabilities	-	67,609	-	148	67,757
Total current liabilities	-	138,856	-	148	139,004
NONCURRENT LIABILITIES:					
Noncurrent portion of long-term obligations	-	208,337	-	100	208,437
TOTAL LIABILITIES	-	347,193	-	248	347,441
NET ASSETS					
Invested in capital assets, net of related debt	768,031	6,193,005	-	-	6,961,036
Restricted	188,358	-	-	-	188,358
Unrestricted	92,432	1,090,295	-	1,396	1,184,123
TOTAL NET ASSETS	1,048,821	7,283,300	-	1,396	8,333,517
TOTAL LIABILITIES AND NET ASSETS	\$ 1,048,821	\$ 7,630,493	\$ -	\$ 1,644	\$ 8,680,958

CITY OF DUNKIRK, NEW YORK
STATEMENT OF ACTIVITIES
COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2010

	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Dunkirk Free Library	\$ 263,358	\$ 5,996	\$ 21,889	\$ -	\$ (235,473)	\$ -	\$ (235,473)
Total governmental activities	263,358	5,996	21,889	-	(235,473)	-	(235,473)
Business-type activities:							
Dunkirk Urban Renewal Agency	-	-	-	-	-	-	-
Dunkirk Housing Authority	1,717,102	638,220	700,874	611,983	-	233,975	233,975
City of Dunkirk Industrial Development Agency	7,326	-	-	-	-	(7,326)	(7,326)
Total business-type activities	1,724,428	638,220	700,874	611,983	-	226,649	226,649
Total component units	\$ 1,987,786	\$ 644,216	\$ 722,763	\$ 611,983	(235,473)	226,649	(8,824)
General revenues:							
Payment from City of Dunkirk, New York					170,000	-	170,000
Grants and contributions not restricted to specific programs					50,550	-	50,550
Investment earnings					5,438	8,529	13,967
Miscellaneous					(28,860)	3,493	(25,367)
Total general revenues, special items and transfers					197,128	12,022	209,150
Change in net assets					(38,345)	238,671	200,326
NET ASSETS - beginning					1,087,166	7,046,025	8,133,191
NET ASSETS - ending					\$ 1,048,821	\$ 7,284,696	\$ 8,333,517

General revenues:

Payment from City of Dunkirk, New York
Grants and contributions not restricted to specific programs
Investment earnings
Miscellaneous

Total general revenues, special items and transfers

Change in net assets

NET ASSETS - beginning

NET ASSETS - ending

CITY OF DUNKIRK, NEW YORK
STATEMENT OF CASH FLOWS
COMPONENT UNITS - PROPRIETARY FUND TYPES
YEAR ENDED DECEMBER 31, 2010

	Business-type Activities Enterprise Funds			
	Dunkirk Urban Renewal Agency	Dunkirk Housing Authority	City of Dunkirk Industrial Development Agency	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from charges and fees	\$ -	\$ 628,682	\$ 943	\$ 629,625
Receipts from operating grants	-	684,203	-	684,203
Payments to suppliers	-	(612,286)	(7,310)	(619,596)
Payments to other governments	-	(33,870)	-	(33,870)
Payments to employees	-	(506,222)	-	(506,222)
Payments to other funds	-	(3,230)	-	(3,230)
Other receipts	-	11,375	-	11,375
Net cash provided (used) by operating activities	-	168,652	(6,367)	162,285
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital grants received	-	611,983	-	611,983
Acquisition and modernization of capital assets	-	(643,145)	-	(643,145)
Proceeds from disposition of assets	-	2,550	-	2,550
Net cash used by capital and related financing activities	-	(28,612)	-	(28,612)
CASH FLOWS FROM INVESTING ACTIVITIES -				
Funds provided by investment redemptions	-	140,822	-	140,822
Interest income received	-	8,529	-	8,529
Net cash provided by investing activities	-	149,351	-	149,351
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	289,391	(6,367)	283,024
CASH AND CASH EQUIVALENTS - beginning	-	423,443	8,011	431,454
CASH AND CASH EQUIVALENTS - ending	\$ -	\$ 712,834	\$ 1,644	\$ 714,478
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ -	\$ (378,008)	\$ (6,367)	\$ (384,375)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	-	548,580	-	548,580
Change in assets and liabilities:				
Accounts receivable	-	336	-	336
Due from other governments	-	(19,276)	-	(19,276)
Due from other funds	-	(3,230)	-	(3,230)
Prepaid expenses	-	371	-	371
Other assets	-	200	-	200
Accounts payable	-	(10,703)	-	(10,703)
Due to other funds	-	3,230	-	3,230
Other current liabilities	-	27,152	-	27,152
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ -	\$ 168,652	\$ (6,367)	\$ 162,285

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Dunkirk, New York (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

Subject to the New York State Constitution, the City operates pursuant to its Charter and the City Code, as well as various local laws. Additionally, certain New York State laws govern the City to the extent that such laws are applicable to cities operating under a charter form of government. The City of Dunkirk Common Council is the legislative body responsible for overall operations, the Mayor serves as chief executive officer, and the City Treasurer serves as chief fiscal officer.

The City provides the following basic services: garbage and rubbish collection, police and fire protection, recreation programming for youths and adults, maintenance of parks, beaches and boat launches, maintenance of streets, water and sewer lines, regional water filtration plant and sewage treatment facilities.

The financial reporting entity consists of (a) the primary government which is the City of Dunkirk, New York, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement 14.

The decision to include a potential component unit in the City's reporting entity is based on several criteria set forth in GASB 14 including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief review of certain entities considered in determining the City's reporting entity.

1. INCLUDED IN THE REPORTING ENTITY

The Dunkirk Housing Authority (the Authority) was created in 1963 by the New York State Legislature. The governing board of the Authority is appointed by the Mayor except for two tenant representatives. The local government provides no subsidy to the Authority nor is it responsible for debt or operating deficits of the Authority. The Authority is essentially supported by operating subsidies from the U. S. Department of Housing and Urban Development. The local government does not appoint management of the Authority nor does it approve the Authority's budget or hiring of staff. The local government has no oversight responsibility for funds of the Authority. However, per New York State directive, the Dunkirk Housing Authority is considered a component unit of the City and is discretely presented. The information presented in these financial statements for the Dunkirk Housing Authority is as of June 30, 2010.

The Dunkirk Free Library (the Library) was established in 1904. The Library is administered by a Board of Directors; one director is appointed by the Common Council and the remaining directors are elected by members of the Library Board. The Library Board designates management and exercises complete responsibility over fiscal matters. The local government has no oversight responsibility over the funds of the Library, however, the City does provide a substantial portion of the operating costs for the Library. The Library is considered a component unit of the City and is discretely presented.

The Dunkirk Urban Renewal Agency (the Agency) was established for the purpose of renovating and rehabilitating an economically depressed area with the City. The Agency is presently inactive and yet it holds title to certain parcels of land that are unappraised. The Dunkirk Urban Renewal Agency is a component unit of the City and is discretely presented.

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City of Dunkirk Industrial Development Agency (the Agency) was established by the enactment of Section 890-a of the General Municipal Law, effective June 17, 1971, as a special act of the New York State Legislature. The Agency is authorized under the Act to issue bonds to promote the economic and industrial development of the State. The bonds are secured by pledges of any rents, revenues and receipts as well as a lien on and a security interest in the projects being promoted. Neither the Agency nor the City shall be held liable for repayment of these bonds out of any funds other than those pledged by the Agency. Members of the Board of Directors of the Agency are appointed by and designated to serve at the pleasure of the City's Common Council. The City of Dunkirk Industrial Development Agency is considered a component unit of the City and is discretely presented.

Complete financial statements of these individual component units can be obtained from their respective administrative offices:

Dunkirk Housing Authority
15 North Main Street
Dunkirk, New York 14048

Dunkirk Free Library
536 Central Avenue
Dunkirk, New York 14048

Dunkirk Urban Renewal Agency
City Hall
Dunkirk, New York 14048

City of Dunkirk Industrial Development Agency
City Hall
Dunkirk, New York 14048

2. EXCLUDED FROM THE REPORTING ENTITY

Although the following organizations, functions or activities are related to the City, they are not included in the City's reporting entity based on the professional judgment of responsible local officials because of the reasons noted:

The Dunkirk City School District was created by state legislation which designated the school board as the governing authority. School board members are elected by the qualified voters of the district. The school board designates management and exercises complete responsibility for all fiscal matters. The City Common Council exercises no oversight over school operations.

The Dunkirk Local Development Corporation (the Corporation) is a special purpose development corporation organized by the City under the Not-For-Profit Corporation Law of the State of New York. The corporation was created to purchase, lease, sublease, own, hold, sell, assign or pledge various parcels of real estate throughout the City. The Corporation, on behalf of the City, manages a low-interest revolving loan fund initially funded by the repayments of Urban Development Action Grant Loans. The Corporation is governed by a Board of Directors comprised of business leaders and community representatives appointed by the City Common Council.

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) report information on all the nonfiduciary activities of the City. Interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are differentiated from business-type activities, which rely to a significant extent on fees and charges for support. Currently the City does not operate any business-like activities. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Indirect expenses have been included as a part of the program expenses reported for the various functional activities. Program revenues include 1) charges to those who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) operating grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds even though the fiduciary funds are excluded from the government-wide financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Reimbursements are reported as reductions to expenses. Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Property tax revenues are recognized in the year for which they are levied, while grants are recognized when grantor eligibility requirements are met.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when the underlying exchange transaction has occurred and the resources are available. For this purpose, the City considers revenues to be available if the City has collected the revenues in the current period or expects to collect them soon enough after the end of the period to use them to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, except for general obligation bond principal and interest and compensated absences which are reported in the year due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Revenues accrued at December 31, 2010 are listed in Note 6. There were no significant revenues considered as not subject to accrual.

Revenues from Federal, State or other grants designated for payment of specific City expenditures, are recognized when the related expenditures are incurred. At fiscal year-end, excess receipts over expenditures are recorded as deferred revenue. Any excess expenditures over receipts are recorded as accounts receivable.

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

The City reports the following governmental funds, which are all considered major:

General Fund - This fund is the principal operating fund of the City and is used to account for all financial resources except those required to be accounted for in other funds.

Water Fund - This fund is used to account for the revenues (primarily user charges) and expenditures related to the operation and maintenance of the water filtration plant and water lines for residential and commercial users.

Wastewater Treatment Fund - This fund is used to account for the revenues (user charges and general fund transfers) and expenditures of the wastewater treatment plant for residential and commercial users.

Special Grant Fund - This fund is used to account for Community Development Block Grants and Small Cities Entitlement Grants from the U.S. Department of Housing and Urban Development.

Capital Projects Fund - The capital projects fund is used to account for and report financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment.

The City currently does not operate any proprietary funds.

Additionally, the City reports the following fund type:

Fiduciary Funds

Agency Fund - The Agency fund is custodial in nature and does not present results of operation nor have measurement focus. The Agency Fund is accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity.

Trust Fund - The Trust Fund represents an expendable trust received and held by the City which can only be utilized for the benefit of Recreation/Youth programs of the City.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges performed, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets and Budgetary Accounting

As required by Article V of the City Charter and Administrative Code, the City's annual procedures in establishing the budgetary data reflected in the financial statements are as follows:

a.) On or before the first day of October each year, the Mayor shall submit to the Common Council a proposed budget and capital budget together with a message concerning same for the ensuing year.

b.) The budget message shall describe the important features; outline the proposed capital programs; indicate major changes from the current fiscal year in financial policies, expenditures, and revenues together with the reasons for such changes; summarize the City's debt condition; and include such other material as the Mayor may deem advisable.

c.) The proposed budget shall provide a complete financial plan of all City functions and activities for the ensuing year. The budget shall be in such form as the Mayor may deem advisable and shall include: actual revenues and expenditures of the preceding fiscal year; actual and estimated revenues and expenditures of the current fiscal year; all estimated revenues and proposed expenditures for the ensuing fiscal year (including detailed estimates of revenue from all sources and the amount proposed to be raised by the tax levy upon real estate). The proposed expenditures shall be itemized as follows: each office, department, board and commission shall be listed separately showing the proposed amount for salaries and wages, supplies and other expenditures and the total thereof; reserve for uncollected taxes; debt service; judgments and settlements outstanding not covered by insurance; capital program stating the amount to be financed, if any, and the method thereof; special funds and purposes not otherwise contained in the budget; anticipated deficit, if any, of the current year and contingency fund.

d.) Immediately after the presentation of the proposed budget to the Common Council, the mayor shall file same in the City Clerk's Office and cause sufficient copies of same and the budget message to be made for distribution to the public. The proposed budget shall be a public record and shall be open to inspection by the public during regular business hours in the City Clerk's Office. Not less than five days prior to the date of the public hearing, the City Clerk shall cause to be published in the official newspaper of the City a notice of public hearing which shall specify the date, time and place of the public hearing; the total amount of the proposed budget; the amount thereof to be raised by taxes; the anticipated tax rate per thousand of assessed valuation and that copies of the proposed budget are available to the public in the City Clerk's Office.

e.) The Common Council shall meet and conduct a public hearing at which the Mayor shall be present. Such public hearing shall be held no later than November 15th.

f.) After conclusion of the public hearing, the Common Council shall consider the adoption of the proposed budget and may adjourn from time to time until it has fully considered and reviewed the proposed budget. The Common Council may add new programs or amounts, and may increase, decrease or delete programs and amounts. Expenditures required by law, for debt service, estimated deficits or estimated revenues may not be changed except to correct omissions or mathematical errors. The Common Council may, however, decrease the amount of tax levy for the ensuing fiscal year as proposed by the Mayor in proportion to such decreases in total expenditures as it may have determined. If the Common Council shall increase the total expenditures, such increase shall be included in the amount to be raised by taxes.

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets and Budgetary Accounting, continued

g.) Upon completion of the consideration and review of the proposed budget, the Common Council, shall on or before the 15th day of December of each year, adopt a resolution approving the budget in the final form approved by it and shall forthwith adopt an appropriation resolution and a resolution making a levy upon all the real property situated in the City liable to taxation in the ensuing year. The appropriation resolution shall be passed on the budget as adopted but need not be itemized further than by each office, board, department, commission, fund and program. Upon adoption of the budget, the appropriation and tax levy resolutions, the City Clerk shall file a certified copy of each with the City Treasurer and Fiscal Affairs Officer. The adoption of the budget shall constitute an appropriation of the amounts, a levy of the amount to be raised by taxation therein stated, and a warrant to the City Treasurer to spread and extend such levy upon current assessment tax rolls and to collect the same.

h.) If a budget has not been adopted, as provided by the Charter, on or before the 15th day of December, the tentative City budget, with amendments, if any, shall become the budget for the ensuing year.

i.) The amount of all taxes levied upon any parcel of real property shall, except as otherwise expressly provided by law, be and become a lien thereon as of the first day of January of the fiscal year for which levied and shall remain a lien until paid.

j.) Formal annual budgetary accounts are adopted and employed for control of all governmental funds except the special grant fund and the capital projects fund. These budgets are adopted on a basis consistent with accounting principles generally accepted in the United States except that encumbrances are treated as budgetary expenditures in the year of occurrence of the commitment to purchase. All unencumbered appropriations lapse at the end of the fiscal year. Budgetary comparisons presented in this report are on the budgetary basis and represent the budget as modified. This results in the following reconciliations of fund balances computed on a GAAP basis and a budgetary basis:

	<u>General Fund</u>	<u>Water Fund</u>	<u>Wastewater Treatment Fund</u>
GAAP Basis:			
Fund Balances (Deficit) - 12/31/10	\$5,699,526	(\$731,913)	(\$1,548,776)
Deduct outstanding encumbrances	<u>352,245</u>	<u>12,397</u>	<u>95,466</u>
Budgetary Basis:			
Fund Balances (Deficit) - 12/31/10	<u>\$5,347,281</u>	<u>(\$744,310)</u>	<u>(\$1,644,242)</u>

k.) Total expenditures for each activity may not legally exceed the total appropriations for that activity. Encumbrances outstanding at year end are accounted for by a reservation of fund balance.

l.) Formal annual capital budgets and five year projections of capital needs are adopted by the Common Council for control of capital expenditures.

m.) Budgetary controls for the Special Grant Fund are established in accordance with the applicable grant agreement which covers a period other than the City's fiscal year.

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets and Budgetary Accounting, continued

n.) At January 1, the amount of encumbrances carried forward from the prior year are reestablished. These increases amounted to \$430,397; \$18,696 and \$26,874 in the General, Water and Wastewater Treatment Funds, respectively. During the year ended December 31, 2010, supplemental appropriations (including the prior year encumbrances) of \$590,956; \$59,489 and \$26,874 were approved in the General, Water and Wastewater Treatment Funds, respectively.

E. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of budgetary control in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

F. Cash and Cash Equivalents

Investments are stated at fair value. Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

G. Capital Assets

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with costs of \$1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Major outlays for capital assets and improvements are capitalized as projects are incurred.

Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40
Building improvements	20
Land improvements	20
Infrastructure:	
Sanitary sewers	50
Water mains	50
Storm drains	50
Traffic control systems	20
Roads	20
Sidewalks	20
Machinery and equipment:	
Office equipment and furniture	10 - 15
Heavy equipment	10
Vehicles	10
Other	8
Computers	5

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Property Tax Revenue Recognition

The City-wide property tax is levied by the Common Council effective January 1 of the year the taxes are recognizable as revenue. Taxes become a lien on the related property on January 1st of the year for which they are levied. In the government-wide statements, property tax receivables and related revenue include all amounts due the City regardless of when cash is received. The City acts as the collection agent for the County of Chautauqua for County taxes levied on properties within the City. The City also collects school taxes for the local school district for remission to them. During 1994, the City entered an agreement with the County of Chautauqua whereby unpaid City and school taxes are to be turned over for enforcement. The agreement with the County of Chautauqua was renewed on July 30, 2010 for the 2010 and 2011 tax years. The County reimburses the City for unpaid taxes and relieves unpaid taxes as County taxes in the subsequent year.

I. Compensated Absences

City employees are granted vacation, personal and sick leave and compensatory time in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation, sick leave and unused compensatory absences at various rates subject to certain conditions, maximum limitations and union affiliations.

Compensated absences are reported as accrued in the government-wide financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and are included in wages and benefits.

Payment of compensated absences recorded in the general government long-term debt in the government-wide financial statements is dependent upon many factors; therefore, timing of future payment is not readily determinable. However management believes that sufficient resources will be made available for the future payment of compensated absences when such payments become due.

J. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues, expenditures, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and during the reported period. Actual results could differ from those estimates and those differences could be significant.

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Accounting and Reporting Changes

During June 2007, GASB issued Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The City implemented Statement No. 51, effective for the fiscal year ending December 31, 2010.

During June 2008, GASB issued Statement No. 53 - *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. The City implemented Statement No. 53, effective for the fiscal year ending December 31, 2010.

In December 2009, GASB also issued Statement No. 58 - *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The objective of this statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The City implemented Statement No. 58, effective for the fiscal year ending December 31, 2010.

Implementation of these three standards had no impact on the financial statements of the City of Dunkirk.

L. Future Impacts of Accounting Pronouncements

The City has not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for the year ending December 31, 2011; GASB Statement 57 - *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, effective for the year ending December 31, 2012; GASB Statement No. 59 - *Financial Instruments Omnibus*, effective for the year ending December 31, 2011; GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the year ending December 31, 2012; GASB Statement No. 61 - *The Financial Reporting Entity - an amendment of GASB Statements No. 14 and No. 34*, effective for the year ending December 31, 2013; and, GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for the year ending December 31, 2012.

The City is therefore unable to disclose the impact that adopting these GASB Statements will have on its financial position and results of operation when such statements are adopted.

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

At December 31, 2010, the Capital Project Fund had a deficit fund balance in the amount of \$2,322,211. The deficit was caused by (a) debt relating to the activity is considered to be a fund liability rather than a source of financing to be reported a revenue and (b) expenditures to date exceeded revenues to date. Revenue related to the debt, under the modified accrual basis, is not recognized as revenue until the debt is repaid from appropriations or the debt is refinanced on a long-term basis. The deficit fund balance will eventually be eliminated as the bond anticipation notes are retired. Management believes that sufficient revenues will be generated by the end of the project to cover the additional project expenditures incurred.

At December 31, 2010, the Water Fund had a deficit fund balance in the amount of \$731,913. The deficit was caused by expenditures to date exceeding revenues to date. Expenditures were over-expended due to increases in utilities, chemicals, repairs to equipment, sewer fees, contracted services, and equipment purchases that were not anticipated.

At December 31, 2010, the Wastewater Fund had a deficit fund balance in the amount of \$1,548,776. The deficit was caused by expenditures to date exceeding revenues to date. Expenditures were over-expended due to increases in utilities and chemicals that were not anticipated.

NOTE 3 - CASH AND INVESTMENTS

The City's investment policies are governed by state statutes and various resolutions of the Common Council. City moneys must be deposited in FDIC-insured commercial banks or trust companies located within the state. The Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, and obligations of New York State or its localities. Collateral is required for demand deposits and certificates of deposit at 102% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of New York State and its municipalities and school districts.

The detail of cash and cash equivalents at December 31, 2010 is as follows:

	Carrying Amount
Petty cash	\$ 1,400
Deposits (checking account)	3,502,377
Cash and cash equivalents (savings and CDs)	<u>1,470,974</u>
Total	<u>\$ 4,974,751</u>

Cash and cash equivalents maintained by the City at December 31, 2010 consist of:

	Amount
Government activities	\$ 4,853,039
Fiduciary activities	<u>121,712</u>
Total	<u>\$ 4,974,751</u>

Deposits - All deposits are carried at cost plus accrued interest.

	Bank Balance
Insured (FDIC)	\$ 1,896,188
Uninsured	-
Collateral held by bank's agent in City's name	<u>4,500,235</u>
Total deposits	<u>\$ 6,396,423</u>

At December 31, 2010, the City did not have any investments other than cash and cash equivalents.

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 3 - CASH AND INVESTMENTS, continued

Investments - All investments are carried at the lower of cost or market and are categorized in the following manner.

Category 1 - Insured or registered, or securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department, or agent in the City's name.

Category 3 - Uninsured and unregistered, with no securitization of the investments.

NOTE 4 - PROPERTY TAX

The City-wide property tax is levied each January 1, which is also the lien date. Property taxes are collected during the period April 1 through May 6 of each year. The County assumes enforcement responsibility for all taxes levied by the City.

Tax rates are calculated using assessments prepared by City Assessors as adjusted by the New York State Board of Equalization and Assessment for the purpose of comparability. The total taxable assessed value of real property included in the tax levy of 2010 is approximately \$279 million. The effective tax rate on this value is approximately \$16.38 per thousand. The statutory maximum tax rate is 2.0% of the 5-year average of the equalized assessment. The 2010 levy represents approximately 54.46% of the maximum statutory levy.

The City constitutional tax limit for the fiscal year ended December 31, 2010 is computed as follows:

Five year Average Full Valuation of Taxable Real Estate (2006 - 2010)	<u>\$ 345,622,923</u>
Tax limit @ 2.0%	<u>\$ 6,912,458</u>
Total Tax Levy	4,565,070
Less: Exclusions	<u>1,416,962</u>
Total Levy Subject to Tax Limit	<u>3,148,108</u>
Tax Margin	<u>\$ 3,764,350</u>

NOTE 5 - INTERFUND TRANSFERS

The City made the following operating transfers during 2010:

Transfer Out	Transfer In			Total
	General Fund	Water Fund	Wastewater Treatment Fund	
Capital Projects Fund	\$ 5,575	\$ 24,500	\$ 170,759	\$ 200,834
Permanent Trust Fund	5,000	-	-	5,000
	<u>\$ 10,575</u>	<u>\$ 24,500</u>	<u>\$ 170,759</u>	<u>\$ 205,834</u>

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 6 - RECEIVABLES

Revenues accrued by the City consist of the following:

A. Other Receivables - represents amounts due from various sources.

Funds:

General Fund	\$ 490,103
Water Fund	521,390
Wastewater Fund	<u>509,575</u>
Total	<u>\$ 1,521,068</u>

B. Due from Other Governments - State and federal receivables primarily represent claims for reimbursement of expenditures incurred related to the community development small cities program and various state aided programs. They are net of related advances from New York State. State and federal receivables also include reimbursable amounts for construction expenditures made through the Capital Project Fund. Other government receivables are amounts primarily due from other local municipalities and other miscellaneous items. Amounts accrued at December 31, 2010 are comprised of:

State and Federal Receivables

General Fund	\$ 550,751
Special Grant Fund	18,260
Capital Projects Fund	<u>71,095</u>
Total due from other governments	<u>\$ 640,106</u>

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 151,155	\$ -	\$ -	\$ 151,155
Construction in progress	<u>12,033,100</u>	<u>2,027,554</u>	<u>-</u>	<u>14,060,654</u>
Total capital assets not being depreciated	<u>12,184,255</u>	<u>2,027,554</u>	<u>-</u>	<u>14,211,809</u>
Capital assets being depreciated:				
Infrastructures	34,704,071	-	-	34,704,071
Buildings and improvements	12,397,918	17,593	-	12,415,511
Machinery and equipment	<u>15,289,875</u>	<u>850,505</u>	<u>-</u>	<u>16,140,380</u>
Total capital assets being depreciated	<u>62,391,864</u>	<u>868,098</u>	<u>-</u>	<u>63,259,962</u>
Less accumulated depreciation for:				
Infrastructures	31,907,647	121,152	-	32,028,799
Buildings and improvements	9,463,353	237,798	-	9,701,151
Machinery and equipment	<u>11,827,814</u>	<u>830,623</u>	<u>-</u>	<u>12,658,437</u>
Total accumulated depreciation	<u>53,198,814</u>	<u>1,189,573</u>	<u>-</u>	<u>54,388,387</u>
Total capital assets being depreciated, net	<u>9,193,050</u>	<u>(321,475)</u>	<u>-</u>	<u>8,871,575</u>
Governmental activities capital assets, net	<u>\$ 21,377,305</u>	<u>\$ 1,706,079</u>	<u>\$ -</u>	<u>\$ 23,083,384</u>

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 7 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the governmental functions as follows:

Shared services	\$ 16,633
Police department	40,450
Fire department	153,350
Transportation	390,048
Culture and recreation	47,850
Water department	214,560
Wastewater department	324,803
Other home and community service	1,879
	<hr/>
Total depreciation expense	\$ 1,189,573

NOTE 8 - LIABILITIES

A. Pension Plans

a.) Plan Description

The City of Dunkirk participates in the New York and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees' Group Life Insurance Plan (System). These are cost-sharing multiple-employer retirement systems. The Systems provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for custody and control of its funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

b.) Funding Policy

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates expressed used in computing the employers' contributions. The required contributions for the current and two preceding years were:

	ERS	PFRS
2010	\$ 525,594	\$ 837,176
2009	332,420	619,310
2008	384,309	675,524

The City's contributions made to the systems were equal to 100 percent of the contributions required for each year.

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 8 - LIABILITIES (CONTINUED)

B. Postemployment Benefits Other Than Pensions

a.) Plan Description

The City of Dunkirk administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides healthcare to a single disabled retiree until the age of 70 through the City's group health insurance plan, which covers both active and the above mentioned retired member. Benefit provisions were established through negotiations between the City and union representing City employees and are renegotiated as each bargaining period expires.

b.) Funding Policy

Contribution requirements of the Retiree Health Plan by the City are established and may be amended through negotiations between the City and the bargaining units. The contribution is based on pay-as-you-go financing requirements. For the year ended December 31, 2010, the City contributed \$22,772, or 102.39%, of the actuarially required contributions, to the Retiree Health Plan.

c.) Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funded excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost over the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 23,463
Interest on net OPEB obligation	(1,223)
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	22,240
Contribution made	<u>(22,772)</u>
Decrease in net OPEB obligation	(532)
Net OPEB obligation - beginning of year	<u>1,963</u>
Net OPEB obligation - end of year	<u><u>\$ 1,431</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2008	\$ 11,253	90.39%	\$ 1,081
12/31/2009	23,654	96.27%	1,963
12/31/2010	22,240	102.39%	1,431

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 8 - LIABILITIES (CONTINUED)

B. Postemployment Benefits Other Than Pensions, continued

d.) Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the funded status of the Retiree Health Plan was as follows:

Actuarial accrued liability (AAL)	\$ 202,616
Actuarial value of plan assets	-
	<hr/>
Unfunded actuarial accrued liability (UAAL)	\$ 202,616
	<hr/>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Annual covered payroll (active plan members)	\$ -
UAAL as a percentage of annual covered payroll	0.0%

e.) Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events in the future. Examples, include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the alternative measurement method was used. Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 5.5 percent was used. In addition, a simplified version of the projection of future benefit payments was used.

C. Short Term Debt

Liabilities for bond anticipation notes (BANs) are generally recorded for in the capital projects fund. The notes or renewals thereof may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each twelve month period thereafter.

State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

The following is an analysis of outstanding BANs at December 31, 2010:

Fund	Description	Amount	Maturity Date	Interest Rate
Capital projects	Boardwalk	\$ 700,000	12/9/2011	2.50%
Capital projects	Wastewater filtration plant	3,100,000	3/30/2011	1.50%
Capital projects	Water meters	975,000	10/10/2011	1.27%
Capital projects	Water meters	325,000	12/9/2011	2.06%
		<hr/>		
		\$ 5,100,000		

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 8 - LIABILITIES (CONTINUED)

C. Short Term Debt, continued

Revenue anticipation notes (RANs) may be issued in anticipation of collection of revenues other than real estate taxes for meeting expenditures payable from the type of revenue for which the borrowing was made. RANs must mature within one year and may be renewed from time to time, but each renewal shall be for a period not exceeding one year. During the year ended December 31, 2010, the City did not issue, renew or repay any RANs.

Tax Anticipation Notes (TANs) may, up to the maximum authorized by statute, be issued against the anticipated collection of taxes or assessments levied or to be levied against real property. These notes may be renewed for a period not to exceed one year and must be retired within five years of the original issue. During the year ended December 31, 2010, the City did not issue, renew or repay any TANs.

D. Long Term Debt

a.) Constitutional Debt Limit

The City constitutional debt limit at December 31, 2010 is computed as follows:

Five-Year Average Full Valuation of Taxable Real Estate (2005 - 2009)	<u>\$ 339,484,032</u>
Debt Limit @ 7%	<u>\$ 23,763,882</u>
Net Indebtedness (after statutory exclusions)	<u>850,000</u>
Net Debt Contracting Margin	<u>\$ 22,913,882</u>
Percentage of Debt Contracting Power Exhausted	<u>3.58%</u>

b.) Serial Bonds

The City borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities, which are full faith and credit debt of the local government are recorded in the governmental funds in the government-wide financial statements.

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 8 - LIABILITIES (CONTINUED)

D. Long Term Debt, continued

c.) Compensated Absences

As explained in Note 1, compensated absences are recorded in the government-wide financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees which are included in wages and benefits.

d.) Summary of Changes in General Long Term Debt

The following is a summary of changes in general long-term liabilities:

	Balance 01/01/2009	Increases	Decreases	Balance 12/31/2009
Serial bonds	\$ 6,135,000	\$ 280,000	\$ 705,000	\$ 5,710,000
Compensated absences	4,187,131	17,696	-	4,204,827
	<u>\$ 10,322,131</u>	<u>\$ 297,696</u>	<u>\$ 705,000</u>	<u>\$ 9,914,827</u>

Additions and deletions to compensated absences are shown net since it is impractical to determine these amounts separately.

e.) Long Term Debt Maturity Schedule

The following is a summary of changes in long term liabilities.

Purpose	Date Issued	Maturity Date	Interest Rate	Original Amount	Outstanding Balance 12/31/2010
Various purposes	8/15/1993	5/15/2011	3.10%	\$ 3,740,000	\$ 150,000
Water treatment plant renovation	7/26/2001	11/15/2011	2.60%	725,364	80,000
Sewage treatment plant renovation	11/12/1992	2/16/2013	3.24%	5,545,000	975,000
Water treatment plant renovation	9/1/2008	5/1/2033	4.25%	4,539,000	4,225,000
Water treatment plant renovation	4/4/2010	5/1/2015	2.69%	280,000	280,000
					<u>\$ 5,710,000</u>

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 8 - LIABILITIES (CONTINUED)

D. Long Term Debt, continued

f.) Future Debt Service Requirements

The following table summarizes the City's future debt service requirements as of December 31, 2010:

YEAR ENDING DECEMBER 31,	Serial Bonds	
	Principal	Interest
2011	\$ 760,000	\$ 249,899
2012	540,000	208,015
2013	550,000	189,661
2014	225,000	164,790
2015	225,000	156,163
2016-2020	850,000	670,197
2021-2025	960,000	472,281
2026-2030	990,000	256,678
2031-2033	610,000	43,575
TOTAL	<u>\$ 5,710,000</u>	<u>\$ 2,411,259</u>

g.) Prior Year Defeasance of Debt

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account and the liability for the defeased bonds are not included in the City's financial statements. At December 31, 2010, \$150,000 of outstanding bonds are considered defeased.

NOTE 9 - NET ASSETS

Restricted Net Assets

Restrictions of net assets have been recorded in the government-wide financial statements of the City at December 31, 2010. In the governmental fund statements these restrictions are reflected as reservations of fund balances. At December 31, 2010, the City has recorded the following restrictions:

Restricted for Capital Equipment - represents resources that are committed for future capital equipment acquisitions.

Restricted for Tax Stabilization - represents resources appropriated by the Common Council to keep future tax increases at a minimum in any fiscal year.

Restricted for Employee Benefits - represents resources to be used to help minimize the financial burden of future employee benefit increases.

Restricted for Street Improvements - represents resources that are committed for future street construction.

Restricted for Encumbrances - represents commitments related to unperformed (executory) contracts for goods or services.

Unrestricted Net Assets

Designations are not legally required restrictions, but are segregated for a specific purpose. At December 31, 2010, the City had not designated any unrestricted net assets.

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

NOTE 10 - CONTINGENCIES

A. Lease Commitments and Leased Assets

The City leased property and equipment under an operating lease. Total rental expenditures on this lease for the year ended December 31, 2010 were approximately \$593. The City does not have any operating leases as of

B. Grant and Aid Programs

The City receives significant financial assistance from numerous federal and state agencies. The receipt of such funds generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed expenditures resulting from such audits could become a liability of the City. The amount of disallowance, if any, cannot be determined at this time, although, based on prior experience, the City expects such amounts to be immaterial.

C. Litigation

The City is party to various legal proceedings which normally occur in governmental operations. The City believes that its ultimate liability, if any, in connection with these matters, will not have a material effect on the City's financial condition or results of operations.

D. Environmental Remediation

The City's policy is not to take possession or ownership of properties with potential or known pollution remediation issues. The City currently does not have any properties with pollution remediation obligations where the City retains ownership rights that have either been remediated or have grant funding in place to be remediated. Any potential future environmental remediation is considered to be de minimus to the City. Therefore, the City has not made any adjustments related to GASB No. 49 to book any potential environmental remediations on the books.

CITY OF DUNKIRK, NEW YORK
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2010

	Original Budget	Revisions	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
REVENUES:						
Real property taxes	\$ 4,565,070	\$ -	\$ 4,565,070	\$ 4,560,453	\$ -	\$ (4,617)
Sales tax	2,135,924	-	2,135,924	2,223,014	-	87,090
Property tax items	3,019,688	-	3,019,688	3,272,448	-	252,760
Non-property tax items	370,000	-	370,000	353,768	-	(16,232)
Departmental income	906,200	3,088	909,288	898,796	-	(10,492)
Shared services	452,672	55,347	508,019	538,235	-	30,216
Use of money and property	53,333	-	53,333	30,712	-	(22,621)
Licenses and permits	30,100	-	30,100	35,255	-	5,155
Fines and forfeitures	155,000	-	155,000	125,513	-	(29,487)
Sale of property and compensation for loss	12,500	1,747	14,247	2,553	-	(11,694)
Miscellaneous	170,000	21,159	191,159	163,553	-	(27,606)
State aid	2,057,932	92,751	2,150,683	2,404,464	-	253,781
Federal aid	-	-	-	2,769	-	2,769
Total revenues	13,928,419	174,092	14,102,511	14,611,533	-	509,022
EXPENDITURES:						
Current:						
Council	39,050	287	39,337	39,337	-	-
Mayor	101,653	2,200	103,853	102,985	58	810
Financial	419,039	(14,432)	404,607	398,790	6,593	(776)
Staff	497,321	6,827	504,148	503,675	473	-
Shared services	561,025	50,790	611,815	608,885	1,095	1,835
Special items	248,358	(128,028)	120,330	208,388	-	(88,058)
Police department	3,122,935	47,386	3,170,321	3,162,465	14,936	(7,080)
Fire department	1,722,850	170,342	1,893,192	1,893,192	-	-
Other public safety	192,716	64,063	256,779	187,654	70,361	(1,236)
Transportation	1,534,782	61,103	1,595,885	1,539,587	6,131	50,167
Economic assistance and opportunity	45,160	436	45,596	45,486	110	-
Culture and recreation	720,550	(13,488)	707,062	705,951	946	165
Home and community service	743,145	272,017	1,015,162	768,549	251,542	(4,929)
Employee benefits	3,834,951	71,454	3,906,405	3,885,795	-	20,610
Debt service:						
Principal	134,400	-	134,400	134,400	-	-
Interest	10,484	(1)	10,483	10,483	-	-
Total expenditures	13,928,419	590,956	14,519,375	14,195,622	352,245	(28,492)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(416,864)	(416,864)	415,911	(352,245)	480,530
OTHER FINANCING SOURCES (USES):						
Transfers in	-	5,000	5,000	10,575	-	5,575
Total other financing sources (uses)	-	5,000	5,000	10,575	-	5,575
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	(411,864)	(411,864)	426,486	(352,245)	486,105
FUND BALANCE, January 1	5,273,040	-	5,273,040	5,273,040	-	-
FUND BALANCE, December 31	\$ 5,273,040	\$ (411,864)	\$ 4,861,176	\$ 5,699,526	\$ (352,245)	\$ 486,105

CITY OF DUNKIRK, NEW YORK
BUDGETARY COMPARISON SCHEDULE
WATER FUND
YEAR ENDED DECEMBER 31, 2010

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:						
Departmental income	\$ 2,625,850	\$ -	\$ 2,625,850	\$ 2,562,850	\$ -	\$ (63,000)
Use of money and property	100	-	100	-	-	(100)
Sale of property and compensation for loss	2,500	19,866	22,366	28,110	-	5,744
Miscellaneous	10,000	-	10,000	12,516	-	2,516
Total revenues	2,638,450	19,866	2,658,316	2,603,476	-	(54,840)
EXPENDITURES:						
Current:						
Special items	86,562	(41,374)	45,188	76,094	-	(30,906)
Home and community service	1,576,286	107,644	1,683,930	1,670,486	12,397	1,047
Employee benefits	490,441	(3,976)	486,465	478,712	-	7,753
Debt service:						
Principal	355,000	-	355,000	80,000	-	275,000
Interest	130,161	(2,805)	127,356	2,356	-	125,000
Total expenditures	2,638,450	59,489	2,697,939	2,307,648	12,397	377,894
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	(39,623)	(39,623)	295,828	(12,397)	323,054
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	24,500	-	24,500
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	(39,623)	(39,623)	320,328	(12,397)	347,554
FUND BALANCE (DEFICIT), January 1	(1,052,241)	-	(1,052,241)	(1,052,241)	-	-
FUND BALANCE (DEFICIT), December 31	\$ (1,052,241)	\$ (39,623)	\$ (1,091,864)	\$ (731,913)	\$ (12,397)	\$ 347,554

CITY OF DUNKIRK, NEW YORK
BUDGETARY COMPARISON SCHEDULE
WASTEWATER TREATMENT FUND
YEAR ENDED DECEMBER 31, 2010

	Original Budget	Revisions	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
REVENUES:						
Departmental income	\$ 4,019,125	\$ -	\$ 4,019,125	\$ 3,064,616	\$ -	\$ (954,509)
Use of money and property	1,000	-	1,000	-	-	(1,000)
Miscellaneous	-	-	-	9,618	-	9,618
Total revenues	<u>4,020,125</u>	<u>-</u>	<u>4,020,125</u>	<u>3,074,234</u>	<u>-</u>	<u>(945,891)</u>
EXPENDITURES:						
Current:						
Special items	113,195	-	113,195	81,258	-	31,937
Home and community service	2,616,984	26,874	2,643,858	2,326,887	95,466	221,505
Employee benefits	532,929	-	532,929	461,101	-	71,828
Debt service:						
Principal	490,600	-	490,600	490,600	-	-
Interest	266,417	-	266,417	220,349	-	46,068
Total expenditures	<u>4,020,125</u>	<u>26,874</u>	<u>4,046,999</u>	<u>3,580,195</u>	<u>95,466</u>	<u>371,338</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>(26,874)</u>	<u>(26,874)</u>	<u>(505,961)</u>	<u>(95,466)</u>	<u>(574,553)</u>
OTHER FINANCING SOURCES:						
Transfers in	-	-	-	170,759	-	170,759
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>170,759</u>	<u>-</u>	<u>170,759</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>-</u>	<u>(26,874)</u>	<u>(26,874)</u>	<u>(335,202)</u>	<u>(95,466)</u>	<u>(403,794)</u>
FUND BALANCE (DEFICIT), January 1	<u>(1,213,574)</u>	<u>-</u>	<u>(1,213,574)</u>	<u>(1,213,574)</u>	<u>-</u>	<u>-</u>
FUND BALANCE (DEFICIT), December 31	<u>\$ (1,213,574)</u>	<u>\$ (26,874)</u>	<u>\$ (1,240,448)</u>	<u>\$ (1,548,776)</u>	<u>\$ (95,466)</u>	<u>\$ (403,794)</u>

CITY OF DUNKIRK, NEW YORK
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2010

The schedule of funding progress presented below provides a consolidated snapshot of the City's ability to meet current and future liabilities with the plan assets. Of particular interest to most is the funded status ratio. This ratio conveys a plan's level of assets to liabilities, an important indicator to determine the financial health of the OPEB plan. The closer the plan is to a 100% funded status, the better position it will be in to meet all of its future liabilities. The actuarial value of assets and actuarial accrued liability are obtained from the latest actuarial report.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2008	\$ -	\$ 106,697	\$ 106,697	0.0%	\$ -	0.0%
7/1/2009	\$ -	\$ 215,071	\$ 215,071	0.0%	\$ -	0.0%
7/1/2010	\$ -	\$ 202,616	\$ 202,616	0.0%	\$ -	0.0%

CITY OF DUNKIRK, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (1)
YEAR ENDED DECEMBER 31, 2010

FEDERAL GRANTOR/ PROGRAM TITLE	Federal CFDA Number (2)	Notes	Federal Expenditures (3)
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Programs			
Community Development Block Grants			
Entitlement Grants	14.218		\$ 920,606
<i>Total U.S. Department of Housing and Urban Development</i>			<u>920,606</u>
U.S. DEPARTMENT OF JUSTICE			
Passed through NYS Division of Criminal Justice			
Services:			
Bulletproof Vest Partnership Program	16.607		<u>2,769</u>
<i>Total U.S. Department of Justice</i>			<u>2,769</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Pass through NYS Department of Transportation:			
Safe Routes to School Program	20.205		<u>408,822</u>
<i>Total U.S. Department of Transportation</i>			<u>408,822</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,332,197</u></u>

The accompanying notes are an integral part of this schedule.

CITY OF DUNKIRK, NEW YORK
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2010

Notes:

- (1) Includes all major and nonmajor programs.
- (2) Source: July 2010 Catalog of Federal Domestic Assistance.
- (3) Prepared on the "GAAP" basis of accounting and includes all federal program expenditures.
- (4) The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Dunkirk, New York. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements which are presented on the modified accrual basis.



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**INDEPENDENT AUDITOR'S 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**

June 30, 2011

Honorable Mayor
Members of the City Council
Treasurer
City of Dunkirk
Dunkirk, New York 14048

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 Dunkirk, New York, as of and for the year ended December 31, 2010, which collectively comprise the City of Dunkirk, New York's basic financial statements and have issued our report thereon dated June 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Dunkirk, New York'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 City of Dunkirk, New York's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, referenced as 10-01, that we consider to be significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dunkirk, New York'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*.

We noted certain matters that we reported to management of the City of Dunkirk, New York in a separate letter dated June 30, 2011.

The City of Dunkirk, New York's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Dunkirk, New York's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the finance committee, management, City Council, and federal awarding agencies and pass-through entities. However this report is a matter of public record and its distribution is not limited.

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK AND ASSOCIATES, LLP



JOHNSON, MACKOWIAK
AND ASSOCIATES, LLP
Certified Public Accountants & Consultants

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

June 30, 2011

Honorable Mayor
Members of the City Council
Treasurer
City of Dunkirk
Dunkirk, New York 14048

Compliance

We have audited the compliance of the City of Dunkirk, New York, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City of Dunkirk's major federal program for the year ended December 31, 2010. The City of Dunkirk, New York's major federal program is 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 its major federal program is the responsibility of the City of Dunkirk, New York's management. Our responsibility is to express an opinion on the City of Dunkirk, New York's compliance based on our audit. The City of Dunkirk, New York's basic financial statements include the operations of the Dunkirk Housing Authority, which received \$1,312,857 in federal awards that is not included in the schedule during the year ended December 31, 2010. Our audit, described below, did not include the operations of the Dunkirk Housing Authority because other auditors were engaged to perform such 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 Dunkirk, New York'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 of the City of Dunkirk, New York's compliance with those requirements.

In our opinion, the City of Dunkirk, New York complied, in all material respects, with the compliance requirements referred to above could have a direct and material effect on its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

The management of the City of Dunkirk, New York, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Dunkirk, New York's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the 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, 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 City of Dunkirk, New York's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control in over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-01 to be a significant deficiency.

The City of Dunkirk, New York's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Dunkirk, New York's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the finance committee, management, City Council, others within the entity, federal awarding and pass-through agencies. However, this report is a matter of public record and its distribution is not limited.

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK AND ASSOCIATES, LLP

**CITY OF DUNKIRK, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010**

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	<u>Unqualified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	yes	X no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	X yes	none reported
Noncompliance material to financial statements noted?	yes	X no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	yes	X no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	yes	X none reported
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	yes	X no

CITY OF DUNKIRK, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
YEAR ENDED DECEMBER 31, 2010

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant

Dollar threshold used to distinguish between
Type A and type B programs? \$300,000

Auditee qualified as low-risk auditee? _____yes Xno

Section II – Financial Statement Findings

As of and for the year ended December 31, 2010, the City of Dunkirk, New York, had one finding that were required to be reported in accordance with GAGAS.

10-01 Payroll Reconciliations

Condition: The City does not have a formal procedure to ensure that reconciliations of the payroll account are completed on a monthly basis.

Criteria: The City must maintain proper records and reconcile these records to the general ledger on a timely basis to ensure accurate accounting.

Effect: We encountered a situation in which the payroll subsidiary ledger differed significantly from the general ledger.

Cause: Adequate procedures were not in place to accurately reconcile the City's payroll account.

Auditor's Recommendation: The City should implement policies and procedures to provide that the reconciliation process takes place on a monthly basis.

Management's response: The City has taken steps to ensure that payroll reconciliations are completed in a timely manner.

Section III – Federal Award Findings and Questioned Costs

As of and for the year ended December 31, 2010, the City of Dunkirk, New York, we did not have any findings that were considered Federal Award Findings and Questioned Costs.

**CITY OF DUNKIRK, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010**

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	<u>Unqualified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	yes	X	no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	X	yes	none reported
Noncompliance material to financial statements noted?	yes	X	no

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	yes	X	no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	yes	X	none reported
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>		
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	yes	X	no

CITY OF DUNKIRK, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
YEAR ENDED DECEMBER 31, 2010

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant

Dollar threshold used to distinguish between
Type A and type B programs? \$300,000

Auditee qualified as low-risk auditee? _____yes Xno

Section II – Financial Statement Findings

As of and for the year ended December 31, 2010, the City of Dunkirk, New York, had one finding that were required to be reported in accordance with GAGAS.

10-01 Payroll Reconciliations

Condition: The City does not have a formal procedure to ensure that reconciliations of the payroll account are completed on a monthly basis.

Criteria: The City must maintain proper records and reconcile these records to the general ledger on a timely basis to ensure accurate accounting.

Effect: We encountered a situation in which the payroll subsidiary ledger differed significantly from the general ledger.

Cause: Adequate procedures were not in place to accurately reconcile the City's payroll account.

Auditor's Recommendation: The City should implement policies and procedures to provide that the reconciliation process takes place on a monthly basis.

Management's response: The City has taken steps to ensure that payroll reconciliations are completed in a timely manner.

Section III – Federal Award Findings and Questioned Costs

As of and for the year ended December 31, 2010, the City of Dunkirk, New York, we did not have any findings that were considered Federal Award Findings and Questioned Costs.

**CITY OF DUNKIRK, NEW YORK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2010**

- There were no prior year A-133 findings.

CITY OF DUNKIRK, NEW YORK
SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED DECEMBER 31, 2010

<u>PROGRAM TITLE</u>	<u>NYSDOT Contract Number</u>	<u>Expenditures</u>
New York State Arterial Aid	N/A	\$ 95,816
Consolidated Highway Improvement Program (CHIPS)	N/A	375,683
Safe Routes to School	D032511	<u>408,822</u>
TOTAL STATE TRANSPORTATION ASSISTANCE EXPENDED		<u><u>\$ 880,321</u></u>

CITY OF DUNKIRK, NEW YORK
NOTES TO THE SCHEDULE OF STATE TRANSPORTATION
ASSISTANCE EXPENDED
YEAR ENDED DECEMBER 31, 2010

GENERAL

The accompanying Schedule of State Transportation Assistance Expended of City of Dunkirk, New York, presents the activity of all financial assistance programs provided by the New York State Department of Transportation.

BASIS OF ACCOUNTING

The accompanying Schedule of State Transportation Expended is presented using the modified accrual basis of accounting.

The amounts reported in the Schedule of State Transportation assistance expended generally were obtained from the appropriate financial reports for the applicable program and periods. The amounts reported in the financial reports are prepared from records maintained for each program. These records are periodically reconciled to the general ledger which is the source of the financial statements.

INDIRECT COSTS

There are no indirect costs associated with these programs.

MATCHING COSTS

Matching costs, ie, the City's share of certain program costs, are not included in the reported expenditures.

AMOUNTS PAID TO SUBRECIPIENTS

There were no amounts paid to subrecipients.



JOHNSON, MACKOWIAK
AND ASSOCIATES, LLP
Certified Public Accountants & Consultants

70 East Main Street / Fredonia, New York 14063 / 716-672-4770 / Fax 716-679-1512

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND CONTROLS OVER
STATE TRANSPORTATION ASSISTANCE EXPENDED BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

June 30, 2011

Honorable Mayor
Members of the City Council
Treasurer
City of Dunkirk, New York 14048

Compliance

We have audited the compliance of the City of Dunkirk, New York with the types of compliance requirements described in Part 43 of the New York State Codification of Rules and regulations (NYCRR) that are applicable to each state transportation assistance program tested for the year ended December 31, 2010. The programs tested are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each program tested is the responsibility of the City of Dunkirk, New York's management. Our responsibility is to express an opinion on the City of Dunkirk, New York's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Part 43 of NYCRR. Those standards and Part 43 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 the state transportation assistance programs tested, has occurred. An audit includes examining, on a test basis, evidence about the City of Dunkirk, New York'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 of Dunkirk, New York's compliance with those requirements.

In our opinion, the City of Dunkirk, New York complied in all material respects with the compliance requirements referred to above that could have a direct and material effect on each of its state transportation assistance programs tested for the year ended December 31, 2010.

Internal Control Over Compliance

The management of the City of Dunkirk, New York is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state transportation assistance programs. In planning and

performing our audit, we considered the City of Dunkirk, New York's internal control over compliance with requirements that could have a direct and material effect on state transportation assistance programs to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on the internal control over compliance in accordance with Part 43 of NYCRR, 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 City of Dunkirk, New York's internal control over compliance.

A deficiency in control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a state transportation assistance program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state transportation assistance program will not be prevented, or detected and corrected, on a timely basis.

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 over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above.

Schedule of State Transportation Assistance Expended

We have audited the financial statements of the City of Dunkirk, New York as of and for the year ended December 31, 2010, and have issued our report thereon dated June 30, 2011. Our audit was performed for the purpose of forming an opinion on the City of Dunkirk, New York's financial statements taken as a whole. The accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Part 43 of NYCRR, 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 financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the City of Dunkirk, New York's management and the New York State Department of Transportation. However, this report is a matter of public record and its distribution is not limited.

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK AND ASSOCIATES, LLP

**CITY OF DUNKIRK, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED DECEMBER 31, 2010**

Summary of Audit Results:

Internal control over state transportation assistance expended:

- | | |
|--|---------------|
| • Material weakness(es) identified | No |
| • Reportable condition(s) identified that are not considered to be material weakness(es) | None reported |

Type of auditors' report issued on compliance for programs tested:	Unqualified
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Identification of State Transportation Assistance Programs Tested:

Name

Consolidated Highway Improvement Program (CHIPS)

Safe Routes to School

Compliance Findings and Questioned Costs:

No matters were reported.

**CITY OF DUNKIRK, NEW YORK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED DECEMBER 31, 2010**

The City of Dunkirk, New York did not have any prior year findings.