

**CITY OF DUNKIRK, NEW YORK**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

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

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**DUNKIRK CITY COUNCIL**  
**YEAR ENDED DECEMBER 31, 2011**

**MAYOR**

**RICHARD L. FREY**

**COUNCILMAN-AT-LARGE**

**Anthony J. Dolce**

**MEMBERS OF THE COUNCIL**

**FIRST WARD**

**Michael Michalski**

**SECOND WARD**

**Kevin Muldowney**

**THIRD WARD**

**Andolino Gonzalez**

**FOURTH WARD**

**Stacy Szukala**



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

## INDEPENDENT AUDITORS' REPORT

June 6, 2012

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, 2011, 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 opinions.

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, 2011, and the respective changes in financial position and where applicable cash flows, 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 6, 2012, 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 45 through 48, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting 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 opinions 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 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 including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other 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 \$1,007,653 of federal awards which are not included in the City's schedule of expenditures of federal awards for the year ended December 31, 2011. 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, 2011**

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, 2011. 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 \$158,018 budgetary surplus for the year ended December 31, 2011 as shown on page 45. This amount compares to a budgetary deficit of \$486,105 for the year ended December 31, 2010.
- The General Fund reported an operating surplus of \$63,051 for the current year as compared to an operating deficit of \$426,486 for 2010.
- The Water Fund had an operating surplus of \$70,536 for the current year as compared with an operating deficit of \$320,328 for 2010. Continued Chautauqua County mandated repairs and upgrades to water infrastructure which were not anticipated budget items for year 2011.
- The Wastewater Treatment Fund had an operating surplus of \$489,003 for 2011 as compared with an operating deficit of \$335,202 for 2010. Sewer rates were adjusted to meet increased operating costs and to alleviate previous cumulative deficits.
- The City's net assets increased by \$422,530 as a result of the activity for the year ended December 31, 2011 as compared to an increase of approximately \$1,028,692 as a result of 2010 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 \$14.655 million from \$14.232 million for the year ended December 31, 2011. This is a result of an operational surplus of \$.4 million. This compares to an increase for the year ended December 31, 2010 of approximately \$1.0 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	
	2011	2010	2011	2010	2011	2010
<b>Assets</b>						
Current assets	\$ 11,253	\$ 7,744	\$ -	\$ -	\$ 11,253	\$ 7,744
Capital assets	23,803	23,083	-	-	23,803	23,083
Total assets	<u>\$ 35,056</u>	<u>\$ 30,827</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,056</u>	<u>\$ 30,827</u>
<b>Liabilities</b>						
Current liabilities	\$ 11,420	\$ 7,690	\$ -	\$ -	\$ 11,420	\$ 7,690
Long-term portion of obligations	8,981	8,905	-	-	8,981	8,905
Total liabilities	<u>\$ 20,401</u>	<u>\$ 16,595</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,401</u>	<u>\$ 16,595</u>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	\$ 10,633	\$ 12,273	\$ -	\$ -	\$ 10,633	\$ 12,273
Restricted	2,338	2,349	-	-	2,338	2,349
Unrestricted	1,684	(390)	-	-	1,684	(390)
Total net assets	<u>\$ 14,655</u>	<u>\$ 14,232</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,655</u>	<u>\$ 14,232</u>

Table 2  
Changes in Net Assets  
(In Thousands)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 7,767	\$ 6,663	\$ -	\$ -	\$ 7,767	\$ 6,663
Operating grants and contributions	1,570	1,931	-	-	1,570	1,931
Capital grants and contributions	222	450	-	-	222	450
General revenues:						
Property taxes	4,666	4,560	-	-	4,666	4,560
Sales tax	2,312	2,223	-	-	2,312	2,223
PILOT payments	3,557	3,217	-	-	3,557	3,217
Investment earnings	77	54	-	-	77	54
Miscellaneous	2,424	2,629	-	-	2,424	2,629
Total revenues	<u>22,595</u>	<u>21,727</u>	<u>-</u>	<u>-</u>	<u>22,595</u>	<u>21,727</u>
<b>Program expenses</b>						
Council	57	58	-	-	57	58
Mayor	164	155	-	-	164	155
Financial	604	567	-	-	604	567
Staff	696	740	-	-	696	740
Shared services	719	735	-	-	719	735
Special items	399	366	-	-	399	366
Police department	5,033	4,774	-	-	5,033	4,774
Fire department	3,322	2,968	-	-	3,322	2,968
Other public safety	257	243	-	-	257	243
Transportation	2,075	2,091	-	-	2,075	2,091
Economic assistance and opportunity	35	47	-	-	35	47
Culture and recreation	989	967	-	-	989	967
Water treatment	2,496	2,365	-	-	2,496	2,365
Wastewater treatment	3,209	2,442	-	-	3,209	2,442
Home and community service	1,778	1,887	-	-	1,778	1,887
Interest on long-term debt	339	293	-	-	339	293
Total expenses	<u>22,172</u>	<u>20,698</u>	<u>-</u>	<u>-</u>	<u>22,172</u>	<u>20,698</u>
<b>Increase in net assets</b>	<u>\$ 423</u>	<u>\$ 1,029</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 423</u>	<u>\$ 1,029</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)

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Police department	\$ 5,033	\$ 4,774	\$ 4,627	\$4,329
Fire department	3,322	2,968	3,322	2,968
Transportation	2,075	2,091	1,560	1,168
Water treatment	2,496	2,365	61	(197)
Wastewater treatment	<u>3,209</u>	<u>2,442</u>	<u>(1,053)</u>	<u>(623)</u>
Totals	<u>\$16,135</u>	<u>\$14,640</u>	<u>\$ 8,517</u>	<u>\$7,645</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 \$0.892 million which reflects a decrease of \$0.271 million from last year's total of \$1.163 million. During 2011, the City's capital expenditures exceed its related revenues by approximately \$0.897 million.

## GENERAL FUND BUDGETARY HIGHLIGHTS

The significant variances between the originally adopted budgets for 2011 and 2010 and the final budget are detailed as follows:

	2011	2010
Original budget	\$ 14,394,184	\$ 13,928,419
Additional appropriations	515,671	160,559
Encumbrance carryover	<u>352,245</u>	<u>430,397</u>
Final Budget	<u>\$ 15,262,100</u>	<u>\$ 14,519,375</u>

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At December 31, 2011, the City had \$23.803 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 \$0.720 million for the year.

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

	Governmental Activities		Business - Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2011
Land and improvements	\$ 151	\$ 151	\$ -	\$ -	\$ 151	\$ 151
Construction in progress	15,746	14,061	-	-	15,746	14,061
Infrastructure	34,704	34,704	-	-	34,704	34,704
Buildings and improvements	12,416	12,415	-	-	12,416	12,415
Machinery and equipment	16,320	16,140	-	-	16,320	16,140
Accumulated depreciation	<u>(55,534)</u>	<u>(54,388)</u>	<u>-</u>	<u>-</u>	<u>(55,534)</u>	<u>(54,388)</u>
Total	<u>\$ 23,803</u>	<u>\$ 23,083</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,803</u>	<u>\$ 23,083</u>

## Debt

At year end, the City had \$13.170 million in bonds and notes outstanding as compared to \$10.810 million outstanding at December 31, 2010. See Note 8 on pages 37 through 42 for additional details).

	Outstanding Debt at Year-end (In Thousands)					
	Governmental Activities		Business - Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 5,600	\$ 5,710	\$ -	\$ -	\$ 5,600	\$ 5,710
Bond anticipation notes	\$ 7,570	\$ 5,100	\$ -	\$ -	\$ 7,570	\$ 5,100

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the fiscal-year 2012 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 remained at \$604,566 million for 2011. The taxable valuation remained constant at approximately \$278,700 million for 2011 as well.

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 2012. In developing the 2011 General Fund budget, the City appropriated \$100,000 of the tax stabilization reserve. There is no appropriation of this reserve for 2012.

The City's general fund balance is not expected to decrease by the close of 2012. 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 2012 and 2013.

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 2012, as New York State mandates continue to increase, investment income remains at record lows, and health and other benefit costs continue to increase. The City will continue to review and adjust water rates in 2012 in anticipation of these mandated costs.

#### **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, 2011**

	PRIMARY GOVERNMENT			Component Units
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 7,629,291	\$ -	\$ 7,629,291	861,201
Investments	-	-	-	663,986
Receivables (net, where applicable of allowances for estimated uncollectibles)				
Taxes	369,525	-	369,525	-
Accounts receivable	1,691,998	-	1,691,998	13,047
Due from fiduciary funds	80,137	-	80,137	-
Due from other governments	1,482,236	-	1,482,236	4,097
Prepaid expenses	-	-	-	16,925
Other assets	-	-	-	15,851
Total current assets	11,253,187	-	11,253,187	1,575,107
<b>NONCURRENT ASSETS:</b>				
Capital assets:				
Land and improvements	151,155	-	151,155	1,257,808
Construction in progress	15,745,656	-	15,745,656	-
Infrastructure	34,704,071	-	34,704,071	-
Buildings and improvements	12,415,511	-	12,415,511	14,299,699
Machinery and equipment	16,320,258	-	16,320,258	1,002,335
Accumulated depreciation	(55,533,633)	-	(55,533,633)	(9,656,175)
Total noncurrent assets	23,803,018	-	23,803,018	6,903,667
<b>TOTAL ASSETS</b>	<b>\$ 35,056,205</b>	<b>\$ -</b>	<b>\$ 35,056,205</b>	<b>\$ 8,478,774</b>

# LIABILITIES AND NET ASSETS

## **CURRENT LIABILITIES:**

Accounts payable	\$ 1,674,747	\$ -	\$ 1,674,747	\$ 10,203
Accrued liabilities	252,590	-	252,590	79,277
Accrued interest payable	147,483	-	147,483	-
Due to other governments	850,565	-	850,565	94,238
Bond anticipation notes payable	7,570,000	-	7,570,000	-
Current portion of long-term obligations	925,000	-	925,000	-
Total current liabilities	11,420,385	-	11,420,385	183,718

## **NONCURRENT LIABILITIES:**

Noncurrent portion of long-term obligations	8,980,885	-	8,980,885	188,289
<b>TOTAL LIABILITIES</b>	20,401,270	-	20,401,270	372,007

## **NET ASSETS**

Invested in capital assets, net of related debt

Restricted for:

Capital equipment	368,854	-	368,854	-
Tax stabilization	481,317	-	481,317	-
Employee benefits	513,188	-	513,188	-
Street improvements	425,923	-	425,923	-
Encumbrances	548,970	-	548,970	-
Future expenditures	-	-	-	158,678
Unrestricted	1,683,665	-	1,683,665	1,044,422
<b>TOTAL NET ASSETS</b>	14,654,935	-	14,654,935	8,106,767

## **TOTAL LIABILITIES AND NET ASSETS**

	\$ 35,056,205	\$ -	\$ 35,056,205	\$ 8,478,774
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## **PRIMARY GOVERNMENT**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
	\$ 1,674,747	\$ -	\$ 1,674,747	\$ 10,203
	252,590	-	252,590	79,277
	147,483	-	147,483	-
	850,565	-	850,565	94,238
	7,570,000	-	7,570,000	-
	925,000	-	925,000	-
	11,420,385	-	11,420,385	183,718
	8,980,885	-	8,980,885	188,289
	20,401,270	-	20,401,270	372,007
	10,633,018	-	10,633,018	6,903,667
	368,854	-	368,854	-
	481,317	-	481,317	-
	513,188	-	513,188	-
	425,923	-	425,923	-
	548,970	-	548,970	-
	1,683,665	-	1,683,665	158,678
	14,654,935	-	14,654,935	1,044,422
	\$ 35,056,205	\$ -	\$ 35,056,205	\$ 8,478,774



**CITY OF DUNKIRK, NEW YORK  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2011**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				Component Units
	PRIMARY GOVERNMENT				PRIMARY GOVERNMENT				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total		
Primary governmental activities:									
Council	\$ 56,646	\$ -	\$ -	\$ -	\$ (56,646)	\$ -	\$ (56,646)	\$ -	-
Mayor	164,225	-	-	-	(164,225)	-	(164,225)	-	-
Financial	604,301	-	-	-	(604,301)	-	(604,301)	-	-
Staff	696,062	119,668	-	-	(576,394)	-	(576,394)	-	-
Shared services	718,824	51,650	27,066	-	(640,108)	-	(640,108)	-	-
Special items	399,021	-	-	-	(399,021)	-	(399,021)	-	-
Police department	5,033,047	-	405,691	-	(4,627,356)	-	(4,627,356)	-	-
Fire department	3,322,498	-	-	-	(3,322,498)	-	(3,322,498)	-	-
Other public safety	257,489	33,881	-	-	(223,608)	-	(223,608)	-	-
Transportation	2,075,212	1,582	422,056	91,936	(1,559,638)	-	(1,559,638)	-	-
Economic assistance and opportunity	34,759	3,500	-	-	(31,259)	-	(31,259)	-	-
Culture and recreation	988,823	83,270	70,467	-	(835,086)	-	(835,086)	-	-
Water treatment	2,495,996	2,434,580	-	-	(61,416)	-	(61,416)	-	-
Wastewater treatment	3,208,807	4,262,767	-	-	1,053,960	-	1,053,960	-	-
Home and community service	1,777,544	776,625	644,490	129,725	(226,704)	-	(226,704)	-	-
Interest on long-term debt	338,929	-	-	-	(338,929)	-	(338,929)	-	-
Total governmental activities	22,172,183	7,767,523	1,569,770	221,661	(12,613,229)	-	(12,613,229)	-	-
Total business-type activities	-	-	-	-	-	-	-	-	-
Total primary government	\$ 22,172,183	\$ 7,767,523	\$ 1,569,770	\$ 221,661	(12,613,229)	-	(12,613,229)	-	-
Component units									
Dunkirk Free Library	\$ 336,926	\$ 11,079	\$ 32,909	\$ -	-	-	-	-	(292,938)
City of Dunkirk Industrial Development Agency	2,017	-	-	-	-	-	-	-	(2,017)
Dunkirk Housing Authority	1,881,099	634,930	504,608	503,045	-	-	-	-	(238,516)
Total component units	\$ 2,220,042	\$ 646,009	\$ 537,517	\$ 503,045	-	-	-	-	(533,471)
General revenues:									
Taxes:									
Property taxes					4,665,568	-	4,665,568	-	-
Sales taxes					2,311,661	-	2,311,661	-	-
PILOT payments					3,556,846	-	3,556,846	-	-
Payment from City of Dunkirk, New York					-	-	-	-	171,500
Grants and contributions not restricted to specific programs					-	-	-	-	117,289
Investment earnings					76,939	-	76,939	-	16,707
Miscellaneous					2,424,745	-	2,424,745	-	-
Gain on sale of capital assets					-	-	-	-	1,225
Total general revenues, special items and transfers					13,035,759	-	13,035,759	-	306,721
Change in net assets					422,530	-	422,530	-	(226,750)
NET ASSETS - beginning					14,232,405	-	14,232,405	-	8,333,517
NET ASSETS - ending					\$ 14,654,935	\$ -	\$ 14,654,935	\$ -	\$ 8,106,767

**CITY OF DUNKIRK, NEW YORK**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2011**

	<u>General Fund</u>	<u>Water Fund</u>	<u>Wastewater Treatment Fund</u>	<u>Special Grant Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 2,351,031	\$ 343,660	\$ 204,614	\$ 1,114	\$ 4,728,872	\$ 7,629,291
Receivables, net						369,525
Taxes	369,525	-	-	-	-	369,525
Accounts receivable	430,483	442,661	816,216	-	2,638	1,691,998
Due from other governments	1,472,240	-	-	2,049	7,947	1,482,236
Due from other funds	5,623,174	393,709	803,466	97,461	1,637,537	8,555,347
<b>TOTAL ASSETS</b>	<b>\$ 10,246,453</b>	<b>\$ 1,180,030</b>	<b>\$ 1,824,296</b>	<b>\$ 100,624</b>	<b>\$ 6,376,994</b>	<b>\$ 19,728,397</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Accounts payable	\$ 1,249,576	\$ 129,411	\$ 169,750	\$ -	\$ 126,010	\$ 1,674,747
Accrued liabilities	187,282	41,884	23,424	-	-	252,590
Due to other governments	850,565	-	-	-	-	850,565
Due to other funds	2,182,874	1,670,112	2,690,895	31,591	1,899,738	8,475,210
Bond anticipation notes payable	-	-	-	-	7,570,000	7,570,000
Deferred revenue	13,579	-	-	-	-	13,579
<b>TOTAL LIABILITIES</b>	<b>4,483,876</b>	<b>1,841,407</b>	<b>2,864,069</b>	<b>31,591</b>	<b>9,595,748</b>	<b>18,836,691</b>
<b>FUND BALANCES:</b>						
Reserved for:						481,317
Tax stabilization	481,317	-	-	-	-	481,317
Other fund activities	-	-	-	69,033	-	69,033
Encumbrances	-	18,366	46,670	-	124,112	189,148
Assigned for:						368,854
Capital equipment	368,854	-	-	-	-	368,854
Street improvements	425,923	-	-	-	-	425,923
Employee benefits	513,188	-	-	-	-	513,188
Encumbrances	359,822	-	-	-	-	359,822
Unassigned:						(1,515,579)
Unassigned	3,613,473	(679,743)	(1,106,443)	-	(3,342,866)	(1,515,579)
<b>TOTAL FUND BALANCES</b>	<b>5,762,577</b>	<b>(661,377)</b>	<b>(1,059,773)</b>	<b>69,033</b>	<b>(3,218,754)</b>	<b>851,706</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 10,246,453</b>	<b>\$ 1,180,030</b>	<b>\$ 1,824,296</b>	<b>\$ 100,624</b>	<b>\$ 6,376,994</b>	<b>\$ 19,728,397</b>

CITY OF DUNKIRK, NEW YORK  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011

Fund balances - total governmental funds	\$ 891,706
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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	15,745,656
Infrastructure, net of \$32,149,750 accumulated depreciation	2,554,321
Buildings and improvements, net of \$9,923,268 accumulated depreciation	2,492,243
Equipment, net of \$13,460,615 accumulated depreciation	<u>2,859,643</u>
	23,803,018

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 \$9,905,885 and accrued interest payable on long-term liabilities amounted to \$147,483.

(10,053,368)

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.

13,579

Net assets of governmental activities

\$ 14,654,935

**CITY OF DUNKIRK, NEW YORK**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2011**

	<u>General Fund</u>	<u>Water Fund</u>	<u>Wastewater Treatment Fund</u>	<u>Special Grant Fund</u>	<u>Capital Projects Fund</u>	<u>TOTAL Governmental Funds</u>
<b>REVENUES:</b>						
Real property taxes	\$ 4,665,568	\$ -	\$ -	\$ -	\$ -	\$ 4,665,568
Sales tax	2,311,661	-	-	-	-	2,311,661
Property tax items	3,585,266	-	-	-	-	3,585,266
Non-property tax items	365,713	-	-	-	-	365,713
Departmental income	946,981	2,434,580	4,203,861	12,103	-	7,597,525
Shared services	425,401	-	-	-	-	425,401
Use of money and property	12,972	-	-	-	69,034	82,006
Licenses and permits	39,766	-	-	-	-	39,766
Fines and forfeitures	142,806	-	58,907	-	-	201,713
Sale of property and compensation for loss	4,369	21,907	1,991	-	-	28,267
Miscellaneous	188,277	15,092	780	3,144	58,617	265,910
State aid	2,272,361	5,673	5,673	-	91,936	2,375,643
Federal aid	-	-	-	644,490	-	644,490
<b>Total revenues</b>	<b>14,961,141</b>	<b>2,477,252</b>	<b>4,271,212</b>	<b>659,737</b>	<b>219,587</b>	<b>22,588,929</b>
<b>EXPENDITURES:</b>						
<b>Current:</b>						
Council	36,909	-	-	-	-	36,909
Mayor	106,886	-	-	-	-	106,886
Financial	419,336	-	-	-	-	419,336
Staff	466,191	-	-	-	-	466,191
Shared services	597,411	-	-	-	-	597,411
Special items	238,490	78,850	81,681	-	-	399,021
Police department	3,267,539	-	-	-	-	3,267,539
Fire department	2,108,171	-	-	-	-	2,108,171
Other public safety	197,777	-	-	-	-	197,777
Transportation	1,477,169	-	-	-	-	1,477,169
Economic assistance and opportunity	34,657	-	-	-	-	34,657
Culture and recreation	714,259	-	-	-	-	714,259
Home and community service	890,309	1,716,849	2,437,198	656,939	-	5,701,295
Employee benefits	4,207,592	530,218	502,399	-	-	5,240,209
<b>Debt service:</b>						
Principal	134,400	80,000	545,600	-	-	760,000
Interest	3,494	799	215,331	-	81,128	300,752
<b>Capital outlay</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,685,002</b>	<b>1,685,002</b>
<b>Total expenditures</b>	<b>14,900,590</b>	<b>2,406,716</b>	<b>3,782,209</b>	<b>656,939</b>	<b>1,766,130</b>	<b>23,512,584</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>60,551</b>	<b>70,536</b>	<b>489,003</b>	<b>2,798</b>	<b>(1,546,543)</b>	<b>(923,655)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	2,500	-	-	-	-	2,500
Transfers out	-	-	-	-	-	-
Proceeds of obligations	-	-	-	-	650,000	650,000
<b>Total other financing sources (uses)</b>	<b>2,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>650,000</b>	<b>652,500</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>63,051</b>	<b>70,536</b>	<b>489,003</b>	<b>2,798</b>	<b>(896,543)</b>	<b>(271,155)</b>
<b>FUND BALANCES (DEFICIT) - beginning</b>	<b>5,699,526</b>	<b>(731,913)</b>	<b>(1,548,776)</b>	<b>66,235</b>	<b>(2,322,211)</b>	<b>1,162,861</b>
<b>FUND BALANCES (DEFICIT) - ending</b>	<b>\$ 5,762,577</b>	<b>\$ (661,377)</b>	<b>\$ (1,059,773)</b>	<b>\$ 69,033</b>	<b>\$ (3,218,754)</b>	<b>\$ 891,706</b>

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, 2011

Net change in fund balances - total governmental funds	\$ (271,155)
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 (\$1,865,880) exceeded depreciation (\$1,146,246) in the current period.	
	719,634
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 \$3,284.	
	3,284
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 (\$760,000) exceeded proceeds (\$650,000) in the current period.	
	110,000
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 \$101,056 and accrued interest of \$38,177.	
	(139,233)
Change in net assets of governmental activities	\$ 422,530

**CITY OF DUNKIRK, NEW YORK  
BALANCE SHEET  
PROPRIETARY FUNDS  
DECEMBER 31, 2011**

	<b>Business-Type Activities Enterprise Funds <u>Total</u></b>
<b><u>ASSETS</u></b>	
<b>CURRENT ASSETS:</b>	
Total current assets	\$ -
<b>NONCURRENT ASSETS:</b>	
Total noncurrent assets	-
<b>TOTAL ASSETS</b>	<u>\$ -</u>
<b><u>LIABILITIES</u></b>	
<b>CURRENT LIABILITIES:</b>	
Total current liabilities	\$ -
<b>NONCURRENT LIABILITIES:</b>	
Total long-term liabilities	-
<b>TOTAL LIABILITIES</b>	-
<b><u>NET ASSETS</u></b>	
<b>TOTAL NET ASSETS</b>	<u>-</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<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, 2011**

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

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2011

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

See notes to financial statements.



**CITY OF DUNKIRK, NEW YORK**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2011**

	<u>Agency Funds</u>	<u>Trust Funds</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 101,446	\$ 93,980	\$ 195,426
<b>TOTAL ASSETS</b>	<u>\$ 101,446</u>	<u>\$ 93,980</u>	<u>\$ 195,426</u>
<b><u>LIABILITIES</u></b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 27,309	\$ -	\$ 27,309
Due to general fund	74,137	6,000	80,137
<b>TOTAL LIABILITIES</b>	<u>101,446</u>	<u>6,000</u>	<u>107,446</u>
<b><u>NET ASSETS</u></b>			
Net assets held in trust	-	87,980	87,980
<b>TOTAL NET ASSETS</b>	<u>-</u>	<u>87,980</u>	<u>87,980</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 101,446</u>	<u>\$ 93,980</u>	<u>\$ 195,426</u>

See notes to financial statements.

**CITY OF DUNKIRK, NEW YORK**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2011**

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**Trust  
Funds**

**ADDITIONS**

Investment earnings \$ -

**TOTAL ADDITIONS** -

**DEDUCTIONS**

Transfer to General Fund for  
Culture and recreation expenditures 2,500

**TOTAL DEDUCTIONS** 2,500

**CHANGE IN NET ASSETS** (2,500)

**NET ASSETS HELD IN TRUST**

BEGINNING OF YEAR 90,480

END OF YEAR \$ 87,980

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK  
STATEMENT OF NET ASSETS  
COMPONENT UNITS  
DECEMBER 31, 2011

	Dunkirk Free Library	Dunkirk Housing Authority	Dunkirk Urban Renewal Agency	City of Dunkirk Industrial Development Agency	Total
<b><u>ASSETS</u></b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 272,814	\$ 588,343	\$ -	\$ 44	\$ 861,201
Investments	-	663,986	-	-	663,986
Accounts receivable	-	13,047	-	-	13,047
Due from other governments	-	4,097	-	-	4,097
Prepaid expenses	-	16,925	-	-	16,925
Other assets	15,851	-	-	-	15,851
Total current assets	288,665	1,286,398	-	44	1,575,107
<b>NONCURRENT ASSETS:</b>					
Capital assets:					
Land and improvements	-	1,257,808	-	-	1,257,808
Buildings and improvements	798,330	13,501,369	-	-	14,299,699
Machinery and equipment	194,972	807,363	-	-	1,002,335
Accumulated depreciation	(227,552)	(9,428,623)	-	-	(9,656,175)
Total noncurrent assets	765,750	6,137,917	-	-	6,903,667
<b>TOTAL ASSETS</b>	<b>\$ 1,054,415</b>	<b>\$ 7,424,315</b>	<b>\$ -</b>	<b>\$ 44</b>	<b>\$ 8,478,774</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>					
<b>CURRENT LIABILITIES:</b>					
Accounts payable	\$ -	\$ 10,203	\$ -	\$ -	\$ 10,203
Due to other governments	-	94,238	-	-	94,238
Other current liabilities	-	79,112	-	165	79,277
Total current liabilities	-	183,553	-	165	183,718
<b>NONCURRENT LIABILITIES:</b>					
Noncurrent portion of long-term obligations	-	188,189	-	100	188,289
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>371,742</b>	<b>-</b>	<b>265</b>	<b>372,007</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	765,750	6,137,917	-	-	6,903,667
Restricted	158,678	-	-	-	158,678
Unrestricted	129,987	914,656	-	(221)	1,044,422
<b>TOTAL NET ASSETS</b>	<b>1,054,415</b>	<b>7,052,573</b>	<b>-</b>	<b>(221)</b>	<b>8,106,767</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,054,415</b>	<b>\$ 7,424,315</b>	<b>\$ -</b>	<b>\$ 44</b>	<b>\$ 8,478,774</b>

CITY OF DUNKIRK, NEW YORK  
STATEMENT OF ACTIVITIES  
COMPONENT UNITS  
YEAR ENDED DECEMBER 31, 2011

	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
Governmental activities:						
Dunkirk Free Library	\$ 336,926	\$ 11,079	\$ 32,909	\$ -	\$ (292,938)	\$ -
Total governmental activities	336,926	11,079	32,909	-	(292,938)	-
Business-type activities:						
Dunkirk Urban Renewal Agency	-	-	-	-	-	-
Dunkirk Housing Authority	1,881,099	634,930	504,608	503,045	-	(238,516)
City of Dunkirk Industrial Development Agency	2,017	-	-	-	-	(2,017)
Total business-type activities	1,883,116	634,930	504,608	503,045	-	(240,533)
Total component units	\$ 2,220,042	\$ 646,009	\$ 537,517	\$ 503,045	\$ (292,938)	\$ (533,471)
General revenues:						
Payment from City of Dunkirk, New York					171,500	171,500
Grants and contributions not restricted to specific programs					116,889	117,289
Investment earnings					10,143	16,707
Miscellaneous					-	1,225
Total general revenues, special items and transfers					298,532	306,721
Change in net assets					5,594	(226,750)
NET ASSETS - beginning					1,048,821	8,333,517
NET ASSETS - ending					\$ 1,054,415	\$ 8,106,767

CITY OF DUNKIRK, NEW YORK  
STATEMENT OF CASH FLOWS  
COMPONENT UNITS - PROPRIETARY FUND TYPES  
YEAR ENDED DECEMBER 31, 2011

	Business-type Activities Enterprise Funds			
	Dunkirk Urban Renewal Agency	Dunkirk Housing Authority	City of Dunkirk Industrial Development Agency	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from charges and fees	\$ -	\$ 627,889	\$ -	\$ 627,889
Receipts from operating grants	-	528,767	-	528,767
Payments to suppliers	-	(732,301)	(2,000)	(734,301)
Payments to other governments	-	(1,501)	-	(1,501)
Payments to employees	-	(549,259)	-	(549,259)
Payments from other funds	-	10,985	-	10,985
Payments to other funds	-	(5,842)	-	(5,842)
Other receipts	-	11,811	400	12,211
<b>Net cash provided (used) by operating activities</b>	<b>-</b>	<b>(109,451)</b>	<b>(1,600)</b>	<b>(111,051)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Capital grants received	-	503,045	-	503,045
Acquisition and modernization of capital assets	-	(520,710)	-	(520,710)
Proceeds from disposition of assets	-	1,225	-	1,225
<b>Net cash used by capital and related financing activities</b>	<b>-</b>	<b>(16,440)</b>	<b>-</b>	<b>(16,440)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES -</b>				
Funds used for investments	-	(5,164)	-	(5,164)
Interest income received	-	6,564	-	6,564
<b>Net cash provided by investing activities</b>	<b>-</b>	<b>1,400</b>	<b>-</b>	<b>1,400</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>-</b>	<b>(124,491)</b>	<b>(1,600)</b>	<b>(126,091)</b>
<b>CASH AND CASH EQUIVALENTS - beginning</b>	<b>-</b>	<b>712,834</b>	<b>1,644</b>	<b>714,478</b>
<b>CASH AND CASH EQUIVALENTS - ending</b>	<b>\$ -</b>	<b>\$ 588,343</b>	<b>\$ 44</b>	<b>\$ 588,387</b>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>				
Operating loss	\$ -	\$ (741,561)	\$ (1,600)	\$ (743,161)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	-	575,798	-	575,798
Change in assets and liabilities:				
Accounts receivable	-	3,155	-	3,155
Due from other governments	-	28,212	-	28,212
Due from other funds	-	10,985	-	10,985
Prepaid expenses	-	396	-	396
Accounts payable	-	(17,597)	-	(17,597)
Due to other funds	-	(10,985)	-	(10,985)
Other current liabilities	-	42,146	-	42,146
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ -</b>	<b>\$ (109,451)</b>	<b>\$ (1,600)</b>	<b>\$ (111,051)</b>

CITY OF DUNKIRK, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011

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**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, 2011  
(Continued)

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**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, 2011  
(Continued)

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**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, 2011 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, 2011  
(Continued)

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**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, 2011  
(Continued)

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**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, 2011  
(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:

	General Fund	Water Fund	Wastewater Treatment Fund
GAAP Basis:			
Fund Balances (Deficit) - 12/31/11	\$5,762,577	(\$661,377)	(\$1,059,773)
Deduct outstanding encumbrances	<u>359,822</u>	<u>18,366</u>	<u>46,670</u>
Budgetary Basis:			
Fund Balances (Deficit) - 12/31/11	<u>\$5,402,755</u>	<u>(\$679,743)</u>	<u>(\$1,106,443)</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, 2011  
(Continued)

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**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 \$352,245; \$12,397 and \$95,466 in the General, Water and Wastewater Treatment Funds, respectively. During the year ended December 31, 2011, supplemental appropriations (including the prior year encumbrances) of \$354,789; \$412,466 and \$101,010 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:

<b>Assets</b>	<b>Years</b>
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, 2011  
(Continued)

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**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, 2011  
(Continued)

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Accounting and Reporting Changes**

During February 2009, GASB issued Statement No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The City implemented Statement No. 54, effective for the fiscal year ending December 31, 2011.

During June 2010, GASB issued Statement No. 59 - *Financial Instruments Omnibus*. This statement's objective is to improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The City implemented Statement No. 59, effective for the fiscal year ending December 31, 2011.

**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. 57 - *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, effective for the year ending December 31, 2012; 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; GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the year ending December 31, 2012; GASB Statement No. 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53*, effective for the year ending December 31, 2012; GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*, effective for the year ending December 31, 2013; and GASB Statement No. 66 - *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*, effective for the year ending December 31, 2013.

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, 2011**  
**(Continued)**

**NOTE 2 - STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY**

At December 31, 2011, the Capital Project Fund had a deficit fund balance in the amount of \$3,218,754. 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, 2011, the Water Fund had a deficit fund balance in the amount of \$661,377. The deficit was caused by expenditures in prior years exceeding prior year revenues. Expenditures in prior years were over-expended due to increases in utilities, chemicals, repairs to equipment, sewer fees, contracted services, and equipment purchases that were not anticipated. Management has increased water rates in an attempt to correct the cumulative deficit.

At December 31, 2011, the Wastewater Fund had a deficit fund balance in the amount of \$1,059,773. The deficit was caused by expenditures in prior years exceeding prior year revenues. Expenditures in prior years were over-expended due to increases in utilities and chemicals that were not anticipated. Management has increased wastewater rates in an attempt to correct the cumulative deficit.

**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, 2011 is as follows:

	Carrying Amount
Petty cash	\$ 1,400
Deposits (checking account)	2,587,746
Cash and cash equivalents (savings and CDs)	5,235,571
	<u>\$ 7,824,717</u>
<b>Total</b>	<u><b>\$ 7,824,717</b></u>

Cash and cash equivalents maintained by the City at December 31, 2011 consist of:

	Amount
Government activities	\$ 7,629,291
Fiduciary activities	195,426
	<u>\$ 7,824,717</u>
<b>Total</b>	<u><b>\$ 7,824,717</b></u>

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

	Bank Balance
Insured (FDIC)	\$ 2,607,393
Uninsured	18,467
Collateral held by bank's agent in City's name	5,197,457
	<u>\$ 7,823,317</u>
<b>Total deposits</b>	<u><b>\$ 7,823,317</b></u>

At December 31, 2011, the City did not have any investments other than cash and cash equivalents.

**CITY OF DUNKIRK**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2011**  
**(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, 2011 is computed as follows:

Five year Average Full Valuation of Taxable Real Estate (2007 - 2011)	<u>\$ 345,622,923</u>
Tax limit @ 2.0%	<u>\$ 6,912,458</u>
Total Tax Levy	4,665,568
Less: Exclusions	<u>1,052,234</u>
Total Levy Subject to Tax Limit	<u>3,613,334</u>
Tax Margin	<u>\$ 3,299,124</u>

**NOTE 5 - INTERFUND TRANSFERS**

The City made the following operating transfers during 2011:

	Transfer In			
Transfer Out	General Fund	Water Fund	Wastewater Treatment Fund	Total
Permanent Trust Fund	<u>\$ 2,500</u>	<u>-</u>	<u>-</u>	<u>\$ 2,500</u>



CITY OF DUNKIRK  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(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	\$ 430,483
Water Fund	442,661
Wastewater Fund	816,216
Capital Projects Fund	<u>2,638</u>
Total	<u>\$ 1,691,998</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, 2011 are comprised of:

State and Federal Receivables	\$ 60,836
General Fund	2,049
Special Grant Fund	7,947
Capital Projects Fund	<u>70,832</u>
Total state and federal receivables	
Other Government Receivables	1,411,404
General Fund	<u>1,411,404</u>
Total other government receivables	
Total due from other governments	<u>\$ 1,482,236</u>

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 151,155	\$ -	\$ -	\$ 151,155
Construction in progress	14,060,654	1,685,002	-	15,745,656
Total capital assets not being depreciated	<u>14,211,809</u>	<u>1,685,002</u>	<u>-</u>	<u>15,896,811</u>
Capital assets being depreciated:				
Infrastructures	34,704,071	-	-	34,704,071
Buildings and improvements	12,415,511	-	-	12,415,511
Machinery and equipment	16,140,380	180,878	1,000	16,320,258
Total capital assets being depreciated	<u>63,259,962</u>	<u>180,878</u>	<u>1,000</u>	<u>63,439,840</u>
Less accumulated depreciation for:				
Infrastructures	32,028,799	120,951	-	32,149,750
Buildings and improvements	9,701,151	222,117	-	9,923,268
Machinery and equipment	12,658,437	803,178	1,000	13,460,615
Total accumulated depreciation	<u>54,388,387</u>	<u>1,146,246</u>	<u>1,000</u>	<u>55,533,633</u>
Total capital assets being depreciated, net	<u>8,871,575</u>	<u>(965,368)</u>	<u>-</u>	<u>7,906,207</u>
Governmental activities capital assets, net	<u>\$ 23,083,384</u>	<u>\$ 719,634</u>	<u>\$ -</u>	<u>\$ 23,803,018</u>

CITY OF DUNKIRK  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(Continued)

**NOTE 7 - CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to the governmental functions as follows:

Shared services	\$ 16,239
Police department	37,566
Fire department	134,628
Transportation	395,513
Culture and recreation	43,551
Water department	239,019
Wastewater department	267,578
Other home and community service	12,152
	<hr/>
Total depreciation expense	\$ 1,146,246

**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:

	<u>ERS</u>	<u>PFRS</u>
2011	\$ 695,813	\$ 1,054,636
2010	525,594	837,176
2009	332,420	619,310

The City's contributions made to the systems were equal to 100 percent of the contributions required for each year. The required payments were due December 31, 2011, however the City did not make the payments until January 12, 2012 and incurred additional interest costs.

CITY OF DUNKIRK  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(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, 2011, the City contributed \$23,565, or 107.49%, 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	\$ 23,129
Interest on net OPEB obligation	(1,206)
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	21,923
Contribution made	<u>(23,565)</u>
Decrease in net OPEB obligation	(1,642)
Net OPEB obligation - beginning of year	<u>1,431</u>
Net OPEB obligation - end of year	<u>\$ (211)</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (prepayment) for 2011 is as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2009	23,654	96.27%	1,963
12/31/2010	22,240	102.39%	1,431
12/31/2011	21,923	107.49%	(221)

CITY OF DUNKIRK  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(Continued)

**NOTE 8 - LIABILITIES (CONTINUED)**

**B. Postemployment Benefits Other Than Pensions, continued**

**d.) Funded Status and Funding Progress**

As of July 1, 2011, the most recent actuarial valuation date, the funded status of the Retiree Health Plan was as follows:

Actuarial accrued liability (AAL)	\$ 199,338
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 199,338</u>
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, 2011 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.

CITY OF DUNKIRK  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(Continued)

**NOTE 8 - LIABILITIES (CONTINUED)**

The following is an analysis of outstanding BANs at December 31, 2011:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Capital projects	Wastewater filtration plant	\$ 6,300,000	3/29/2012	1.50%
Capital projects	Water meters	1,270,000	3/29/2012	1.50%
		<u>\$ 7,570,000</u>		

**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, 2011, 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, 2011, 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, 2011 is computed as follows:

Five-Year Average Full Valuation of Taxable Real Estate (2006 - 2010)	<u>\$ 339,484,032</u>
Debt Limit @ 7%	\$ 23,763,882
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, 2011  
(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 01/01/2011	Increases	Decreases	Balance 12/31/2011
Serial bonds	\$ 5,710,000	\$ 650,000	\$ 760,000	\$ 5,600,000
Compensated absences	4,204,829	101,056	-	4,305,885
	<u>\$ 9,914,829</u>	<u>\$ 751,056</u>	<u>\$ 760,000</u>	<u>\$ 9,905,885</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 12/31/2011
Public improvement					
Boardwalk Market	11/10/2011	11/1/2021	2.5 - 3.75%	650,000	\$ 650,000
Sewage treatment plant renovation	11/12/1992	2/16/2013	3.24%	5,545,000	655,000
Water treatment plant renovation	9/1/2008	5/1/2033	4.25%	4,539,000	4,065,000
Water treatment plant renovation	4/4/2010	5/1/2015	2.69%	280,000	230,000
					<u>\$ 5,600,000</u>

CITY OF DUNKIRK  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(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
2012	\$ 595,000	\$ 224,265
2013	605,000	197,868
2014	285,000	179,640
2015	285,000	170,563
2016	230,000	160,944
2017-2021	1,225,000	669,638
2022-2026	970,000	430,063
2027-2031	995,000	211,762
2032-2033	410,000	19,475
TOTAL	<u>\$ 5,600,000</u>	<u>\$ 2,264,218</u>

**NOTE 9 - EQUITY CLASSIFICATIONS**

**A. Government-wide Statements**

In the government-wide statements, there are three classes of net assets:

**Invested In Capital Assets, Net of Related Debt** - This class consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvements of these assets.

**Restricted Net Assets** - Restricted net assets report constraints placed on assets that are either legally imposed by creditors (such as through covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Restrictions of net assets have been recorded in the government-wide financial statements of the City at December 31, 2011. At December 31, 2011, 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.

CITY OF DUNKIRK  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(Continued)

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**NOTE 9 - EQUITY CLASSIFICATIONS (CONTINUED)**

**Unrestricted Net Assets** - Designations are not legally required restrictions, but are segregated for a specific purpose. At December 31, 2011, the City had not designated any unrestricted net assets.

**B. Fund Statements**

In the fund basis statements there are five classifications of fund balance:

**Non-Spendable** - includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The City does not have any nonspendable fund balance at December 31, 2011.

**Restricted** - includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. All encumbrances of funds other than the General Fund are classified as restricted fund balance. The City has established the following restricted fund balances:

**Tax Stabilization** - represent funds that may be appropriated to keep future tax increases at a minimum in future years. The Common Council appropriated \$100,000 of these funds in developing the 2011 General Fund budget.

**Other Fund Activities** - represents resources accumulated by special revenue and or capital project funds dedicated to be used for the purpose for which the fund was created.

**Encumbrances** - Encumbrance accounting, under which purchase orders, contracts and other commitments of expenditures are recorded for budgetary control purposes in order to reserve applicable appropriations, is employed as a control in preventing over-expenditure of established appropriations. Open encumbrances are reported as restricted fund balance in all funds other than the General Fund, since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

**Committed** - includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority, i.e., the Common Council. At December 31, 2011 the City did not have any committed fund balances.

**Assigned** - includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City as the following assigned fund balances:

**Capital Equipment** - represents resources set aside by the Common Council to be used for the acquisition of capital equipment.

**Street Improvements** - represents resources set aside by Common Council for improvements to city streets.

**Employee Benefits** - represents resources set aside to help minimize the financial burden of future employee benefit increases.

**Encumbrances** - All encumbrances of the General Fund are classified as assigned fund balance.

**Unassigned** - includes all other General Fund net assets that do not meet the definition of the above four classifications and are deemed to be available for general use by the City.

**Order of Use of Fund Balance** - The City's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the General Fund are classified as restricted fund balance. In the General Fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund.



CITY OF DUNKIRK  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(Continued)

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**NOTE 10 - CONTINGENCIES**

**A. Lease Commitments and Leased Assets**

The City leased various equipment and property during 2011 under a number of operating leases. Total rental expenditures for the year ended December 31, 2011 were approximately \$55,834.

The minimum future non-cancelable operating lease payment are as follows:

Year ending December 31, 2012	\$ 54,130
2013	43,134
2014	25,237
2015	11,555

**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.

**NOTE 11 - SUBSEQUENT EVENTS**

The City has evaluated subsequent events through June 6, 2012, the date which the financial statements were available to be issued.

The City issued \$7,455,000 serial bonds on March 29, 2012 at 0.60%. The proceeds were used to retire the two outstanding Bond Anticipation Notes which matured on that date.

The City authorized the issuance of \$1,800,000 of serial bonds for water filtration plant upgrades. The City has not yet gone to bid regarding these bonds.

The City entered into a lease agreement in January 2012 for the rental of two copiers, which includes maintenance and service for a sixty-three month term at the rate of \$90 per month.

No additional subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.

CITY OF DUNKIRK, NEW YORK  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2011

	Original Budget	Revisions	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
<b>REVENUES:</b>						
Real property taxes	\$ 4,665,567	\$ -	\$ 4,665,567	\$ 4,665,568	\$ -	\$ 1
Sales tax	2,135,000	-	2,135,000	2,311,661	-	176,661
Property tax items	3,391,010	190,881	3,581,891	3,585,266	-	3,375
Non-property tax items	320,000	32,874	352,874	365,713	-	12,839
Departmental income	916,400	14,503	930,903	946,981	-	16,078
Shared services	431,646	43,038	474,684	425,401	-	(49,283)
Use of money and property	31,734	3,467	35,201	12,972	-	(22,229)
Licenses and permits	29,300	9,825	39,125	39,766	-	641
Fines and forfeitures	130,000	17,216	147,216	142,806	-	(4,410)
Sale of property and compensation for loss	7,000	1,548	8,548	4,369	-	(4,179)
Miscellaneous	137,025	46,493	183,518	188,277	-	4,759
State aid	2,099,502	150,782	2,250,284	2,272,361	-	22,077
Federal aid	-	-	-	-	-	-
<b>Total revenues</b>	<b>14,294,184</b>	<b>510,627</b>	<b>14,804,811</b>	<b>14,961,141</b>	<b>-</b>	<b>156,330</b>
<b>EXPENDITURES:</b>						
<b>Current:</b>						
Council	39,050	(2,141)	36,909	36,909	-	-
Mayor	103,650	4,085	107,735	106,886	849	-
Financial	417,825	7,795	425,620	419,336	6,284	-
Staff	486,095	(18,423)	467,672	466,191	1,481	-
Shared services	516,775	82,214	598,989	597,411	833	745
Special items	271,089	(32,599)	238,490	238,490	-	-
Police department	3,189,541	94,896	3,284,437	3,267,539	16,642	256
Fire department	1,871,487	239,864	2,111,351	2,108,171	3,180	-
Other public safety	188,273	70,142	258,415	197,777	60,638	-
Transportation	1,575,367	(87,397)	1,487,970	1,477,169	10,615	186
Economic assistance and opportunity	35,900	(1,114)	34,786	34,657	129	-
Culture and recreation	689,610	27,039	716,649	714,259	2,390	-
Home and community service	691,910	455,180	1,147,090	890,309	256,781	-
Employee benefits	4,179,717	28,375	4,208,092	4,207,592	-	500
<b>Debt service:</b>						
Principal	134,400	-	134,400	134,400	-	-
Interest	3,495	-	3,495	3,494	-	1
<b>Total expenditures</b>	<b>14,394,184</b>	<b>867,916</b>	<b>15,262,100</b>	<b>14,900,590</b>	<b>359,822</b>	<b>1,688</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(100,000)</b>	<b>(357,289)</b>	<b>(457,289)</b>	<b>60,551</b>	<b>(359,822)</b>	<b>158,018</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	-	2,500	2,500	2,500	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>2,500</b>	<b>2,500</b>	<b>2,500</b>	<b>-</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>(100,000)</b>	<b>(354,789)</b>	<b>(454,789)</b>	<b>63,051</b>	<b>(359,822)</b>	<b>158,018</b>
<b>FUND BALANCE, January 1</b>	<b>5,699,526</b>	<b>-</b>	<b>5,699,526</b>	<b>5,699,526</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE, December 31</b>	<b>\$ 5,599,526</b>	<b>\$ (354,789)</b>	<b>\$ 5,244,737</b>	<b>\$ 5,762,577</b>	<b>\$ (359,822)</b>	<b>\$ 158,018</b>

**CITY OF DUNKIRK, NEW YORK**  
**BUDGETARY COMPARISON SCHEDULE**  
**WATER FUND**  
**YEAR ENDED DECEMBER 31, 2011**

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES:</b>						
Departmental income	\$ 2,429,500	\$ -	\$ 2,429,500	\$ 2,434,580	\$ -	\$ 5,080
Use of money and property	100	-	100	-	-	(100)
Sale of property and compensation for loss	16,000	-	16,000	21,907	-	5,907
Miscellaneous	5,000	-	5,000	15,092	-	10,092
State aid	-	-	-	5,673	-	5,673
<b>Total revenues</b>	<u>2,450,600</u>	<u>-</u>	<u>2,450,600</u>	<u>2,477,252</u>	<u>-</u>	<u>26,652</u>
<b>EXPENDITURES:</b>						
Current:						
Special items	198,104	(99,281)	98,823	78,850	-	19,973
Home and community service	1,633,832	101,383	1,735,215	1,716,849	18,366	-
Employee benefits	536,930	10,344	547,274	530,218	-	17,056
Debt service:						
Principal	80,000	275,000	355,000	80,000	-	275,000
Interest	1,734	125,000	126,734	799	-	125,935
<b>Total expenditures</b>	<u>2,450,600</u>	<u>412,446</u>	<u>2,863,046</u>	<u>2,406,716</u>	<u>18,366</u>	<u>437,964</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	-	(412,446)	(412,446)	70,536	(18,366)	464,616
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	-	-	-	-	-	-
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	-	(412,446)	(412,446)	70,536	(18,366)	464,616
<b>FUND BALANCE (DEFICIT), January 1</b>	<u>(731,913)</u>	<u>-</u>	<u>(1,052,241)</u>	<u>(1,052,241)</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE (DEFICIT), December 31</b>	<u>\$ (731,913)</u>	<u>(412,446)</u>	<u>\$ (1,464,687)</u>	<u>\$ (981,705)</u>	<u>(18,366)</u>	<u>\$ 464,616</u>

CITY OF DUNKIRK, NEW YORK  
BUDGETARY COMPARISON SCHEDULE  
WASTEWATER TREATMENT FUND  
YEAR ENDED DECEMBER 31, 2011

	Original Budget	Revisions	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
<b>REVENUES:</b>						
Departmental income	\$ 4,166,912	\$ -	\$ 4,166,912	\$ 4,262,768	\$ -	\$ 95,856
Sale of property and compensation for loss	-	-	-	1,991	-	1,991
Miscellaneous	4,000	-	4,000	780	-	(3,220)
State aid	-	-	-	5,673	-	5,673
<b>Total revenues</b>	<b>4,170,912</b>	<b>-</b>	<b>4,170,912</b>	<b>4,271,212</b>	<b>-</b>	<b>100,300</b>
<b>EXPENDITURES:</b>						
Current:						
Special items	165,394	(2,081)	163,313	81,681	-	81,632
Home and community service	2,626,052	103,091	2,729,143	2,437,198	46,670	245,275
Employee benefits	585,611	-	585,611	502,399	-	83,212
Debt service:						
Principal	545,600	-	545,600	545,600	-	-
Interest	248,255	-	248,255	215,331	-	32,924
<b>Total expenditures</b>	<b>4,170,912</b>	<b>101,010</b>	<b>4,271,922</b>	<b>3,782,209</b>	<b>46,670</b>	<b>443,043</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>-</b>	<b>(101,010)</b>	<b>(101,010)</b>	<b>489,003</b>	<b>(46,670)</b>	<b>543,343</b>
<b>OTHER FINANCING SOURCES:</b>						
Transfers in	-	-	-	-	-	-
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>-</b>	<b>(101,010)</b>	<b>(101,010)</b>	<b>489,003</b>	<b>(46,670)</b>	<b>543,343</b>
<b>FUND BALANCE (DEFICIT), January 1</b>	<b>(1,548,776)</b>	<b>-</b>	<b>(1,213,574)</b>	<b>(1,213,574)</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE (DEFICIT), December 31</b>	<b>\$ (1,548,776)</b>	<b>\$ (101,010)</b>	<b>\$ (1,649,786)</b>	<b>\$ (724,571)</b>	<b>\$ (46,670)</b>	<b>\$ 878,545</b>

**CITY OF DUNKIRK, NEW YORK**  
**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS**  
**DECEMBER 31, 2011**

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%
7/1/2011	\$ -	\$ 199,338	\$ 199,338	0.0%	\$ -	0.0%

CITY OF DUNKIRK, NEW YORK  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (1)  
YEAR ENDED DECEMBER 31, 2011

<u>FEDERAL GRANTOR/ PROGRAM TITLE</u>	<u>Federal CFDA Number (2)</u>	<u>Notes</u>	<u>Federal Expenditures (3)</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Direct Programs			
Community Development Block Grants			
Entitlement Grants	14.218		\$ 656,939
<i>Total U.S. Department of Housing and Urban Development</i>			656,939
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 656,939</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, 2011**

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**Notes:**

- (1) Includes all major and nonmajor programs.
- (2) Source: July 2011 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 6, 2012

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, 2011, which collectively comprise the City of Dunkirk, New York's basic financial statements and have issued our report thereon dated June 6, 2012. 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

Management of the City of Dunkirk, New York is responsible for establishing and maintaining effective 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 11-01 and 11-02 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 non-compliance 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 6, 2012.

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



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

**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 6, 2012

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, 2011. 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 expended \$1,007,653 of federal awards that is not included in the schedule during the year ended December 31, 2011. 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.

As described in item 11-03 in the accompanying schedule of findings and questioned costs, the City of Dunkirk of New York did not comply with requirements regarding monitoring subrecipients that are applicable to its Community Development Block Grant. As described in item 11-04 in the accompanying schedule findings and questioned costs, the City of Dunkirk, New York did not comply with requirements regarding program income that are applicable to its Community Development Block Grant. As described in items 11-5, 11-6, 11-7 in the accompanying schedule findings and questioned costs, the City of Dunkirk, New York did not comply with requirements regarding documentation that are applicable to its Community Development Block Grant.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2011.

#### 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. We consider the deficiencies on the internal control over compliance described on the accompanying schedule of findings and questioned costs as items 11-03 and 11-04 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-5, 11-6, and 11-7 to be significant deficiencies.

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, 2011**

**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	no
Noncompliance material to financial statements noted?	yes	X	no

**Federal Awards**

Internal control over major programs:			
Material weakness(es) identified?	X	yes	no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	X	yes	no
Type of auditors' report issued on compliance for major programs:	<u>Qualified</u>		
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	X	yes	no

**CITY OF DUNKIRK, NEW YORK**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued**  
**YEAR ENDED DECEMBER 31, 2011**

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

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   X  no

**Section II – Financial Statement Findings**

As of and for the year ended December 31, 2011, the City of Dunkirk, New York, had two findings that were required to be reported in accordance with GAGAS.

**11-01 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.

**11-02 Improvements in Internal Controls Over Receivable Reconciliations**

*Condition:* Although the City records adjustments to its subsidiary ledgers for utility billing and general accounts receivable, the adjustments are not consistently and timely posted to the general ledger.

*Criteria:* Internal controls should be in place that provide reasonable assurance that adjustments are timely recorded in the general ledger to be sure the City is aware of all revenues to which it is entitled and that these revenues and receivables are correctly recorded in the general ledger.

*Effect:* Because of the improper documentation, lack of formal approval and untimely adjustment of the City's utility billing accounts corrections needed to be made as a result of the City's annual audit.

*Cause:* The City does not have established policies and procedures requiring timely reconcilements and adjustments of its accounts.

*Recommendation:* The City should establish a policy requiring formal documentation of all utility accounts adjustments as well as requiring approval by the City Treasurer. An established policy for making these adjustments will increase the likelihood that the adjustments will be recorded in a timely and correct manner.

*Management's response:* The City will reconcile the subsidiary ledgers to the general ledger on a timely basis.

### **Section III – Federal Award Findings and Questioned Costs**

As of and for the year ended December 31, 2011, the City of Dunkirk, New York, we had five findings that were considered Federal Award Findings and Questioned Costs.

#### **11-03 Inadequate Monitoring of Subrecipients**

*Condition:* The City did not provide evidence that verified it conducted on site monitoring of its subrecipients.

*Criteria:* Recipients and subrecipients of federal award programs must conduct regular oversight and monitoring of its program activities and those of its subrecipients and contractors in order to determine whether or not there is compliance with provisions of applicable laws and regulations and provide technical assistance as necessary and appropriate.

*Effect:* The City had several subrecipients of federal award funds during the grant year. Without regular oversight of its subrecipients and contractors, there can be no assurance on the part of the City that expenditure have been made against required cost categories and within required cost limitations. Monitoring and oversight must also be performed to determine whether or not there is compliance with other provisions of the grant and other applicable laws and regulations.

Subrecipients of grant awards are responsible for determining eligibility for assistance, measuring performance against meeting the objectives of the grant program, assuming programmatic decision-making responsibility, assuming responsibility for applicable program requirements and using pass-through funds to carry out the applicable program.

*Cause:* An ineffective system of controls contributed to the City's failure to monitor its subrecipients during the year.

*Recommendation:* The City should have access to subrecipient records and should monitor the activities of the subrecipient as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of



contracts or grant agreements and that the performance goals are achieved. Subrecipient monitoring activities may include reviewing reports submitted by the subrecipient, reviewing documentation supporting requests for reimbursement, performing site visits to review financial and programmatic records and observe operations, and arranging for limited scope engagements of specific compliance areas (e.g. eligibility determination), such as agreed-upon procedures engagements. The City should also review the subrecipient's single audit or program-specific audit results, and evaluate audit findings and the subrecipients corrective action plan. Furthermore, the City should develop standardized monitoring checklist to develop consistent treatment of all subrecipients and provide evidence of actions taken, results, recommendation and future required action.

*Management's Response:* The City does monitoring of all invoices prior to paying any subrecipient. Payments to subrecipients are reimbursements for services rendered. The subrecipients submit a detailed invoice. The invoice is verified and approved prior to payment. The City has also reduced their subrecipients for FY2012 to just two. This will make monitoring easier, and more efficient.

#### **11-04 Reporting and Accounting of Program Income and Internal Controls over Loan Payments**

*Condition:* During the year ended December 31, 2011 internal controls to ensure complete and accurate accounting of loan proceeds, ensure use of proceeds meet program requirements, and delinquent loans are properly reported were not properly designed or operating effectively. The City's accounting and internal controls do not adequately safeguard CDBG resources. Loan repayments are not being reported correctly.

*Criteria:* A non-federal entity receiving federal awards is required to have in place an internal control system that is designed to provide reasonable assurance that all transactions are executed in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a federal program and other laws and regulations that are identified in the Office of Management and Budget (OMB) A-133 compliance supplement circular. OMB circular A-133 Section J, Chapter 1 – Program Income – requires the grantee to accurately account for any program income generated from the use of Community Development Block Grant (CDBG) funds. Further, use of program income is subject to program requirements as though it was granted directly from the Department of Housing and Urban Development. Program income should be applied before additional federal funds are requested.

*Effect:* The City is not ensuring compliance with laws, regulations, and the provisions of contracts of grant agreements. The City is not maintaining adequate accounting for loans, use of loan proceeds and reporting of outstanding loans. The City is not maintaining adequate accounting for loans, use of loan proceeds and reporting of outstanding loans. The City is not adequately safeguarding CDBG resources. The City is not properly applying program income as a revenue source.

*Cause:* There were no written procedures and controls for program income requirements. Lack of adequate training may have contributed to the failure to develop, implement and document the five components of internal control that is necessary to ensure compliance.

*Recommendations:* We recommend that the City design and enforce internal controls over federal programs to meet compliance requirements. A schedule of loans with sufficient detail to account for proceeds and use of proceeds should be established, maintained and retained. Procedures to monitor and report outstanding loan payment should be developed and implemented. Monitoring should be conducted by program personnel with sufficient authority and responsibility to initiate corrective action. A complete reconciliation of program income should be performed. Future loan payments should be receipted through the City Treasurer's office and included in all reporting to the U.S. Department of Housing and Urban Development.

*Management's Response:* In September of 2011, the Dunkirk Local Development Corporation sent over \$11,000 in program income to the City's HUD banking account. On February 24, 2012 the DLDC sent \$5,226 to the City's HUD banking account for the fourth quarter in 2011. The City will make a more concentrated effort to transfer the principal payments on loans to the City treasurer. Program income is currently being reported in IDIS as well.

#### **11-05 Insufficient Documentation of the Affirmative Steps Taken to Ensure Minority Business and Women Business Enterprises (MBE/WBE) Opportunity to Participate in Government Contracting**

*Condition:* Internal controls to ensure affirmative steps are taken to encourage contracting with minority business enterprises and women business enterprises was not properly documented.

*Criteria:* Grantees are required to take affirmative steps to encourage contracting with minority owned and female owned enterprises.

*Effect:* The City could not provide evidence that it is maintaining documentation of the affirmative steps it is taking to ensure minority business and women's business enterprises are being afforded the opportunity to participate in government contracting.

*Cause:* Lack of documentation. Incomplete training of personnel that should be aware of required documentation.

*Recommendation:* Key program personnel should complete training to develop, implement and document key components of internal control. A list of affirmative action objectives and results should be developed, updated and retained.

*Management's response:* The City and its CDBG program do not discriminate against employee, business, or contractor. The City solicits employees, businesses and contractors through various media sources. To ensure compliance with MBE/WBE, the City and its CDBG program will make mention in their legal notices that Minority and Women businesses are encouraged to participate in government contracting.

## **11-06 Inadequate Consolidation Annual Performance Evaluation Report (CAPER) Reporting**

*Condition:* The City has not filed the required annual CAPER due during 2011. Furthermore, the U.S. Department of Housing and Urban Development noted as part of their 2011 monitoring that CAPER's filed by the City are routinely late and in need of additional information.

*Criteria:* Per the Office of Management and Budget (OMB) A-133 compliance supplement circular for Department of Housing and Urban Development Community Development Block Grants/Entitlement Grants the City must submit Form HUD 60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low Income Persons; commonly referred to as a Consolidated Annual Performance Evaluation Report (CAPER).

*Effect:* The City is not ensuring compliance with laws, regulation, and the provisions of contract or grant agreements. Persistent noncompliance with reporting requirements may result in a penalty in the form of suspension or cessation of the program by the granting agency.

*Cause:* The City is not preparing accurate or timely reports. The lack of formal written procedures for compiling and disseminating the necessary data, and completing, reviewing and submitting required performance report may have contributed to the failure to compile.

*Recommendation:* Management should develop and implement formal written procedures to compile with reporting requirements. The procedures should clearly define individual responsibilities and provide accountability for noncompliance.

*Management's Response:* The City is endeavoring to correct the untimely and incomplete reporting that has occurred in the past. The City will strive to provide more detail and complete reports on a more timely basis in the future.

## **11-07 Inadequate Subrecipient Agreements**

*Condition:* During the year ended December 31, 2011 internal controls to ensure subrecipient agreements met the minimum requirements were not properly designed or operating effectively. Agreements entered into between the City and its subrecipients were not in compliance with HUD requirements.

*Criteria:* A non-federal entity receiving federal awards is required to have in place an internal control system that is designed to provide reasonable assurance that all transactions are executed in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a federal program and other laws and regulations that are identified in the Office of Management and Budget (OMB) A-133 compliance supplement circular. OMB Circular A-133 Section M, requires primary grantees to ensure that a signed written agreement is in effect with each subrecipient before disbursing CDBG funds pursuant to the minimum requirement per 24 CFR 570.503.

*Effect:* The City is not ensuring compliance with laws, regulations, and the provisions of contract or grant agreements.

*Cause:* There were no written procedures and controls to ensure subrecipient agreements met the minimum requirements. Lack of adequate training may have contributed to the failure to obtain the adequate knowledge of the referenced statute.

*Recommendation:* Key program personnel should complete compliance training provided by the Department of Housing and Urban Development or similar training at least annually. The City should develop and implement formal written procedures to compile with subrecipient agreement requirements. The procedures should provide clearly defined management responsibilities and accountability.

*Management's Response:* The City of Dunkirk has adopted a new subrecipient agreement for Fiscal Year 2012 which meets the U.S. Department of Housing and Urban Development requirements.

**CITY OF DUNKIRK, NEW YORK**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED DECEMBER 31, 2011**

- There were no prior year A-133 findings.

**CITY OF DUNKIRK, NEW YORK**  
**SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED**  
**YEAR ENDED DECEMBER 31, 2011**

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<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	<u>278,331</u>
<b>TOTAL STATE TRANSPORTATION ASSISTANCE EXPENDED</b>		<b><u>\$ 374,147</u></b>

The accompanying notes are an integral part of this schedule.

**CITY OF DUNKIRK, NEW YORK  
NOTES TO THE SCHEDULE OF STATE TRANSPORTATION  
ASSISTANCE EXPENDED  
YEAR ENDED DECEMBER 31, 2011**

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**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.



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**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 6, 2012

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, 2011. 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, 2011.

**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, 2011, and have issued our report thereon dated June 6, 2012. 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, 2011**

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**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

Identification of State Transportation Assistance Programs Tested:

Name

Consolidated Highway Improvement Program (CHIPS)

**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, 2011**

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