

CITY OF DUNKIRK, NEW YORK

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2012

CITY OF DUNKIRK, NEW YORK
YEAR ENDED DECEMBER 31, 2012

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DUNKIRK CITY COUNCIL
YEAR ENDED DECEMBER 31, 2012

MAYOR

Anthony J. Dolce

COUNCILMAN-AT-LARGE

Stephanie Kiyak

MEMBERS OF THE COUNCIL

FIRST WARD

Michael Michalski

SECOND WARD

William J. Rivera

THIRD WARD

Andolino Gonzalez

FOURTH WARD

Stacy Szukala



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

May 30, 2013

Honorable Mayor
Members of City Council
Treasurer
City of Dunkirk
Dunkirk, NY 14048

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Dunkirk Housing Authority, which both is a discretely presented component unit and 86.9 percent, 86.1 percent and 84.4 percent, respectively, of the assets, net position and revenues of the discretely presented component units of the City of Dunkirk, New York. Those 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 solely 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting

estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, 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 of the City of Dunkirk, New York, as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 47 through 50 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's responses to our inquiries, the basic financial statements, and other knowledge we obtain 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.

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dunkirk, New York's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements 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 Drafts 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 related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures,

including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of New York State Department of Transportation assistance is fairly stated in all material respects in relation to the basic financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 30, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Dunkirk, New York's internal control over financial reporting and compliance.

Johnson, Mackowiak & Associates, LLP

Johnson Mackowiak & Associates, LLP

**CITY OF DUNKIRK, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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, 2012. This document should be read in conjunction with the City's financial statements which begin on page 12

FINANCIAL HIGHLIGHTS

- The General Fund reported a \$422,591 budgetary surplus for the year ended December 31, 2012 as shown on page 45. This amount compares to a budgetary surplus of \$158,018 for the year ended December 31, 2011.
- The General Fund reported an operating surplus of \$413,975 for the current year as compared to an operating surplus of \$63,051 for 2011.
- The Water Fund had an operating surplus of \$156,902 for the current year as compared with an operating surplus of \$70,536 for 2011. The upgrades and repairs to the water filtration plant and water infrastructure mandated by Chautauqua County continued throughout 2012. Water rates were adjusted for 2013 to meet increased costs associated with this project.
- The Wastewater Treatment Fund had an operating surplus of \$663,234 for 2012 as compared with an operating surplus of \$489,003 for 2011.
- The City's net position increased by \$1,257,702 as a result of the activity for the year ended December 31, 2012 as compared to an increase of approximately \$422,530 as a result of 2011 activity.

USING THIS REPORT

The annual report consists of a series of financial statements. The statement of net position 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 14. 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 Position and Statement of Activities

The statement of net position 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 position and the changes to them. The City's net position – 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 position 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 position 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 15 and 17.

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 position increased to \$15.913 million from \$14.655 million for the year ended December 31, 2012. This is a result of an operational surplus of \$1.258 million. This compares to an increase for the year ended December 31, 2011 of approximately \$.4 million. Our discussion and analysis focuses on the net position (Table 1) and the changes in net position (Table 2) of the City's governmental activities.

Table 1 Net Position (In Thousands)						
	Governmental Activities		Business - Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Assets						
Current assets	\$ 10,138	\$ 11,253	\$ -	\$ -	\$ 10,138	\$ 11,253
Capital assets	27,313	23,803	-	-	27,313	23,803
Total assets	<u>\$ 37,451</u>	<u>\$ 35,056</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,451</u>	<u>\$ 35,056</u>
Liabilities						
Current liabilities	\$ 13,193	\$ 11,420	\$ -	\$ -	\$ 13,193	\$ 11,420
Long-term portion of obligations	8,345	8,981	-	-	8,345	8,981
Total liabilities	<u>\$ 21,538</u>	<u>\$ 20,401</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,538</u>	<u>\$ 20,401</u>
Net Position						
Invested in capital assets, net of related debt	\$ 14,144	\$ 10,633	\$ -	\$ -	\$ 14,144	\$ 10,633
Restricted	2,263	2,338	-	-	2,263	2,338
Unrestricted	(494)	1,684	-	-	(494)	1,684
Total net position	<u>\$ 15,913</u>	<u>\$ 14,655</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,913</u>	<u>\$ 14,655</u>

Table 2
Changes in Net Position
(In Thousands)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
<u>Revenues</u>						
Program revenues						
Charges for services	\$ 7,943	\$ 7,767	\$ -	\$ -	\$ 7,943	\$ 7,767
Operating grants and contributions	800	1,570	-	-	800	1,570
Capital grants and contributions	186	222	-	-	186	222
General revenues						
Property taxes	4,695	4,666	-	-	4,695	4,666
Sales tax	2,334	2,312	-	-	2,334	2,312
PILOT payments	3,684	3,557	-	-	3,684	3,557
Investment earnings	97	77	-	-	97	77
Miscellaneous	2,264	2,424	-	-	2,264	2,424
Total revenues	<u>22,003</u>	<u>22,595</u>	<u>-</u>	<u>-</u>	<u>22,003</u>	<u>22,595</u>
 Program expenses						
Council	62	57	-	-	62	57
Mayor	163	164	-	-	163	164
Financial	538	604	-	-	538	604
Staff	842	696	-	-	842	696
Shared services	650	719	-	-	650	719
Special items	439	399	-	-	439	399
Police department	4,999	5,033	-	-	4,999	5,033
Fire department	3,216	3,322	-	-	3,216	3,322
Other public safety	328	257	-	-	328	257
Transportation	1,579	2,075	-	-	1,579	2,075
Economic assistance and opportunity	40	35	-	-	40	35
Culture and recreation	1,090	989	-	-	1,090	989
Water treatment	2,371	2,496	-	-	2,371	2,496
Wastewater treatment	2,938	3,209	-	-	2,938	3,209
Home and community service	1,207	1,778	-	-	1,207	1,778
Interest on long-term debt	283	339	-	-	283	339
Total expenses	<u>20,745</u>	<u>22,172</u>	<u>-</u>	<u>-</u>	<u>20,745</u>	<u>22,172</u>
 Increase in net position	<u>\$ 1,258</u>	<u>\$ 423</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,258</u>	<u>\$ 423</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	
	2012	2011	2012	2011
Police department	\$ 4,999	\$ 5,033	\$ 4,614	\$4,627
Fire department	3,216	3,322	3,216	3,322
Transportation	1,579	2,075	1,246	1,560
Water treatment	2,371	2,496	223	61
Wastewater treatment	<u>2,939</u>	<u>3,209</u>	<u>(1,230)</u>	<u>(1,053)</u>
Totals	<u>\$15,104</u>	<u>\$16,135</u>	<u>\$ 8,069</u>	<u>\$ 8,517</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 deficit of \$2.03 million which reflects a decrease of \$2.92 million from last year's total of \$.892 million. During 2012, the City's capital expenditures exceed its related revenues by approximately \$3.22 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

The significant variances between the originally adopted budgets for 2012 and 2011 and the final budget are detailed as follows:

	2012	2011
Original budget	\$ 14,783,817	\$ 14,394,184
Additional appropriations	24,360	515,671
Encumbrance carryover	<u>359,055</u>	<u>352,245</u>
Final Budget	<u>\$ 15,167,232</u>	<u>\$ 15,262,100</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2012, the City had \$27.314 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 \$3.510 million for the year.

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

	Governmental Activities		Business - Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land and improvements	\$ 151	\$ 151	\$ -	\$ -	\$ 151	\$ 151
Construction in progress	20,260	15,746	-	-	20,260	15,746
Infrastructure	34,704	34,704	-	-	34,704	34,704
Buildings and improvements	12,416	12,416	-	-	12,416	12,416
Machinery and equipment	16,320	16,320	-	-	16,320	16,320
Accumulated depreciation	<u>(56,537)</u>	<u>(55,534)</u>	<u>-</u>	<u>-</u>	<u>(56,537)</u>	<u>(55,534)</u>
Total	<u>\$ 27,314</u>	<u>\$ 23,803</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,314</u>	<u>\$ 23,803</u>

Debt

At year end, the City had \$14.260 million in bonds and notes outstanding as compared to \$13.170 million outstanding at December 31, 2011. 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	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 5,005	\$ 5,600	\$ -	\$ -	\$ 5,005	\$ 5,600
Bond anticipation notes	\$ 9,255	\$ 7,570	\$ -	\$ -	\$ 9,255	\$ 7,570

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2013 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 amounted to \$605,238 million for 2012. The taxable valuation remained relatively constant at approximately \$279,201 million for 2012.

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 2013. In developing the 2012 General Fund budget, the City did not appropriate any amount from the tax stabilization reserve.

The City's general fund balance is not expected to decrease by the close of 2013. 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 2013 and 2014.

The City increased waste rates effective with the first quarterly billing of 2013 to meet principal and interest expenses associated with the mandated water filtration system upgrade.

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 POSITION
DECEMBER 31, 2012

	PRIMARY GOVERNMENT			Component Units
	Governmental Activities	Business-type Activities	Total	
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 6,959,062	\$ -	\$ 6,959,062	\$ 814,417
Investments	-	-	-	665,486
Receivables (net, where applicable of allowances for estimated uncollectibles)				
Taxes	393,077	-	393,077	-
Accounts receivable	1,715,382	-	1,715,382	13,290
Due from fiduciary funds	210,026	-	210,026	-
Due from other governments	860,228	-	860,228	5,000
Prepaid expenses	-	-	-	33,109
Other assets	-	-	-	39,828
Total current assets	10,137,775	-	10,137,775	1,571,130
NONCURRENT ASSETS:				
Capital assets:				
Land and improvements	151,155	-	151,155	1,257,808
Construction in progress	20,260,166	-	20,260,166	-
Infrastructure	34,704,071	-	34,704,071	-
Buildings and improvements	12,415,511	-	12,415,511	14,454,326
Machinery and equipment	16,320,258	-	16,320,258	1,040,033
Accumulated depreciation	(56,537,580)	-	(56,537,580)	(10,280,921)
Total noncurrent assets	27,313,581	-	27,313,581	6,471,246
TOTAL ASSETS	\$ 37,451,356	\$ -	\$ 37,451,356	\$ 8,042,376

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:

Accounts payable
 Accrued liabilities
 Accrued interest payable
 Due to other governments
 Bond anticipation notes payable
 Current portion of long-term obligations

Total current liabilities

NONCURRENT LIABILITIES:

Noncurrent portion of long-term obligations

TOTAL LIABILITIES

NET POSITION

Invested in capital assets, net of related debt
 Restricted for:

Capital equipment
 Tax stabilization
 Employee benefits
 Street improvements
 Encumbrances
 Future expenditures
 Unrestricted

TOTAL NET POSITION

TOTAL LIABILITIES AND NET POSITION

PRIMARY GOVERNMENT

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
\$	1,736,071	\$ -	\$ 1,736,071	\$ 48,726
	341,339	-	341,339	21,395
	114,548	-	114,548	-
	821,549	-	821,549	45,364
	9,255,000	-	9,255,000	-
	925,000	-	925,000	-
	13,193,507	-	13,193,507	184,504
	8,345,212	-	8,345,212	192,654
	21,538,719	-	21,538,719	377,158
	13,053,581	-	13,053,581	6,471,246
	370,898	-	370,898	-
	483,985	-	483,985	-
	516,033	-	516,033	-
	428,284	-	428,284	-
	463,559	-	463,559	-
	-	-	-	162,246
	596,297	-	596,297	960,958
	15,912,637	-	15,912,637	7,594,450
\$	37,451,356	\$ -	\$ 37,451,356	\$ 7,971,608

CITY OF DUNKIRK, NEW YORK
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT			Component Units
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
Council	\$ 62,280	\$ -	\$ -	\$ -	\$ (62,280)	\$ -	\$ (62,280)	\$ -
Mayor	162,889	-	-	-	(162,889)	-	(162,889)	-
Financial	538,308	-	-	-	(538,308)	-	(538,308)	-
Staff	842,139	114,235	-	-	(727,904)	-	(727,904)	-
Shared services	649,650	51,211	3,887	-	(594,552)	-	(594,552)	-
Special items	438,892	-	-	-	(438,892)	-	(438,892)	-
Police department	4,998,628	-	384,576	-	(4,614,052)	-	(4,614,052)	-
Fire department	3,216,286	-	-	-	(3,216,286)	-	(3,216,286)	-
Other public safety	328,113	149,974	-	-	(178,139)	-	(178,139)	-
Transportation	1,578,583	3,011	143,724	186,342	(1,245,506)	-	(1,245,506)	-
Economic assistance and opportunity	39,508	3,500	-	-	(36,008)	-	(36,008)	-
Culture and recreation	1,090,718	83,361	66,448	-	(940,909)	-	(940,909)	-
Water treatment	2,371,001	2,593,563	-	-	222,562	-	222,562	-
Wastewater treatment	2,938,545	4,168,167	-	-	1,229,622	-	1,229,622	-
Home and community service	1,206,735	776,038	201,353	-	(229,344)	-	(229,344)	-
Interest on long-term debt	283,448	-	-	-	(283,448)	-	(283,448)	-
Total governmental activities	20,745,723	7,943,060	799,988	186,342	(11,816,333)	-	(11,816,333)	-
Total business-type activities	-	-	-	-	-	-	-	-
Total primary government	\$ 20,745,723	\$ 7,943,060	\$ 799,988	\$ 186,342	(11,816,333)	-	(11,816,333)	-
Component units:								
Dunkirk Free Library	\$ 346,639	\$ 23,859	\$ 22,475	\$ -	-	-	-	(300,305)
City of Dunkirk Industrial Development Agency	51	-	-	-	-	-	-	(51)
Dunkirk Housing Authority	1,830,945	637,668	403,908	173,243	-	-	-	(616,126)
Total component units	\$ 2,177,635	\$ 661,527	\$ 426,383	\$ 173,243	-	-	-	(916,482)
General revenues:								
Taxes:								
Property taxes					4,695,259	-	4,695,259	-
Sales taxes				0	2,334,220	-	2,334,220	-
PILOT payments					3,683,399	-	3,683,399	-
Payment from City of Dunkirk, New York					-	-	-	150,000
Grants and contributions not restricted to specific programs					-	-	-	128,992
Investment earnings					97,144	-	97,144	24,464
Miscellaneous					2,264,013	-	2,264,013	-
Gain on sale of capital assets					-	-	-	30
Total general revenues, special items and transfers					13,074,035	-	13,074,035	303,486
Change in net position					1,257,702	-	1,257,702	(612,996)
NET POSITION - beginning					14,654,935	-	14,654,935	8,106,766
NET POSITION - ending					\$ 15,912,637	\$ -	\$ 15,912,637	\$ 7,493,770

CITY OF DUNKIRK, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General Fund	Water Fund	Wastewater Treatment Fund	Special Grant Fund	Capital Projects Fund	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 3,842,469	\$ 281,295	\$ 650,867	\$ 1,450	\$ 2,182,981	\$ 6,959,062
Receivables, net						
Taxes	393,077	-	-	-	-	393,077
Accounts receivable	365,190	477,839	872,353	-	-	1,715,382
Due from other governments	659,010	-	-	33,774	167,444	860,228
Due from other funds	3,505,265	9,070	134,696	68,798	481,974	4,199,803
TOTAL ASSETS	\$ 8,765,011	\$ 768,204	\$ 1,657,916	\$ 104,022	\$ 2,832,399	\$ 14,127,552
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 1,331,105	\$ 166,140	\$ 180,904	\$ 13,250	\$ 44,672	\$ 1,736,071
Accrued liabilities	266,964	47,227	27,148	-	-	341,339
Due to other governments	821,549	-	-	-	-	821,549
Due to other funds	155,024	1,059,312	1,846,403	21,403	907,635	3,989,777
Bond anticipation notes payable	-	-	-	-	9,255,000	9,255,000
Deferred revenue	13,817	-	-	-	-	13,817
TOTAL LIABILITIES	2,588,459	1,272,679	2,054,455	34,653	10,207,307	16,157,553
FUND BALANCES:						
Reserved for:						
Tax stabilization	483,985	-	-	-	-	483,985
Other fund activities	-	-	-	69,369	-	69,369
Encumbrances	-	24,432	50,975	-	37,713	113,120
Assigned for:						
Capital equipment	370,898	-	-	-	-	370,898
Street improvements	428,284	-	-	-	-	428,284
Employee benefits	516,033	-	-	-	-	516,033
Encumbrances	350,439	-	-	-	-	350,439
Unassigned:						
Unassigned	4,026,913	(528,907)	(447,514)	-	(7,412,621)	(4,362,129)
TOTAL FUND BALANCES	6,176,552	(504,475)	(396,539)	69,369	(7,374,908)	(2,030,001)
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,765,011	\$ 768,204	\$ 1,657,916	\$ 104,022	\$ 2,832,399	\$ 14,127,552

CITY OF DUNKIRK, NEW YORK
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

Fund balances - total governmental funds	\$ (2,030,001)
Amounts reported for governmental activities in the statement of net position 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	20,260,166
Infrastructure, net of \$32,270,014 accumulated depreciation	2,434,057
Buildings and improvements, net of \$10,142,704 accumulated depreciation	2,272,807
Equipment, net of \$14,124,862 accumulated depreciation	<u>2,195,396</u>
	27,313,581
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 position. Long-term liabilities amounted to \$9,270,212 and accrued interest payable on long-term and short-term liabilities amounted to \$114,548.	(9,384,760)
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.	<u>13,817</u>
Net position of governmental activities	<u>\$ 15,912,637</u>

CITY OF DUNKIRK, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

	General Fund	Water Fund	Wastewater Treatment Fund	Special Grant Fund	Capital Projects Fund	TOTAL Governmental Funds
REVENUES:						
Real property taxes	\$ 4,695,259	\$ -	\$ -	\$ -	\$ -	\$ 4,695,259
Sales tax	2,334,220	-	-	-	-	2,334,220
Property tax items	3,707,979	-	-	-	-	3,707,979
Non-property tax items	326,394	-	-	-	-	326,394
Departmental income	1,060,042	2,593,563	4,090,899	10,352	-	7,754,856
Shared services	418,204	-	-	-	-	418,204
Use of money and property	12,089	-	-	-	89,730	101,819
Licenses and permits	42,162	-	-	-	-	42,162
Fines and forfeitures	131,209	-	77,268	-	-	208,477
Sale of property and compensation for loss	3,566	2,732	-	-	-	6,298
Miscellaneous	132,876	11,550	1,324	-	-	145,750
State aid	1,873,074	-	-	-	45,336	1,918,410
Federal aid	-	-	-	201,353	141,006	342,359
Total revenues	14,737,074	2,607,845	4,169,491	211,705	276,072	22,002,187
EXPENDITURES:						
Current:						
Council	40,061	-	-	-	-	40,061
Mayor	104,537	-	-	-	-	104,537
Financial	384,985	-	-	-	-	384,985
Staff	544,886	-	-	-	-	544,886
Shared services	537,347	-	-	-	-	537,347
Special items	239,494	87,258	112,140	-	-	438,892
Police department	3,197,945	-	-	-	-	3,197,945
Fire department	2,011,562	-	-	-	-	2,011,562
Other public safety	265,716	-	-	-	-	265,716
Transportation	982,988	-	-	-	-	982,988
Economic assistance and opportunity	39,051	-	-	-	-	39,051
Culture and recreation	778,779	-	-	-	-	778,779
Home and community service	747,139	1,598,250	2,179,768	211,369	-	4,736,526
Employee benefits	4,374,548	548,842	512,336	-	-	5,435,726
Debt service:						
Principal	55,000	115,000	540,000	-	-	710,000
Interest	20,061	101,593	194,729	-	-	316,383
Capital outlay	-	-	-	-	4,514,510	4,514,510
Total expenditures	14,324,099	2,450,943	3,538,973	211,369	4,514,510	25,039,894
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	412,975	156,902	630,518	336	(4,238,438)	(3,037,707)
OTHER FINANCING SOURCES (USES):						
Transfers in	1,000	-	32,716	-	35,333	69,049
Transfers out	-	-	-	-	(68,049)	(68,049)
BANs redeemed from appropriations	-	-	-	-	115,000	115,000
Total other financing sources (uses)	1,000	-	32,716	-	82,284	116,000
NET CHANGE IN FUND BALANCES	413,975	156,902	663,234	336	(4,156,154)	(2,921,707)
FUND BALANCES (DEFICIT) - beginning	5,762,577	(661,377)	(1,059,773)	69,033	(3,218,754)	891,706
FUND BALANCES (DEFICIT) - ending	\$ 6,176,552	\$ (504,475)	\$ (396,539)	\$ 69,369	\$ (7,374,908)	\$ (2,030,001)

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

Net change in fund balances - total governmental funds	\$ (2,921,707)
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 (\$4,514,510) exceeded depreciation (\$1,003,947) in the current period.	
	3,510,563
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.	
	238
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 position. This is the amount by which repayments (\$595,000) exceeded proceeds (\$0) in the current period.	
	595,000
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 decreases in compensated absences of \$40,673 and accrued interest of \$32,935.	
	73,608
Change in net position of governmental activities	\$ 1,257,702

CITY OF DUNKIRK, NEW YORK
BALANCE SHEET
PROPRIETARY FUNDS
DECEMBER 31, 2012

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

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012

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

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012

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

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2012

	<u>Agency Funds</u>	<u>Trust Funds</u>	<u>Total</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 179,837	\$ 93,002	\$ 272,839
Other assets	33,573	-	33,573
Due from other funds	<u>31</u>	<u>-</u>	<u>31</u>
TOTAL ASSETS	<u>\$ 213,441</u>	<u>\$ 93,002</u>	<u>\$ 306,443</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES:			
Accounts payable	\$ 9,384	\$ -	\$ 9,384
Due to other funds	<u>204,057</u>	<u>6,000</u>	<u>210,057</u>
TOTAL LIABILITIES	<u>213,441</u>	<u>6,000</u>	<u>219,441</u>
<u>NET POSITION</u>			
Net position held in trust	<u>-</u>	<u>87,002</u>	<u>87,002</u>
TOTAL NET POSITION	<u>-</u>	<u>87,002</u>	<u>87,002</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 213,441</u>	<u>\$ 93,002</u>	<u>\$ 306,443</u>

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2012

	<u>Trust Funds</u>
<u>ADDITIONS</u>	
Investment earnings	\$ 22
TOTAL ADDITIONS	<u>22</u>
<u>DEDUCTIONS</u>	
Transfer to General Fund for Culture and recreation expenditures	<u>1,000</u>
TOTAL DEDUCTIONS	<u>1,000</u>
CHANGE IN NET POSITION	(978)
NET POSITION HELD IN TRUST	
BEGINNING OF YEAR	<u>87,980</u>
END OF YEAR	<u><u>\$ 87,002</u></u>

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF NET POSITION
COMPONENT UNITS
DECEMBER 31, 2012

	Dunkirk Free Library	City of Dunkirk Housing Authority	Dunkirk Urban Renewal Agency	City of Dunkirk Industrial Development Agency	Total
<u>ASSETS</u>					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 291,787	\$ 522,589	\$ -	\$ 41	\$ 814,417
Investments	-	665,486	-	-	665,486
Accounts receivable	-	13,290	-	-	13,290
Due from other governments	-	5,000	-	-	5,000
Prepaid expenses	-	33,109	-	-	33,109
Other assets	17,409	22,419	-	-	39,828
Total current assets	309,196	1,261,893	-	41	1,571,130
NONCURRENT ASSETS:					
Capital assets:					
Land and improvements	-	1,257,808	-	-	1,257,808
Buildings and improvements	798,330	13,655,996	-	-	14,454,326
Machinery and equipment	212,057	827,976	-	-	1,040,033
Accumulated depreciation	(264,621)	(10,016,300)	-	-	(10,280,921)
Total noncurrent assets	745,766	5,725,480	-	-	6,471,246
TOTAL ASSETS	\$ 1,054,962	\$ 6,987,373	\$ -	\$ 41	\$ 8,042,376
<u>LIABILITIES AND NET POSITION</u>					
CURRENT LIABILITIES:					
Accounts payable	\$ -	\$ 48,726	\$ -	\$ -	\$ 48,726
Due to other governments	-	45,364	-	-	45,364
Deferred revenue	-	69,019	-	-	69,019.00
Other current liabilities	-	70,584	-	184.00	70,768.00
Current portion of long-term obligations	-	21,395	-	-	21,395
Total current liabilities	-	255,088	-	184	255,272
NONCURRENT LIABILITIES:					
Noncurrent portion of long-term obligations	-	192,554	-	100	192,654
TOTAL LIABILITIES	-	447,642	-	284	447,926
NET POSITION					
Invested in capital assets, net of related debt	745,766	5,725,480	-	-	6,471,246
Restricted	162,246	-	-	-	162,246
Unrestricted	146,950	814,251	-	(243)	960,958
TOTAL NET POSITION	1,054,962	6,539,731	-	(243)	7,594,450
TOTAL LIABILITIES AND NET POSITION	\$ 1,054,962	\$ 6,987,373	\$ -	\$ 41	\$ 8,042,376

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF ACTIVITIES
COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2012

	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Dunkirk Free Library	\$ 346,639	\$ 23,859	\$ 22,475	\$ -	\$ (300,305)	\$ -	\$ (300,305)
Total governmental activities	<u>346,639</u>	<u>23,859</u>	<u>22,475</u>	<u>-</u>	<u>(300,305)</u>	<u>-</u>	<u>(300,305)</u>
Business-type activities:							
Dunkirk Urban Renewal Agency	-	-	-	-	-	-	-
City of Dunkirk Housing Authority	1,830,945	637,668	403,908	173,243	-	(616,126)	(616,126)
City of Dunkirk Industrial Development Agency	51	-	-	-	-	(51)	(51)
Total business-type activities	<u>1,830,996</u>	<u>637,668</u>	<u>403,908</u>	<u>173,243</u>	<u>-</u>	<u>(616,177)</u>	<u>(616,177)</u>
Total component units	<u>\$ 2,177,635</u>	<u>\$ 661,527</u>	<u>\$ 426,383</u>	<u>\$ 173,243</u>	<u>(300,305)</u>	<u>(616,177)</u>	<u>(916,482)</u>
General revenues:							
Payment from City of Dunkirk, New York					150,000	-	150,000
Grants and contributions not restricted to specific programs					128,992	-	128,992
Investment earnings					21,860	2,604	24,464
Insurance recovery					-	99,980	99,980
Sale of equipment					-	700	700
Miscellaneous					-	30	30
Total general revenues, special items and transfers					<u>300,852</u>	<u>103,314</u>	<u>404,166</u>
Change in net position					547	(512,863)	(512,316)
NET POSITION - beginning					<u>1,054,415</u>	<u>7,052,351</u>	<u>8,106,766</u>
NET POSITION - ending					<u>\$ 1,054,962</u>	<u>\$ 6,539,488</u>	<u>\$ 7,594,450</u>

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF CASH FLOWS
COMPONENT UNITS - PROPRIETARY FUND TYPES
YEAR ENDED DECEMBER 31, 2012

	Business-type Activities Enterprise Funds			
	Dunkirk Urban Renewal Agency	City of Dunkirk Housing Authority	City of Dunkirk Industrial Development Agency	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from charges and fees	\$ -	\$ 621,867	\$ -	\$ 621,867
Receipts from operating grants	-	403,005	-	403,005
Payments to suppliers	-	(647,242)	(32)	(647,274)
Payments to other governments	-	(35,035)	-	(35,035)
Payments to employees	-	(587,049)	-	(587,049)
Payments from other funds	-	(79)	-	(79)
Payments to other funds	-	-	-	-
Other receipts	-	14,101	30	14,131
Net cash provided (used) by operating activities	-	(230,432)	(2)	(230,434)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital grants received	-	173,243	-	173,243
Insurance recovery	-	326,886	-	326,886
Acquisition and modernization of capital assets	-	(179,368)	-	(179,368)
Mold remediation	-	(157,887)	-	(157,887)
Proceeds from disposition of assets	-	700	-	700
Net cash used by capital and related financing activities	-	163,574	-	163,574
CASH FLOWS FROM INVESTING ACTIVITIES -				
Funds used for investments	-	(1,500)	-	(1,500)
Interest income received	-	2,604	-	2,604
Net cash provided by investing activities	-	1,104	-	1,104
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	(65,754)	(2)	(65,756)
CASH AND CASH EQUIVALENTS - beginning	-	588,343	43	588,386
CASH AND CASH EQUIVALENTS - ending	\$ -	\$ 522,589	\$ 41	\$ 522,630
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating loss	\$ -	\$ (789,369)	\$ (21)	\$ (789,390)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	-	591,805	-	591,805
Change in assets and liabilities:				
Accounts receivable	-	(243)	-	(243)
Due from other governments	-	(903)	-	(903)
Due from other funds	-	(79)	-	(79)
Prepaid expenses	-	(16,184)	-	(16,184)
Other assets	-	(22,419)	-	(22,419)
Accounts payable	-	38,523	-	38,523
Due to other funds	-	79	-	79
Other current liabilities	-	(31,642)	19	(31,623)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ -	\$ (230,432)	\$ (2)	\$ (230,434)

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

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 City of 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, 2012.

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, 2012
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

City of 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, 2012
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (statement of net position 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, 2012 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, 2012
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

The City currently does not operate any proprietary funds.

Additionally, the City reports the following fund type:

Fiduciary Funds

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

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

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

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

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets and Budgetary Accounting

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

- a.) On or before the first day of October each year, the Mayor shall submit to the Common Council a proposed budget and capital budget together with a message concerning same for the ensuing year.
- b.) The budget message shall describe the important features; outline the proposed capital programs; indicate major changes from the current fiscal year in financial policies, expenditures, and revenues together with the reasons for such changes; summarize the City's debt condition; and include such other material items 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, 2012
(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) - 12/31/12	\$6,176,552	(\$504,475)	(\$396,539)
Deduct outstanding encumbrances	<u>350,439</u>	<u>24,432</u>	<u>50,975</u>
Budgetary Basis:			
Fund Balances (Deficit) - 12/31/12	<u>\$5,826,113</u>	<u>(\$528,907)</u>	<u>(\$447,514)</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, 2012
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets and Budgetary Accounting, continued

n.) At January 1, the amount of encumbrances carried forward from the prior year are reestablished. These increases amounted to \$359,055; \$18,366 and \$46,670 in the General, Water and Wastewater Treatment Funds, respectively. During the year ended December 31, 2012, supplemental appropriations (including the prior year encumbrances) of \$383,415; \$18,366 and \$46,670 were approved in the General, Water and Wastewater Treatment Funds, respectively.

E. Encumbrances

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

F. Cash and Cash Equivalents

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

G. Capital Assets

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

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

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

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Property Tax Revenue Recognition

The City-wide property tax is levied by the Common Council effective January 1 of the year the taxes are recognizable as revenue. Taxes become a lien on the related property on January 1st of the year for which they are levied. In the government-wide statements, property tax receivables and related revenue include all amounts due the City regardless of when cash is received. The City acts as the collection agent for the County of Chautauqua for County taxes levied on properties within the City. The City also collects school taxes for the local school district for remission to them. During 1994, the City entered an agreement with the County of Chautauqua whereby unpaid City and school taxes are to be turned over for enforcement. The agreement with the County of Chautauqua was renewed on April 25, 2012 for the 2012 and 2013 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, 2012
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Accounting and Reporting Changes

During December 2009, GASB issued Statement No. 57 - *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, effective for the year ending December 31, 2012; This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. The City implemented Statement No. 57, effective for the fiscal year ending December 31, 2012, with retroactive application for the fiscal year ended December 31, 2011. The adoption of Statement No. 57 had no effect on the City's financial statements.

During November 2010, GASB issued Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the year ending December 31, 2012; The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The City implemented Statement No. 60, effective for the fiscal year ending December 31, 2012, with retroactive application for the fiscal year ended December 31, 2011. The adoption of Statement No. 60 had no effect on the City's financial statements.

In December 2010, GASB issued GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statement and Interpretations, (2) Accounting Principles Board Opinions, and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The City implemented Statement No. 62, effective for the fiscal year ending December 31, 2012, with retroactive application for the fiscal year ended December 31, 2011. The adoption of Statement No. 62 had no effect on the City's financial statements.

In June 2011, GASB issued GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The City implemented Statement No. 63, effective for the fiscal year ending December 31, 2012, with retroactive application for the fiscal year ended December 31, 2011. The adoption of Statement No. 63 had no effect on the City's financial statements.

In June 2011, GASB issued GASB Statement No. 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The City implemented Statement No. 64, effective for the fiscal year ending December 31, 2012, with retroactive application for the fiscal year ended December 31, 2011. The adoption of Statement No. 64 had no effect on the City's financial statements.

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 61 - *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, effective for the years ending December 31, 2013; GASB Statements No. 65 - *Items Previously Reported as Assets and Liabilities*, effective for the year ending December 31, 2013; GASB Statements No. 66 - *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*, effective for the year ending December 31, 2013; GASB Statement No. 67 - *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*, effective for the year ending December 31, 2014; GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*; effective for the year ending December 31, 2015; GASB Statement No. 69 - *Government Combinations and Disposals of Government Operations*, effective for the year ending December 31, 2014 and GASB Statement No. 70 - *Accounting and Financial Reporting for Nonexchanges Financial Guarantees*, effective for the year ending December 31, 2014.

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.

NOTE 2 - STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

At December 31, 2012, the Capital Project Fund had a deficit fund balance in the amount of \$7,374,908. 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, 2012, the Water Fund had a deficit fund balance in the amount of \$504,475. 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, 2012, the Wastewater Fund had a deficit fund balance in the amount of \$396,539. 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.

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

NOTE 3 - CASH AND INVESTMENTS, continued

The detail of cash and cash equivalents at December 31, 2012 is as follows:

	Carrying Amount
Petty cash	\$ 1,400
Deposits (checking account)	3,790,422
Cash and cash equivalents (savings and CDs)	<u>3,440,079</u>
Total	<u>\$ 7,231,901</u>

Cash and cash equivalents maintained by the City at December 31, 2012 consist of:

	Amount
Government activities	\$ 6,959,062
Fiduciary activities	<u>272,839</u>
Total	<u>\$ 7,231,901</u>

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

	Bank Balance
Insured (FDIC)	\$ 1,632,099
Uninsured	-
Collateral held by bank's agent in City's name	<u>6,818,102</u>
Total deposits	<u>\$ 8,450,201</u>

At December 31, 2012, the City did not have any investments other than cash and cash equivalents.

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.

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

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 2012 was approximately \$279 million. The effective tax rate on this value is approximately \$16.85 per thousand. The statutory maximum tax rate is 2.0% of the 5-year average of the equalized assessment. The 2012 levy represents approximately 50.50% of the maximum statutory levy.

The City constitutional tax limit for the fiscal year ended December 31, 2012 is computed as follows:

Five year Average Full Valuation of Taxable Real Estate (2008 - 2012)	<u>\$ 353,119,762</u>
Tax limit @ 2.0%	<u>\$ 7,062,395</u>
Total Tax Levy	4,665,568
Less: Exclusions	<u>1,099,360</u>
Total Levy Subject to Tax Limit	<u>3,566,208</u>
Tax Margin	<u>\$ 3,496,187</u>

NOTE 5 - INTERFUND TRANSFERS

The City made the following operating transfers during 2012:

Transfer Out	Transfer In		
	General Fund	Wastewater Treatment Fund	Capital Projects Fund
Capital Projects Fund	\$ -	\$ 32,716	\$ 35,333
Permanent Trust Fund	1,000	-	(68,049)
	<u>\$ 1,000</u>	<u>\$ 32,716</u>	<u>\$ (32,716)</u>
			<u>\$ 1,000</u>

NOTE 6 - RECEIVABLES

Revenues accrued by the City consist of the following:

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

Funds:	
General Fund	\$ 365,190
Water Fund	477,839
Wastewater Fund	<u>872,353</u>
Total	<u>\$ 1,715,382</u>

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

NOTE 6 - RECEIVABLES, continued

- 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, 2012 are comprised of:

State and Federal Receivables	
General Fund	\$ 86,207
Special Grant Fund	33,774
Capital Projects Fund	167,444
Total state and federal receivables	<u>287,425</u>
Other Government Receivables	
General Fund	572,803
Total other government receivables	<u>572,803</u>
 Total due from other governments	 <u><u>\$ 860,228</u></u>

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 151,155	\$ -	\$ -	\$ 151,155
Construction in progress	15,745,656	4,514,510	-	20,260,166
Total capital assets not being depreciated	<u>15,896,811</u>	<u>4,514,510</u>	<u>-</u>	<u>20,411,321</u>
Capital assets being depreciated:				
Infrastructures	34,704,071	-	-	34,704,071
Buildings and improvements	12,415,511	-	-	12,415,511
Machinery and equipment	16,320,258	-	-	16,320,258
Total capital assets being depreciated	<u>63,439,840</u>	<u>-</u>	<u>-</u>	<u>63,439,840</u>
Less accumulated depreciation for:				
Infrastructures	32,149,750	120,264	-	32,270,014
Buildings and improvements	9,923,268	219,436	-	10,142,704
Machinery and equipment	13,460,615	664,247	-	14,124,862
Total accumulated depreciation	<u>55,533,633</u>	<u>1,003,947</u>	<u>-</u>	<u>56,537,580</u>
Total capital assets being depreciated, net	<u>7,906,207</u>	<u>(1,003,947)</u>	<u>-</u>	<u>6,902,260</u>
Governmental activities capital assets, net	<u><u>\$ 23,803,018</u></u>	<u><u>\$ 3,510,563</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 27,313,581</u></u>

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

NOTE 7 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the governmental functions as follows:

Shared services	\$ 14,294
Police department	31,287
Fire department	119,872
Transportation	326,038
Culture and recreation	32,345
Water department	227,702
Wastewater department	250,495
Other home and community service	1,914
	<hr/>
Total depreciation expense	\$ 1,003,947
	<hr/>

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 NYSSRSL, 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 NYSSRSL, 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>
2012	\$ 748,408	\$ 1,110,364
2011	695,813	1,054,636
2010	525,594	837,176

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 15, 2012, however the City did not make the payments until January 6, 2013 and incurred additional interest costs.

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(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, 2012, the City contributed \$25,400, or 69.67%, 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	\$ 38,460
Interest on net OPEB obligation	(2,005)
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	36,455
Contribution made	<u>(25,400)</u>
Decrease in net OPEB obligation	11,055
Net OPEB obligation - beginning of year	<u>(211)</u>
Net OPEB obligation - end of year	<u>\$ 10,844</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (prepayment) for 2012 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2010	\$ 22,240	102.39%	\$ 1,431
12/31/2011	21,923	107.49%	(221)
12/31/2012	36,455	69.67%	10,844

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

NOTE 8 - LIABILITIES (CONTINUED)

B. Postemployment Benefits Other Than Pensions, continued

d.) Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the funded status of the Retiree Health Plan was as follows:

Actuarial accrued liability (AAL)	\$ 182,146
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 182,146</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, 2012 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, 2012
(Continued)

NOTE 8 - LIABILITIES (CONTINUED)

The following is an analysis of outstanding BANs at December 31, 2012:

Fund	Description	Amount	Maturity Date	Interest Rate
Capital projects	Wastewater filtration plant	\$ 7,455,000	3/28/2013	1.25%
Capital projects	Water meters	1,800,000	3/28/2013	1.25%
		<u>\$ 9,255,000</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, 2012, 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, 2012, 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, 2012 is computed as follows:

Five-Year Average Full Valuation of Taxable Real Estate (2007 - 2011)	<u>\$ 345,622,923</u>
Debt Limit @ 7%	\$ 24,193,605
Net Indebtedness (after statutory exclusions)	<u>595,000</u>
Net Debt Contracting Margin	<u>\$ 23,598,605</u>
Percentage of Debt Contracting Power Exhausted	<u>2.46%</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, 2012
(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 01/01/2012	Increases	Decreases	Balance 12/31/2012
Serial bonds	\$ 5,600,000	\$ -	\$ 595,000	\$ 5,005,000
Compensated absences	4,305,885	-	40,673	4,265,212
	<u>\$ 9,905,885</u>	<u>\$ -</u>	<u>\$ 635,673</u>	<u>\$ 9,270,212</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 12/31/2012
Public improvement					
Boardwalk Market	11/10/2011	11/1/2021	2.5 - 3.75%	650,000	\$ 595,000
Sewage treatment					
plant renovation	11/12/1992	2/16/2013	3.24%	5,545,000	330,000
Water treatment					
plant renovation	9/1/2008	5/1/2033	4.25 - 4.75%	4,539,000	3,905,000
Water treatment					
plant renovation	4/4/2010	5/1/2015	2.69%	280,000	175,000
					<u>\$ 5,005,000</u>

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(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, 2012:

YEAR ENDING DECEMBER 31,	Serial Bonds	
	Principal	Interest
2013	\$ 605,000	\$ 201,745
2014	285,000	182,477
2015	285,000	172,201
2016	230,000	162,581
2017	230,000	153,619
2018 - 2022	1,190,000	621,191
2023 - 2027	970,000	387,503
2028 - 2032	1,005,000	166,006
2033	205,000	4,869
TOTAL	<u>\$ 5,005,000</u>	<u>\$ 2,052,192</u>

NOTE 9 - EQUITY CLASSIFICATIONS

A. Government-wide Statements

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

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 position - Restricted net position 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 position have been recorded in the government-wide financial statements of the City at December 31, 2012. At December 31, 2012, the City has recorded the following restrictions:

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

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

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

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

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

Unrestricted Net Position - Designations are not legally required restrictions, but are segregated for a specific purpose. At December 31, 2012, the City had not designated any unrestricted net position.

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(Continued)

NOTE 9 - EQUITY CLASSIFICATIONS (CONTINUED)

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, 2012.

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 did not appropriate any of these funds in developing the 2012 or 2013 General Fund budgets.

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, 2012 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, 2012
(Continued)

NOTE 10 - CONTINGENCIES

A. Lease Commitments and Leased Assets

The City leased various equipment and property during 2012 under a number of operating leases. Total rental expenditures for the year ended December 31, 2011 were approximately \$54,130.

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

Year ending December 31, 2013	\$ 44,214
2014	26,317
2015	12,635

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 May 30, 2013, the date which the financial statements were available to be issued.

The City issued \$8,300,000 Bond Anticipation Notes on March 28, 2013 at 1.50% (Net interest rate of 0.6395%). The proceeds were used to refinance a portion of the two outstanding Bond Anticipation Notes which matured on that date.

The City issued \$785,000 Public Improvement Serial Bonds on March 28, 2013 at interest ranging from 3.375% to 4.00%. The repayment terms are over twenty years.

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, 2012

	Original Budget	Revisions	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
REVENUES:						
Real property taxes	\$ 4,695,259	\$ -	\$ 4,695,259	\$ 4,695,259	\$ -	\$ -
Sales tax	2,148,325	-	2,148,325	2,334,220	-	185,895
Property tax items	3,665,474	-	3,665,474	3,707,979	-	42,505
Non-property tax items	322,000	-	322,000	326,394	-	4,394
Departmental income	1,034,000	-	1,034,000	1,060,042	-	26,042
Shared services	423,510	12,388	435,898	418,204	-	(17,694)
Use of money and property	57,022	-	57,022	12,089	-	(44,933)
Licenses and permits	36,500	-	36,500	42,162	-	5,662
Fines and forfeitures	145,000	-	145,000	131,209	-	(13,791)
Sale of property and compensation for loss	3,000	-	3,000	3,566	-	566
Miscellaneous	153,195	2,750	155,945	132,876	-	(23,069)
State aid	2,100,532	-	2,100,532	1,873,074	-	(227,458)
Federal aid	-	-	-	-	-	-
Total revenues	14,783,817	15,138	14,798,955	14,737,074	-	(61,881)
EXPENDITURES:						
Current:						
Council	38,850	158	39,008	40,061	-	(1,053)
Mayor	103,650	849	104,499	104,537	-	(38)
Financial	417,825	(20,245)	397,580	384,985	5,364	7,231
Staff	470,520	61,699	532,219	544,886	997	(13,664)
Shared services	517,225	5,468	522,693	537,347	9,728	(24,382)
Special items	389,940	(121,633)	268,307	239,494	-	28,813
Police department	3,166,435	33,168	3,199,603	3,197,945	27,717	(26,059)
Fire department	1,920,059	3,180	1,923,239	2,011,562	1,278	(89,601)
Other public safety	251,373	60,638	312,011	265,716	42,744	3,551
Transportation	1,524,182	10,601	1,534,783	982,988	3,895	547,900
Economic assistance and opportunity	35,960	4,894	40,854	39,051	-	1,803
Culture and recreation	505,975	87,856	593,831	778,779	3,467	(188,415)
Home and community service	704,100	256,782	960,882	747,139	255,249	(41,506)
Employee benefits	4,660,542	-	4,660,542	4,374,548	-	285,994
Debt service:						
Principal	55,000	-	55,000	55,000	-	-
Interest	22,181	-	22,181	20,061	-	2,120
Total expenditures	14,783,817	383,415	15,167,232	14,324,099	350,439	492,694
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(368,277)	(368,277)	412,975	(350,439)	430,813
OTHER FINANCING SOURCES (USES):						
Transfers in	-	9,222	9,222	1,000	-	(8,222)
Total other financing sources (uses)	-	9,222	9,222	1,000	-	(8,222)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	(359,055)	(359,055)	413,975	(350,439)	422,591
FUND BALANCE, January 1	5,762,577	-	5,762,577	5,762,577	-	-
FUND BALANCE, December 31	\$ 5,762,577	\$ (359,055)	\$ 5,403,522	\$ 6,176,552	\$ (350,439)	\$ 422,591

CITY OF DUNKIRK, NEW YORK
BUDGETARY COMPARISON SCHEDULE
WATER FUND
YEAR ENDED DECEMBER 31, 2012

	Original Budget	Revisions	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
REVENUES:						
Departmental income	\$ 2,593,000	\$ -	\$ 2,593,000	\$ 2,593,563	\$ -	\$ 563
Use of money and property	-	-	-	-	-	-
Sale of property and compensation for loss	4,000	-	4,000	2,732	-	(1,268)
Miscellaneous	10,000	-	10,000	11,550	-	1,550
State aid	-	-	-	-	-	-
Total revenues	2,607,000	-	2,607,000	2,607,845	-	845
EXPENDITURES:						
Current:						
Special items	167,536	(5,420)	162,116	87,258	-	74,858
Home and community service	1,621,715	23,786	1,645,501	1,598,250	24,432	22,819
Employee benefits	576,267	-	576,267	548,842	-	27,425
Debt service:						
Principal	115,000	-	115,000	115,000	-	-
Interest	126,482	-	126,482	101,593	-	24,889
Total expenditures	2,607,000	18,366	2,625,366	2,450,943	24,432	149,991
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	(18,366)	(18,366)	156,902	(24,432)	150,836
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	(18,366)	(18,366)	156,902	(24,432)	150,836
FUND BALANCE (DEFICIT), January 1	(661,377)	-	(661,377)	(661,377)	-	-
FUND BALANCE (DEFICIT), December 31	\$ (661,377)	\$ (18,366)	\$ (679,743)	\$ (504,475)	\$ (24,432)	\$ 150,836

CITY OF DUNKIRK, NEW YORK
BUDGETARY COMPARISON SCHEDULE
WASTEWATER TREATMENT FUND
YEAR ENDED DECEMBER 31, 2012

	Original Budget	Revisions	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
REVENUES:						
Departmental income	\$ 4,102,000	\$ -	\$ 4,102,000	\$ 4,168,167	\$ -	\$ 66,167
Sale of property and compensation for loss	-	-	-	-	-	-
Miscellaneous	5,000	-	5,000	1,324	-	(3,676)
State aid	-	-	-	-	-	-
Total revenues	4,107,000	-	4,107,000	4,169,491	-	62,491
Current:						
Special items	184,132	(8,708)	175,424	112,140	-	63,284
Home and community service	2,540,590	55,378	2,595,968	2,179,768	50,975	365,225
Employee benefits	627,790	-	627,790	512,336	-	115,454
Debt service:						
Principal	540,000	-	540,000	540,000	-	-
Interest	214,488	-	214,488	194,729	-	19,759
Total expenditures	4,107,000	46,670	4,153,670	3,538,973	50,975	563,722
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(46,670)	(46,670)	630,518	(50,975)	626,213
OTHER FINANCING SOURCES:						
Transfers in	-	-	-	32,716	-	32,716
Total other financing sources	-	-	-	32,716	-	32,716
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	(46,670)	(46,670)	663,234	(50,975)	658,929
FUND BALANCE (DEFICIT), January 1	(1,059,773)	-	(1,059,773)	(1,059,773)	-	-
FUND BALANCE (DEFICIT), December 31	\$ (1,059,773)	\$ (46,670)	\$ (1,106,443)	\$ (396,539)	\$ (50,975)	\$ 658,929

CITY OF DUNKIRK, NEW YORK
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2012

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%
7/1/2012	\$ -	\$ 182,146	\$ 182,146	0.0%	\$ -	0.0%

CITY OF DUNKIRK, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (1)
YEAR ENDED DECEMBER 31, 2012

<u>FEDERAL GRANTOR/ PROGRAM TITLE</u>	<u>Federal CFDA Number (2)</u>	<u>Notes</u>	<u>Federal Expenditures (3)</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Programs			
Community Development Block Grants			
Entitlement Grants	14.218		\$ 201,353
<i>Total U.S. Department of Housing and Urban Development</i>			<u>201,353</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Pass through NYS Department of Transportation:			
Highway Planning and Construction	20.205		<u>141,006</u>
<i>Total U.S. Department of Transportation</i>			<u>141,006</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 342,359</u></u>

The accompanying notes are an integral part of this schedule.

CITY OF DUNKIRK, NEW YORK
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

Notes:

- (1) Includes all major and nonmajor programs.
- (2) Source: October 2012 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

May 30, 2013

Honorable Mayor
Members of City Counsel
Treasurer
City of Dunkirk
Dunkirk, New York 14048

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2012, and the related notes to the financial statements which collectively comprise City of Dunkirk, New York's basic financial statements and have issued our report thereon dated May 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Dunkirk New York's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City of Dunkirk, New York's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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.

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. (12-01; 12-02)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dunkirk, New York's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Dunkirk New York's Response to Findings

The City of Dunkirk, New York's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Dunkirk, New York's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson, Mackowiak & Associates, LLP

Johnson, Mackowiak & Associates, LLP



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

May 30, 2013

Honorable Mayor
Members of City Council
Treasurer
City of Dunkirk
Dunkirk, NY 14048

Report on Compliance for Each Major Federal Program

We have audited the City of Dunkirk, New York's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have direct and material effect on each of the City of Dunkirk, New York's major federal programs for the year ended December 31, 2012. The City of Dunkirk, New York's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Dunkirk's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Dunkirk's compliance.

Basis for Qualified Opinion on Community Development Block Grant

As described in item 12-07 in the accompanying schedule of findings and questioned costs, the City of Dunkirk of New York did not comply with requirements regarding monitoring sub-recipients that are applicable to its 12-03 Community Development Block Grant. As described in item 12-03 in the accompanying schedule findings and questioned costs, the City of Dunkirk, New York did not comply with requirements regarding internal controls that are applicable to its Community Development Block Grant. As described in items 12-04, 12-05 and 12-06 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. Compliance with such requirements is necessary in our opinion, for the City of Dunkirk, New York to comply with the requirements applicable to that program.

Qualified Opinion on Community Development Block Grant

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Dunkirk, New York, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Community Development Block Grant program for the year ended December 31, 2012.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City of Dunkirk, New York complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the City of Dunkirk, New York, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Dunkirk's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal 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 federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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 in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-03, 12-05, and 12-07 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a 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 12-04 and 12-06 to be significant deficiencies.

The City of Dunkirk, New York's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Dunkirk, New York's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Johnson, Mackowiak & Associates, LLP

Johnson, Mackowiak & Associates, LLP

**CITY OF DUNKIRK, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012**

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, 2012**

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? _____yes Xno

Section II – Financial Statement Findings

As of and for the year ended December 31, 2012, the City of Dunkirk, New York, had two findings that were required to be reported in accordance with GAGAS.

12-01 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.

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

Management's Response: Since the audit, all monthly reconciliations have been completed in a timely manner. A procedure is now in place whereas the Fiscal Affairs Officer will be reviewing and signing off all (payroll) bank reconcilements each month. Note that the differences in the payroll subsidiary ledger and general ledger have been reconciled with no write offs. Also note that we intend on researching, and implementing the reconciliation software function once the KVS conversion takes place.

12-02 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: Internal controls are established to provide assurance that receivables account adjustments are recorded in a timely manner. There are instances where an adjustment is mandated and may lapse from the month of the billing into the next billing cycle. All adjustments require final approval by the City Treasurer. The formal procedures established in January of 2012 were followed explicitly to the letter until the loss of a full-time employee in the Treasury Department at mid-year. Due to time constraints and available staff and work hours, timeliness was impacted by these adjustment procedures. The City is investigating alternatives to correct the situation.

Section III – Federal Award Findings and Questioned Costs

As of and for the year ended December 31, 2012, the City of Dunkirk, New York, we had five findings that were considered Federal Award Findings and Questioned Costs.

12-03 Inadequate Internal Controls over CDBG Grant Compliance

Condition: The City did not have an adequately designed system of internal controls to ensure compliance with U.S. Department of Housing and Urban Development (HUD) Title 1 Community Development Block Grant (CDBG) compliance requirements.

Criteria: The A-102 Common Rule in the Office of Management and Budget (OMB) Circular A-110 (2 CFR part 215) requires that non-federal entities receiving Federal awards establish and maintain a system of internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Compliance requirements are identified OMB A-133 compliance supplement circular.

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

Cause: The City has not developed, approved and implemented an adequate system of internal controls to reasonably ensure compliance with Federal laws, regulations and program compliance requirements for any of the affected compliance requirements.

Recommendation: The City should develop, approve and implement an adequate system of internal controls to reasonably ensure compliance with Federal laws, regulations and program compliance requirements for all of the affected compliance requirements. An adequate system of controls requires inclusion of the five component of internal controls: (1) a control environment that sets the tone of an organization influencing the control consciousness of all stakeholders, (2) risk assessment to identify and analyze risks relevant to the achievement of the program objectives, (3) control activities adequate to identify, prevent and correct errors and omission timely, (4) a system of information gathering and inter – and intra departmental communication and (5) control monitoring and re-evaluation.

Management's Response: The City has been working closely with U.S Department of Housing and Urban Development representatives, as well as their independent CDBG consultant to make certain that all necessary internal controls are in place and are being utilized to ensure compliance with grant requirements.

12-04 Insufficient Documentation of Facade Program Outcomes

Condition: The national objective met by the facade program, as reported by the City, was Low/moderate job creation (retained or created). The City's accounting and internal controls do not adequately monitor this requirement.

Criteria: Under Department of Housing and Urban Development (HUD) Uniform Administrative Requirements costs incurred must meet the following general criteria:

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards,
- Be authorized under State or local laws or regulations,
- Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items and,
- Be adequately documented.

Per Community Development Block Grant (CDBG) regulations 24 CFR sections 570.200 and 570.208, all activities undertaken must meet one of three national objectives of the CDBG Entitlement Grants program: (1) benefit low-and moderate-income persons, (2) prevent or eliminate slums or blight, or (3) meet community development needs having a particular urgency.

Effect: The City has not obtained or retained adequate documentation of facade program outcomes. Persistent noncompliance with compliance requirements may result in a penalty in the form of suspension or cessation of the program by the granting agency.

Cause: The City does not have an adequately designed system of controls necessary to ensure compliance with grant requirements.

Recommendation: Management should develop and implement formal written procedures to compile with grant requirements.

Management's Response: The City is working closely with the independent CDBG consultant to ensure that all past façade funds have been spent in accordance with grant requirements. As part of that work, monitoring has been completed on those activities, including job reporting, and the City is working with representatives from the U.S. Department of Housing and Urban Development to mitigate past concerns. Furthermore, the City has discontinued the façade program until all issues have been corrected.

12-05 Improper Disbursement of Facade Program Funding

Condition: The City awarded facade program recipients funding for improvements commenced and completed in 2010 and 2011, obligating future Community Development Block Grant funding to fulfill these program awards, and subsequently disbursed funds from its 2012 Funding Approval to satisfy the previously obligated façade program awards. In a letter dated August 16, 2011 from the City to one recipient, the City wrote: "the City of Dunkirk's 2011 CDBG grant allocation was cut roughly 80% ... A check will be made to you for 80% of what was promised you... your remaining balance will be received next year when 2012 CDBG monies are allocated." The recipient was notified of the original award in a letter from the City dated September 1, 2010. It was determined that three of the four recipients receiving \$5,894 of the \$7,494 2012 grant funds for façade improvements were payment made for obligations prior to the specified date of April, 4, 2012. We found no evidence that the pre-agreement costs were authorized by HUD regulations or waiver.

Criteria: The 2012 Funding Approval/Agreement (number B-12-MC-36-0014) between the U.S. Department of Housing and Urban Development (HUD) and the City of Dunkirk, NY states that "the funding assistance specified in the Funding Approval may be used to pay costs incurred after the specified date in item 4 (April 4, 2012) provided the activities to which such costs are related are carried out in compliance with all applicable requirements. Pre-agreement costs may not be paid with funding assistance specified here unless they are authorized in HUD regulations or approved by waiver and listed in the special conditions the Funding Approval".

Effect: The City is not in compliance with its Funding Approval/Agreement (number B-12-MC-36-0014) with the U.S. Department of Housing and Urban Development.

Cause: The City does not have an adequately designed system of controls necessary to ensure compliance with its funding agreement.

Recommendation: Management should develop and implement formal written procedures to comply with funding agreements.

Management's Response: The City is working with the U.S. Department of Housing and Urban Development, as well as the independent CDBG consultant to ensure compliance with all future CDBG programs. The City's 2012 Annual Action Plan did outline the City façade program. Due to the issues outlined by the U.S. Department of Housing and Urban Development in 2012, the City did not authorize new façade activities, instead only paying past obligations that could not be fulfilled in 2011. Due to issues with the program, the City has discontinued the façade program.

12-06 Inadequate Consolidation Annual Performance Evaluation Report (CAPER) Reporting

Condition: During our testing we determined that the City's most recent Activity Summary Report (PR03) reported accomplishments lacked supporting documentation. We also found that the City's Consolidated Annual Performance and Evaluation Report (CAPER) did not accurately report activity, lacked sufficient descriptions and required narrative detail to adequately assess the City's accomplishments and outcomes relevant to the administration of the Community Development Block Grant (CDBG), and reported accomplishments lacking sufficient supporting documentation.

Criteria: The Housing and Community Development Act (HCDA) of 1974 (as amended) at section 104(e) and implementing regulations at 24 CFR 570.491 and 24 CFR 91.520 require each grantee under the Community Development Block Grant (CDBG) Program to submit to the U.S. Department of Housing and Urban Development (HUD) a performance and evaluation report (PER) concerning the use of grant funds. The PER consists of two major components: (1) a financial summary showing the financial status of each grant and how spending complies with meeting national objective requirements and an Activity Summary providing a detailed listing of accomplishments for each activity funded under the grant, and (2) a narrative statement which addresses the use of the CDBG funds, their relationship to the priorities and objectives identified in the City's consolidated plan, and the results and outcomes of the activities supported by the investment of these funds as specified by 24 CFR 91.520.

Effect: The City is not in compliance with laws, regulations, and the provisions of 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, complete or timely reports. The lack of formal written procedures for compiling and disseminating the necessary data, and completing, reviewing and submitting required performance reports may have contributed to the failure to compile.

Recommendation: Management should develop and implement formal written procedures to compile with reporting requirements.

Management's Response: The City is working closely with the U.S. Department of Housing and Urban Development representatives, as well as the independent CDBG consultant to develop and implement policies and procedures to ensure future compliance with reporting requirements.

12-07 Inadequate Monitoring of Subrecipients

Condition: During the year ended December 31, 2012 the City did not have an adequate system of controls and procedures necessary to meet its obligations and responsibilities for sub-recipients monitoring.

Criteria: Per Community Development Block Grant (CDBG) regulations 24 CFR 570.501(b) the grantee is responsible for ensuring that CDBG funds are used in accordance with all program requirements, monitoring sub-recipient performance and taking appropriate actions when problems arise.

Effect: The City is not in compliance with laws, regulations, and the provisions of CDBG grant requirements. The City has not adequately monitored sub-recipient activity to ensure compliance with applicable Federal funding requirements or determine that program performance goals are being achieved. Failure to provide adequate sub-recipient monitoring may result in ineligible expenditures of federal grant funds and unallowable activities that may result in a penalty in the form of suspension or cessation of the program by the granting agency.

Cause: The City has not performed the stated corrective actions identified in the City's response to HUD. The City has not adopted or implemented a system of monitoring procedures necessary to ensure compliance with its monitoring obligations.

Recommendation: Formal written procedures should be developed and implemented to ensure the City is compliant with federal sub-recipient monitoring requirements. The Department of Housing and Urban Development provides a clear, extensive – yet easy to follow sub-recipient monitoring handbook (available on-line); we recommend that the City utilize this resource to develop a sub-recipient monitoring system.

Management's Response: The City is working with U.S. Department of Housing and Urban Development representatives, as well as the independent CDBG consultant to ensure that adequate sub-recipient monitoring is in place. The City has also begun simplifying the CDBG program so that the future of the program is not as complicated to maintain.

**CITY OF DUNKIRK, NEW YORK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2012**

- There were no prior year A-133 findings.

The City has been working closely with representatives from the U.S. Department of Housing and Urban Development to develop and implement policies and procedures to rectify the 2011 findings and questioned costs. Furthermore the City has contracted with a CDBG consultant whose knowledge and experience should help create policies and procedures that will ensure compliance with U.S. Department of Housing and Urban Development requirements.

CITY OF DUNKIRK, NEW YORK
SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED DECEMBER 31, 2012

PROGRAM TITLE	NYS DOT Contract Number	Expenditures
New York State Arterial Aid	N/A	\$ 143,724
Consolidated Highway Improvement Program (CHIPS)	N/A	-
Marchisell Reimbursement	N/A	<u>45,336</u>
TOTAL STATE TRANSPORTATION ASSISTANCE EXPENDED		<u><u>\$ 189,060</u></u>

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, 2012

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

May 30, 2013

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, 2012. 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, 2012.

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, 2012, and have issued our report thereon dated May 30, 2013. 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 & Associates, LLP

**CITY OF DUNKIRK, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED DECEMBER 31, 2012**

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

New York State Arterial Aid

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, 2012**

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