

CITY OF DUNKIRK, NEW YORK
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013

CITY OF DUNKIRK, NEW YORK
YEAR ENDED DECEMBER 31, 2013

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DUNKIRK CITY COUNCIL
YEAR ENDED DECEMBER 31, 2013

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



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

May 30, 2014

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, 2013, 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 85.9 percent, 85.1 percent and 75.0 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, 2013, 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 46 through 49 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, 2014, 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, 2013**

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, 2013. 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 \$225,657 budgetary surplus for the year ended December 31, 2013 as shown on page 46. This amount compares to a budgetary surplus of \$422,591 for the year ended December 31, 2012.
- The General Fund reported an operating surplus of \$29,534 for the current year as compared to an operating surplus of \$413,975 for 2012.
- The Water Fund had an operating deficit of \$153,139 for the current year as compared with an operating surplus of \$156,902 for 2012. The upgrades and repairs to the water filtration plant and water infrastructure mandated by Chautauqua County continued throughout 2013. Water rates were adjusted for 2013 to meet increased costs associated with this project.
- The Wastewater Treatment Fund had an operating deficit of \$51,162 for 2013 as compared with an operating surplus of \$663,234 for 2012.
- The City's net position increased by \$1,076,586 as a result of the activity for the year ended December 31, 2013 as compared to an increase of approximately \$1,257,702 as a result of 2012 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 14 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 \$16.989 million from \$15.913 million for the year ended December 31, 2013. This is a result of an operational surplus of \$1.076 million. This compares to an increase for the year ended December 31, 2012 of approximately \$1.258 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	
	2013	2012	2013	2012	2013	2012
Assets						
Current assets	\$ 13,192	\$ 10,138	\$ -	\$ -	\$ 13,192	\$ 10,138
Capital assets	29,195	27,313	-	-	29,195	27,313
Total assets	<u>\$ 42,387</u>	<u>\$ 37,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,387</u>	<u>\$ 37,451</u>
Liabilities						
Current liabilities	\$ 16,719	\$ 13,193	\$ -	\$ -	\$ 16,719	\$ 13,193
Long-term portion of obligations	8,679	8,345	-	-	8,679	8,345
Total liabilities	<u>\$ 25,398</u>	<u>\$ 21,538</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,398</u>	<u>\$ 21,538</u>
Net Position						
Invested in capital assets, net of related debt	\$ 11,310	\$ 13,054	\$ -	\$ -	\$ 11,310	\$ 13,054
Restricted	2,109	2,263	-	-	2,109	2,263
Unrestricted	3,570	596	-	-	3,570	596
Total net position	<u>\$ 16,989</u>	<u>\$ 15,913</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,989</u>	<u>\$ 15,913</u>

Table 2
Changes in Net Position
(In Thousands)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
<u>Revenues</u>						
Program revenues						
Charges for services	\$ 7,618	\$ 7,943	\$ -	\$ -	\$ 7,618	\$ 7,943
Operating grants and contributions	903	800	-	-	903	800
Capital grants and contributions	612	186	-	-	612	186
General revenues						
Property taxes	4,831	4,695	-	-	4,831	4,695
Sales tax	2,333	2,334	-	-	2,333	2,334
PILOT payments	2,957	3,684	-	-	2,957	3,684
Investment earnings	102	97	-	-	102	97
Miscellaneous	2,767	2,264	-	-	2,767	2,264
Total revenues	<u>22,123</u>	<u>22,003</u>	<u>-</u>	<u>-</u>	<u>22,123</u>	<u>22,003</u>
<u>Program expenses</u>						
Council	61	62	-	-	61	62
Mayor	162	163	-	-	162	163
Financial	500	538	-	-	500	538
Staff	888	842	-	-	888	842
Shared services	740	650	-	-	740	650
Special items	966	439	-	-	966	439
Police department	5,134	4,999	-	-	5,134	4,999
Fire department	3,348	3,216	-	-	3,348	3,216
Other public safety	288	328	-	-	288	328
Transportation	1,469	1,579	-	-	1,469	1,579
Economic assistance and opportunity	55	40	-	-	55	40
Culture and recreation	953	1,090	-	-	953	1,090
Water treatment	2,350	2,371	-	-	2,350	2,371
Wastewater treatment	2,686	2,938	-	-	2,686	2,938
Home and community service	1,063	1,207	-	-	1,063	1,207
Interest on long-term debt	384	283	-	-	384	283
Total expenses	<u>21,047</u>	<u>20,745</u>	<u>-</u>	<u>-</u>	<u>21,047</u>	<u>20,745</u>
Increase in net position	<u>\$ 1,076</u>	<u>\$ 1,258</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,076</u>	<u>\$ 1,258</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	
	2013	2012	2013	2012
Police department	\$ 5,134	\$ 4,999	\$ 4,751	\$4,614
Fire department	3,348	3,216	3,348	3,216
Transportation	1,469	1,579	413	1,246
Water treatment	2,350	2,371	(307)	223
Wastewater treatment	<u>2,686</u>	<u>2,939</u>	<u>(1,053)</u>	<u>(1,230)</u>
Totals	<u>\$ 14,987</u>	<u>\$ 15,104</u>	<u>\$ 7,152</u>	<u>\$ 8,069</u>

THE CITY'S FUNDS

General Governmental Functions

As the City completed the year, its governmental funds (as presented on page 14) reported a combined fund deficit of \$2.83 million which reflects an increase of \$0.80 million from last year's total of \$2.03 million. During 2013, the City's capital expenditures exceed its related revenues by approximately \$0.62 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

The significant variances between the originally adopted budgets for 2013 and 2012 and the final budget are detailed as follows:

	2013	2012
Original budget	\$ 15,092,713	\$ 14,783,817
Additional appropriations	177,371	24,360
Encumbrance carryover	<u>350,439</u>	<u>359,055</u>
Final Budget	<u>\$ 15,620,523</u>	<u>\$ 15,167,232</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2013, the City had \$29.195 million (net of accumulated depreciation) in a broad range of capital assets including land, buildings, water mains, sewer lines, roads, sidewalks, machinery and equipment. This represents a net increase of approximately \$1.881 million for the year.

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

	Governmental Activities		Business - Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Land and improvements	\$ 151	\$ 151	\$ -	\$ -	\$ 151	\$ 151
Construction in progress	22,540	20,260	-	-	22,540	20,260
Infrastructure	34,704	34,704	-	-	34,704	34,704
Buildings and improvements	12,417	12,416	-	-	12,417	12,416
Machinery and equipment	16,786	16,320	-	-	16,786	16,320
Accumulated depreciation	<u>(57,403)</u>	<u>(56,537)</u>	<u>-</u>	<u>-</u>	<u>(57,403)</u>	<u>(56,537)</u>
Total	<u>\$ 29,195</u>	<u>\$ 27,314</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,195</u>	<u>\$ 27,314</u>

Debt

At year end, the City had \$17.885 million in bonds and notes outstanding as compared to \$14.260 million outstanding at December 31, 2012. See Note 8 on pages 37 through 42 for additional details).

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

	Governmental Activities		Business - Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ 5,185	\$ 5,005	\$ -	\$ -	\$ 5,185	\$ 5,005
Bond anticipation notes	\$ 12,700	\$ 9,255	\$ -	\$ -	\$ 12,700	\$ 9,255

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2014 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 2013. The taxable valuation remained relatively constant at approximately \$279,201 million for 2013.

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 (caused primarily by a decrease in customer usage) 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 2014. In developing the 2014 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 2014. 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 (A+ from Standard & Poor's), and the City does not anticipate cash flow problems in 2014 and 2015.

The City increased water rates effective with the first quarterly billing of 2013 and also the first quarter billing of 2014 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, 2013

	PRIMARY GOVERNMENT			Component Units
	Governmental Activities	Business-type Activities	Total	
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 9,062,172	\$ -	\$ 9,062,172	\$ 819,414
Investments	-	-	-	441,859
Receivables (net, where applicable of allowances for estimated uncollectibles)				
Taxes	436,062	-	436,062	-
Accounts receivable	1,608,673	-	1,608,673	37,145
Due from fiduciary funds	474,605	-	474,605	-
Due from other governments	1,610,249	-	1,610,249	10,443
Prepaid expenses	-	-	-	31,707
Other assets	-	-	-	36,851
Total current assets	13,191,761	-	13,191,761	1,377,419
NONCURRENT ASSETS:				
Capital assets:				
Land and improvements	151,155	-	151,155	1,257,808
Construction in progress	22,540,326	-	22,540,326	-
Infrastructure	34,704,071	-	34,704,071	-
Buildings and improvements	12,416,999	-	12,416,999	14,507,683
Machinery and equipment	16,785,858	-	16,785,858	1,170,361
Accumulated depreciation	(57,403,336)	-	(57,403,336)	(10,900,245)
Total noncurrent assets	29,195,073	-	29,195,073	6,035,607
TOTAL ASSETS	\$ 42,386,834	\$ -	\$ 42,386,834	\$ 7,413,026

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:

Accounts payable
Accrued liabilities
Accrued interest payable
Due to other governments
Bond anticipation notes payable
Deferred revenue
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					Component Units		
Governmental Activities	Business-type Activities	Total					
\$	2,020,258	\$	-	\$	2,020,258	\$	31,574
	336,878		-		336,878		18,390
	163,434		-		163,434		-
	933,250		-		933,250		64,867
	12,700,000		-		12,700,000		-
	-		-		-		54,433
	565,000		-		565,000		21,657
	16,718,820		-		16,718,820		190,921
	8,678,791		-		8,678,791		194,013
	25,397,611		-		25,397,611		384,934
	11,310,073		-		11,310,073		6,035,607
	370,898		-		370,898		-
	483,985		-		483,985		-
	516,033		-		516,033		-
	428,284		-		428,284		-
	309,512		-		309,512		-
	-		-		-		148,652
	3,570,438		-		3,570,438		843,833
	16,989,223		-		16,989,223		7,028,092
\$	42,386,834	\$	-	\$	42,386,834	\$	7,413,026

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			
					PRIMARY GOVERNMENT			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Primary government:								
Governmental activities:								
Council	\$ 60,733	\$ -	\$ -	\$ -	\$ (60,733)	\$ -	\$ (60,733)	\$ -
Mayor	161,919	-	-	-	(161,919)	-	(161,919)	-
Financial	499,602	-	-	-	(499,602)	-	(499,602)	-
Staff	887,695	145,957	-	-	(741,738)	-	(741,738)	-
Shared services	739,502	80,739	5,540	-	(653,223)	-	(653,223)	-
Special items	966,162	-	-	-	(966,162)	-	(966,162)	-
Police department	5,133,596	-	-	-	(4,750,979)	-	(4,750,979)	-
Fire department	3,348,159	-	382,617	-	(3,348,159)	-	(3,348,159)	-
Other public safety	288,189	117,030	-	-	(171,159)	-	(171,159)	-
Transportation	1,469,268	3,017	440,758	612,426	(413,067)	-	(413,067)	-
Economic assistance and opportunity	54,903	3,500	-	-	(51,403)	-	(51,403)	-
Culture and recreation	953,040	105,735	39,806	-	(807,499)	-	(807,499)	-
Water treatment	2,350,374	2,656,979	-	-	306,605	-	306,605	-
Wastewater treatment	2,686,083	3,739,373	-	-	1,053,290	-	1,053,290	-
Home and community service	1,063,158	765,203	34,061	-	(263,894)	-	(263,894)	-
Interest on long-term debt	384,446	-	-	-	(384,446)	-	(384,446)	-
Total governmental activities	21,046,829	7,617,533	902,782	612,426	(11,914,088)	-	(11,914,088)	-
Total business-type activities	-	-	-	-	-	-	-	-
Total primary government	\$ 21,046,829	\$ 7,617,533	\$ 902,782	\$ 612,426	(11,914,088)	-	(11,914,088)	-
Component units								
Dunkirk Free Library	\$ 252,343	\$ 28,173	\$ 28,110	\$ -	-	-	-	(196,060)
City of Dunkirk Industrial Development Agency	48	19,030	-	-	-	-	-	18,982
Dunkirk Housing Authority	1,865,185	810,638	352,722	137,526	-	-	-	(564,299)
Total component units	\$ 2,117,576	\$ 857,841	\$ 380,832	\$ 137,526	-	-	-	(741,377)
General revenues:								
Taxes:								
Property taxes					4,831,502	-	4,831,502	-
Sales taxes					2,332,859	-	2,332,859	-
PILOT payments					2,956,607	-	2,956,607	-
Payment from City of Dunkirk, New York					-	-	-	135,000
Grants and contributions not restricted to specific programs					-	-	-	10,000
Investment earnings					9,997	-	9,997	25,414
Premium on obligations					91,942	-	91,942	-
Miscellaneous					2,767,767	-	2,767,767	2,099
Gain on sale of capital assets					-	-	-	2,506
Total general revenues, special items and transfers					12,990,674	-	12,990,674	175,019
Change in net position					1,076,586	-	1,076,586	(566,358)
NET POSITION - beginning					15,912,637	-	15,912,637	7,594,450
NET POSITION - ending					\$ 16,989,223	\$ -	\$ 16,989,223	\$ 7,028,092

See notes to financial statements.
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CITY OF DUNKIRK, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	General Fund	Water Fund	Wastewater Treatment Fund	Special Grant Fund	Capital Projects Fund	Total Governmental Funds
<u>ASSETS</u>						
Cash and cash equivalents	\$ 3,669,073	\$ 152,166	\$ 545,062	\$ 2,451	\$ 4,693,420	\$ 9,062,172
Receivables, net						
Taxes	436,062	-	-	-	-	436,062
Accounts receivable	448,047	450,404	710,222	-	-	1,608,673
Due from other governments	1,027,326	-	-	-	582,923	1,610,249
Due from other funds	4,056,641	217,456	406,704	68,798	495,974	5,245,573
TOTAL ASSETS	\$ 9,637,149	\$ 820,026	\$ 1,661,988	\$ 71,249	\$ 5,772,317	\$ 17,962,729
<u>LIABILITIES AND FUND BALANCES</u>						
LIABILITIES:						
Accounts payable	\$ 1,620,641	\$ 169,734	\$ 229,866	\$ -	\$ 17	\$ 2,020,258
Accrued liabilities	254,864	48,594	33,420	-	-	336,878
Due to other governments	933,250	-	-	-	-	933,250
Due to other funds	593,765	1,259,312	1,846,403	879	1,070,609	4,770,968
Bond anticipation notes payable	-	-	-	-	12,700,000	12,700,000
Deferred revenue	28,543	-	-	-	-	28,543
TOTAL LIABILITIES	3,431,063	1,477,640	2,109,689	879	13,770,626	20,789,897
FUND BALANCES:						
Reserved for:						
Tax stabilization	483,985	-	-	-	-	483,985
Other fund activities	-	-	-	70,370	-	70,370
Encumbrances	-	42,549	66,153	-	-	108,702
Assigned for:						
Capital equipment	370,898	-	-	-	-	370,898
Street improvements	428,284	-	-	-	-	428,284
Employee benefits	516,033	-	-	-	-	516,033
Encumbrances	200,810	-	-	-	-	200,810
Unassigned:						
Unassigned	4,206,076	(700,163)	(513,854)	-	(7,998,309)	(5,006,250)
TOTAL FUND BALANCES	6,206,086	(657,614)	(447,701)	70,370	(7,998,309)	(2,827,168)
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,637,149	\$ 820,026	\$ 1,661,988	\$ 71,249	\$ 5,772,317	\$ 17,962,729

CITY OF DUNKIRK, NEW YORK
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

Fund balances - total governmental funds		\$ (2,827,168)
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	22,540,326	
Infrastructure, net of \$32,389,106 accumulated depreciation	2,314,965	
Buildings and improvements, net of \$10,360,016 accumulated depreciation	2,056,983	
Equipment, net of \$14,654,214 accumulated depreciation	<u>2,131,644</u>	29,195,073
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 \$9,243,791 and accrued interest payable on long-term and short-term liabilities amounted to \$163,434.		(9,407,225)
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>28,543</u>
Net position of governmental activities		<u>\$ 16,989,223</u>

CITY OF DUNKIRK, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013

	General Fund	Water Fund	Wastewater Treatment Fund	Special Grant Fund	Capital Projects Fund	TOTAL Governmental Funds
REVENUES:						
Real property taxes	\$ 4,831,502	\$ -	\$ -	\$ -	\$ -	\$ 4,831,502
Sales tax	2,332,859	-	-	-	-	2,332,859
Property tax items	2,980,797	-	-	-	-	2,980,797
Non-property tax items	315,421	-	-	-	-	315,421
Departmental income	1,563,070	2,656,979	3,652,530	-	-	7,872,579
Shared services	408,403	-	-	-	-	408,403
Use of money and property	63,245	-	-	-	5,890	69,135
Licenses and permits	40,653	-	-	-	-	40,653
Fines and forfeitures	135,917	-	86,845	-	-	222,762
Sale of property and compensation for loss	19,486	8,827	-	-	-	28,313
Miscellaneous	83,428	16,357	12,149	-	-	111,934
State aid	2,155,901	-	-	-	331,571	2,487,472
Federal aid	-	-	-	34,061	280,856	314,917
Total revenues	14,930,682	2,682,163	3,751,524	34,061	618,317	22,016,747
EXPENDITURES:						
Current:						
Council	38,949	-	-	-	-	38,949
Mayor	103,133	-	-	-	-	103,133
Financial	343,976	-	-	-	-	343,976
Staff	574,771	-	-	-	-	574,771
Shared services	612,009	-	-	-	-	612,009
Special items	224,955	378,960	362,247	-	-	966,162
Police department	3,362,512	-	-	-	-	3,362,512
Fire department	2,148,611	-	-	-	-	2,148,611
Other public safety	225,344	-	-	-	-	225,344
Transportation	1,051,570	-	-	-	-	1,051,570
Economic assistance and opportunity	50,370	-	-	-	-	50,370
Culture and recreation	676,937	-	-	-	-	676,937
Home and community service	793,232	1,615,543	2,199,227	33,060	-	4,641,062
Employee benefits	4,620,579	537,022	517,129	-	-	5,674,730
Debt service:						
Principal	55,000	161,500	550,000	-	-	766,500
Interest	19,200	142,277	174,083	-	-	335,560
Capital outlay	-	-	-	-	2,280,160	2,280,160
Total expenditures	14,901,148	2,835,302	3,802,686	33,060	2,280,160	23,852,356
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	29,534	(153,139)	(51,162)	1,001	(1,661,843)	(1,835,609)
OTHER FINANCING SOURCES:						
Premium on obligations	-	-	-	-	91,942	91,942
Proceeds of obligations	-	-	-	-	785,000	785,000
BANs redeemed from appropriations	-	-	-	-	161,500	161,500
Total other financing sources	-	-	-	-	1,038,442	1,038,442
NET CHANGE IN FUND BALANCES	29,534	(153,139)	(51,162)	1,001	(623,401)	(797,167)
FUND BALANCES (DEFICIT) - beginning	6,176,552	(504,475)	(396,539)	69,369	(7,374,908)	(2,030,001)
FUND BALANCES (DEFICIT) - ending	\$ 6,206,086	\$ (667,614)	\$ (447,701)	\$ 70,370	\$ (7,998,309)	\$ (2,827,168)

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, 2013

Net change in fund balances - total governmental funds	\$ (797,167)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlays (\$2,747,248) exceeded depreciation (\$865,756) in the current period.	
	1,881,492
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 \$14,726.	
	14,726
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 proceeds (\$785,000) exceeded repayments (\$605,000) in the current period.	
	(180,000)
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 decrease in compensated absences of \$206,421 and the increase in accrued interest of \$48,886.	
	<u>157,535</u>
Change in net position of governmental activities	\$ <u>1,076,586</u>

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
BALANCE SHEET
PROPRIETARY FUNDS
DECEMBER 31, 2013

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

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, 2013

	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, 2013

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

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2013

	<u>Agency Funds</u>	<u>Trust Funds</u>	<u>Total</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 449,478	\$ 93,081	\$ 542,559
Other assets	78,420	-	78,420
Due from other funds	<u>32</u>	<u>-</u>	<u>32</u>
TOTAL ASSETS	<u>\$ 527,930</u>	<u>\$ 93,081</u>	<u>\$ 621,011</u>
<u>LIABILITIES</u>			
CURRENT LIABILITIES:			
Accounts payable	\$ 59,292	\$ -	\$ 59,292
Due to other funds	<u>468,638</u>	<u>6,000</u>	<u>474,638</u>
TOTAL LIABILITIES	<u>527,930</u>	<u>6,000</u>	<u>533,930</u>
<u>NET POSITION</u>			
Net position held in trust	<u>-</u>	<u>87,081</u>	<u>87,081</u>
TOTAL NET POSITION	<u>-</u>	<u>87,081</u>	<u>87,081</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 527,930</u>	<u>\$ 93,081</u>	<u>\$ 621,011</u>

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2013

	<u>Trust Funds</u>
<u>ADDITIONS</u>	
Investment earnings	\$ 79
TOTAL ADDITIONS	<u>79</u>
<u>DEDUCTIONS</u>	
Transfer to General Fund for Culture and recreation expenditures	<u>-</u>
TOTAL DEDUCTIONS	<u>-</u>
CHANGE IN NET POSITION	79
NET POSITION HELD IN TRUST	
BEGINNING OF YEAR	<u>87,002</u>
END OF YEAR	<u>\$ 87,081</u>

See notes to financial statements.

**CITY OF DUNKIRK, NEW YORK
STATEMENT OF NET POSITION
COMPONENT UNITS
DECEMBER 31, 2013**

	<u>Dunkirk Free Library</u>	<u>City of Dunkirk Housing Authority</u>	<u>Dunkirk Urban Renewal Agency</u>	<u>City of Dunkirk Industrial Development Agency</u>	<u>Total</u>
<u>ASSETS</u>					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 268,845	\$ 549,520	\$ -	\$ 1,049	\$ 819,414
Investments	-	441,859	-	-	441,859
Accounts receivable	-	19,115	-	18,030	37,145
Due from other governments	-	10,443	-	-	10,443
Prepaid expenses	-	31,707	-	-	31,707
Other assets	14,432	22,419	-	-	36,851
Total current assets	283,277	1,075,063	-	19,079	1,377,419
NONCURRENT ASSETS:					
Capital assets:					
Land and improvements	-	1,257,808	-	-	1,257,808
Buildings and improvements	798,330	13,709,353	-	-	14,507,683
Machinery and equipment	245,367	924,994	-	-	1,170,361
Accumulated depreciation	(297,510)	(10,602,735)	-	-	(10,900,245)
Total noncurrent assets	746,187	5,289,420	-	-	6,035,607
TOTAL ASSETS	\$ 1,029,464	\$ 6,364,483	\$ -	\$ 19,079	\$ 7,413,026
<u>LIABILITIES AND NET POSITION</u>					
CURRENT LIABILITIES:					
Accounts payable	\$ -	\$ 31,574	\$ -	\$ -	\$ 31,574
Due to other governments	-	64,867	-	-	64,867
Deferred revenue	-	54,433	-	-	54,433
Other current liabilities	-	18,186	-	204	18,390
Current portion of long-term obligations	-	21,557	-	100	21,657
Total current liabilities	-	190,617	-	304	190,921
NONCURRENT LIABILITIES:					
Noncurrent portion of long-term obligations	-	194,013	-	-	194,013
TOTAL LIABILITIES	-	384,630	-	304	384,934
NET POSITION					
Invested in capital assets, net of related debt	746,187	5,289,420	-	-	6,035,607
Restricted	148,652	-	-	-	148,652
Unrestricted	134,625	690,433	-	18,775	843,833
TOTAL NET POSITION	1,029,464	5,979,853	-	18,775	7,028,092
TOTAL LIABILITIES AND NET POSITION	\$ 1,029,464	\$ 6,364,483	\$ -	\$ 19,079	\$ 7,413,026

See notes to financial statements.

CITY OF DUNKIRK, NEW YORK
STATEMENT OF ACTIVITIES
COMPONENT UNITS
YEAR ENDED DECEMBER 31, 2013

	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	\$ 252,343	\$ 28,173	\$ 28,110	\$ -	\$ (196,060)	\$ -	\$ (196,060)
Total governmental activities	252,343	28,173	28,110	-	(196,060)	-	(196,060)
Business-type activities:							
Dunkirk Urban Renewal Agency	-	-	-	-	-	-	-
City of Dunkirk Housing Authority	1,865,185	810,638	352,722	137,526	-	(564,299)	(564,299)
City of Dunkirk Industrial Development Agency	48	19,030	-	-	-	18,982	18,982
Total business-type activities	1,865,233	829,668	352,722	137,526	-	(545,317)	(545,317)
Total component units	\$ 2,117,576	\$ 857,841	\$ 380,832	\$ 137,526	\$ (196,060)	\$ (545,317)	\$ (741,377)
General revenues:							
Payment from City of Dunkirk, New York					135,000	-	135,000
Grants and contributions not restricted to specific programs					10,000	-	10,000
Investment earnings					23,499	1,915	25,414
Sale of equipment					-	2,506	2,506
Miscellaneous					2,063	36	2,099
Total general revenues, special items and transfers					170,562	4,457	175,019
Change in net position					(25,498)	(540,860)	(566,358)
NET POSITION - beginning					1,054,962	6,539,488	7,594,450
NET POSITION - ending					\$ 1,029,464	\$ 5,998,628	\$ 7,028,092

General revenues:

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

Total general revenues, special items and transfers

Change in net position

NET POSITION - beginning

NET POSITION - ending

CITY OF DUNKIRK, NEW YORK
STATEMENT OF CASH FLOWS
COMPONENT UNITS - PROPRIETARY FUND TYPES
YEAR ENDED DECEMBER 31, 2013

	Business-type Activities Enterprise Funds			Total
	Dunkirk Urban Renewal Agency	City of Dunkirk Housing Authority	City of Dunkirk Industrial Development Agency	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from charges and fees	\$ -	\$ 657,238	\$ 1,000	\$ 658,238
Receipts from operating grants	-	347,279	-	347,279
Payments to suppliers	-	(649,638)	(28)	(649,666)
Payments from other governments	-	5,864	-	5,864
Payments to employees	-	(627,325)	-	(627,325)
Payments from other funds	-	591	-	591
Other receipts	-	163,449	36	163,485
Net cash provided (used) by operating activities	-	(102,742)	1,008	(101,734)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital grants received	-	137,526	-	137,526
Acquisition and modernization of capital assets	-	(166,882)	-	(166,882)
Mold remediation	-	(69,019)	-	(69,019)
Proceeds from disposition of assets	-	2,506	-	2,506
Net cash used by capital and related financing activities	-	(95,869)	-	(95,869)
CASH FLOWS FROM INVESTING ACTIVITIES -				
Proceeds from sale of investments	-	223,627	-	223,627
Interest income received	-	1,915	-	1,915
Net cash provided by investing activities	-	225,542	-	225,542
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	26,931	1,008	27,939
CASH AND CASH EQUIVALENTS - beginning	-	522,689	41	522,630
CASH AND CASH EQUIVALENTS - ending	\$ -	\$ 549,520	\$ 1,049	\$ 550,569
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ -	\$ (701,825)	\$ 19,038	\$ (682,787)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	-	602,942	-	602,942
Change in assets and liabilities:				
Accounts receivable	-	(5,825)	(18,030)	(23,855)
Due from other governments	-	(5,443)	-	(5,443)
Due from other funds	-	591	-	591
Prepaid expenses	-	1,402	-	1,402
Accounts payable	-	(17,152)	-	(17,152)
Due to other funds	-	(591)	-	(591)
Other current liabilities	-	23,159	-	23,159
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ -	\$ (102,742)	\$ 1,008	\$ (101,734)

**CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013**

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, 2013.

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, 2013
(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, 2013
(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, 2013 are listed in Note 5. 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, 2013
(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 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, 2013
(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, 2013
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets and Budgetary Accounting, continued

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

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

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

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

	<u>General Fund</u>	<u>Water Fund</u>	<u>Wastewater Treatment Fund</u>
GAAP Basis:			
Fund Balances (Deficit) - 12/31/13	\$6,206,086	(\$657,614)	(\$447,701)
Deduct outstanding encumbrances	<u>200,810</u>	<u>42,549</u>	<u>66,153</u>
Budgetary Basis:			
Fund Balances (Deficit) - 12/31/13	<u>\$6,005,276</u>	<u>(\$700,163)</u>	<u>(\$513,854)</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, 2013
(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 \$350,439; \$24,432 and \$50,975 in the General, Water and Wastewater Treatment Funds, respectively. During the year ended December 31, 2013, supplemental appropriations (including the prior year encumbrances) of \$527,810; \$256,932 and \$48,273 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, 2013
(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.

K. Accounting and Reporting Changes

During November 2010, GASB issued Statement No. 61 - *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, effective for the year ending December 31, 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The City implemented Statement No. 61, effective for the fiscal year ending December 31, 2013, with retroactive application for the fiscal year ended December 31, 2012. The adoption of Statement No. 61 had no effect on the City's financial statements.

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

During March 2012, GASB issued Statement No. 65 - *Items Previously Reported as Assets and Liabilities*, effective for the year ending December 31, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The City implemented Statement No. 65, effective for the fiscal year ending December 31, 2013, with retroactive application for the fiscal year ended December 31, 2012. The adoption of Statement No. 65 had no effect on the City's financial statements.

In March 2012, GASB issued GASB Statement No. 66 - *Technical Corrections - 2012 - an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The City implemented Statement No. 66, effective for the fiscal year ending December 31, 2013, with retroactive application for the fiscal year ended December 31, 2012. The adoption of Statement No. 66 had no effect on the City's financial statements.

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. 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; GASB Statement No. 70 - *Accounting and Financial Reporting for Nonexchanges Financial Guarantees*, effective for the year ending December 31, 2014 and GASB Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective for the year ending December 31, 2015.

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, 2013, the Capital Project Fund had a deficit fund balance in the amount of \$7,998,309. 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.

CITY OF DUNKIRK, NEW YORK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY (CONTINUED)

At December 31, 2013, the Water Fund had a deficit fund balance in the amount of \$657,614. 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, 2013, the Wastewater Fund had a deficit fund balance in the amount of \$447,701. 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.

NOTE 3 - CASH AND INVESTMENTS

The detail of cash and cash equivalents at December 31, 2013 is as follows:

	Carrying Amount
Petty cash	\$ 1,400
Deposits (checking account)	2,974,287
Cash and cash equivalents (savings and CDs)	6,629,044
Total	<u>\$ 9,604,731</u>

Cash and cash equivalents maintained by the City at December 31, 2013 consist of:

	Amount
Government activities	\$ 9,062,172
Fiduciary activities	542,559
Total	<u>\$ 9,604,731</u>

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

	Bank Balance
Insured (FDIC)	\$ 500,000
Uninsured	-
Collateral held by bank's agent in City's name	9,450,676
Total deposits	<u>\$ 9,950,676</u>

At December 31, 2013, 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:

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

NOTE 3 - CASH AND INVESTMENTS, CONTINUED

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

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

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

NOTE 4 - PROPERTY TAX

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

Tax rates are calculated using assessments prepared by City Assessors as adjusted by the New York State Board of Equalization and Assessment for the purpose of comparability. The total taxable assessed value of real property included in the tax levy of 2013 was approximately \$279 million. The effective tax rate on this value is approximately \$17.30 per thousand. The statutory maximum tax rate is 2.0% of the 5-year average of the equalized assessment. The 2013 levy represents approximately 65.33% of the maximum statutory levy.

The City constitutional tax limit for the fiscal year ended December 31, 2013 is computed as follows:

Five year Average Full Valuation of Taxable Real Estate (2009 - 2013)	<u>\$ 317,318,734</u>
Tax limit @ 2.0%	<u>\$ 6,346,375</u>
Total Tax Levy	4,830,639
Less: Exclusions	<u>1,099,360</u>
Total Levy Subject to Tax Limit	<u>3,731,279</u>
Tax Margin	<u>\$ 2,615,096</u>

NOTE 5 - RECEIVABLES

Revenues accrued by the City consist of the following:

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

Funds:

General Fund	\$ 448,047
Water Fund	450,404
Wastewater Fund	<u>710,222</u>
Total	<u>\$ 1,608,673</u>

B.

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

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

NOTE 5 - RECEIVABLES (CONTINUED)

Amounts accrued at December 31, 2013 are comprised of:

State and Federal Receivables	
General Fund	\$ 457,773
Capital Projects Fund	582,923
Total state and federal receivables	<u>1,040,696</u>
Other Government Receivables	
General Fund	569,553
Total other government receivables	<u>569,553</u>
 Total due from other governments	 <u>\$ 1,610,249</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 151,155	\$ -	\$ -	\$ 151,155
Construction in progress	20,260,166	2,280,160	-	22,540,326
Total capital assets not being depreciated	<u>20,411,321</u>	<u>2,280,160</u>	<u>-</u>	<u>22,691,481</u>
Capital assets being depreciated:				
Infrastructures	34,704,071	-	-	34,704,071
Buildings and improvements	12,415,511	1,488	-	12,416,999
Machinery and equipment	16,320,258	465,600	-	16,785,858
Total capital assets being depreciated	<u>63,439,840</u>	<u>467,088</u>	<u>-</u>	<u>63,906,928</u>
Less accumulated depreciation for:				
Infrastructures	32,270,014	119,092	-	32,389,106
Buildings and improvements	10,142,704	217,312	-	10,360,016
Machinery and equipment	14,124,862	529,352	-	14,654,214
Total accumulated depreciation	<u>56,537,580</u>	<u>865,756</u>	<u>-</u>	<u>57,403,336</u>
Total capital assets being depreciated, net	<u>6,902,260</u>	<u>(398,668)</u>	<u>-</u>	<u>6,503,592</u>
Governmental activities capital assets, net	<u>\$ 27,313,581</u>	<u>\$ 1,881,492</u>	<u>\$ -</u>	<u>\$ 29,195,073</u>

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the governmental functions as follows:

Shared services	\$ 12,724
Police department	28,457
Fire department	101,886
Transportation	250,759
Culture and recreation	24,581
Water department	216,547
Wastewater department	229,009
Other home and community service	1,793
	<hr/>
Total depreciation expense	\$ 865,756

NOTE 7 - LIABILITIES

A. Pension Plans

a.) Plan Description

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

b.) Funding Policy

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

	ERS	PFRS
	<hr/>	<hr/>
2013	\$ 855,082	\$ 1,389,150
2012	748,408	1,110,364
2011	695,813	1,054,636

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 February 1, 2014, however the City did not make the payments until February 5, 2014 and incurred additional interest costs.

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

NOTE 7 - 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, 2013, the City contributed \$23,779, or 72.25%, 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	\$ 34,723
Interest on net OPEB obligation	(1,810)
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	32,913
Contribution made	<u>(23,779)</u>
Increase in net OPEB obligation	9,134
Net OPEB obligation - beginning of year	<u>10,844</u>
Net OPEB obligation - end of year	<u><u>\$ 19,978</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (prepayment) for 2013 is as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2011	\$ 21,923	107.49%	\$ (221)
12/31/2012	36,455	69.67%	10,844
12/31/2013	32,913	72.25%	19,978

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

NOTE 7 - LIABILITIES (CONTINUED)

B. Postemployment Benefits Other Than Pensions, continued

d.) Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the funded status of the Retiree Health Plan was as follows:

Actuarial accrued liability (AAL)	\$ 140,546
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 140,546</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, 2013 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, 2013
(Continued)

NOTE 7 - LIABILITIES (CONTINUED)

The following is an analysis of outstanding BANs at December 31, 2013:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Capital projects	Wastewater filtration plant	\$ 8,300,000	3/27/2014	1.50%
Capital projects	Wastewater filtration plant	4,400,000	5/22/2014	1.25%
		<u>\$ 12,700,000</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, 2013, 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, 2013, 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, 2013 is computed as follows:

Five-Year Average Full Valuation of Taxable Real Estate (2008 - 2012)	<u>\$ 353,119,762</u>
Debt Limit @ 7%	\$ 24,718,383
Net Indebtedness (after statutory exclusions)	<u>540,000</u>
Net Debt Contracting Margin	<u>\$ 24,178,383</u>
Percentage of Debt Contracting Power Exhausted	<u>2.18%</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, 2013
(Continued)

NOTE 7 - 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 01/01/2013	Increases	Decreases	Balance 12/31/2013
Serial bonds	\$ 5,005,000	\$ 785,000	\$ 605,000	\$ 5,185,000
Compensated absences	4,265,212	-	206,421	4,058,791
	<u>\$ 9,270,212</u>	<u>\$ 785,000</u>	<u>\$ 811,421</u>	<u>\$ 9,243,791</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 12/31/2013
Public improvement Boardwalk Market	11/10/2011	11/1/2021	2.50 - 3.75%	650,000	\$ 540,000
Water treatment plant renovation	9/1/2008	5/1/2033	4.25 - 4.75%	4,539,000	3,740,000
Water treatment plant renovation	4/4/2010	5/1/2015	2.69%	280,000	120,000
Public improvement Water Meters	3/28/2013	3/15/2033	3.375 - 4.00%	785,000	785,000
					<u>\$ 5,185,000</u>

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

NOTE 7 - 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, 2013:

YEAR ENDING DECEMBER 31,	Serial Bonds	
	Principal	Interest
2014	\$ 315,000	\$ 210,402
2015	315,000	199,113
2016	260,000	188,481
2017	260,000	178,506
2018	265,000	168,369
2019 - 2023	1,320,000	673,275
2024 - 2028	1,190,000	413,800
2029 - 2033	1,260,000	145,173
TOTAL	<u>\$ 5,185,000</u>	<u>\$ 2,177,119</u>

NOTE 8 - 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, 2013. At December 31, 2013, 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, 2013, the City had not designated any unrestricted net position.

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

NOTE 8 - 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, 2013.

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 2013 or 2014 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, 2013 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.

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

NOTE 8 - EQUITY CLASSIFICATIONS (CONTINUED)

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.

NOTE 9 - CONTINGENCIES

A. Lease Commitments and Leased Assets

The City leased various equipment and property during 2013 under a number of operating leases. Total rental expenditures for the year ended December 31, 2013 were approximately \$58,408.

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

Year ending December 31, 2014	\$ 57,549
2015	30,272
2016	5,121
2017	4,312
2018	4,042
Thereafter	1,011

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 10 - SUBSEQUENT EVENTS

The City has evaluated subsequent events through May 30, 2014, the date which the financial statements were available to be issued. 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, 2013

	Original Budget	Revisions	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
REVENUES:						
Real property taxes	\$ 4,830,639	\$ -	\$ 4,830,639	\$ 4,831,502	\$ -	\$ 863
Sales tax	2,145,000	-	2,145,000	2,332,659	-	187,659
Property tax items	2,932,038	-	2,932,038	2,980,797	-	48,759
Non-property tax items	322,000	-	322,000	315,421	-	(6,579)
Departmental income	1,537,310	127,505	1,664,815	1,563,070	-	(101,745)
Shared services	479,500	9,737	489,237	408,403	-	(80,834)
Use of money and property	61,075	-	61,075	63,245	-	2,170
Licenses and permits	38,400	-	38,400	40,653	-	2,253
Fines and forfeitures	140,000	-	140,000	135,917	-	(4,083)
Sale of property and compensation for loss	3,500	5,955	9,455	19,486	-	10,031
Miscellaneous	137,545	3,949	141,494	83,428	-	(58,066)
State aid	2,381,791	67,646	2,449,437	2,155,901	-	(293,536)
Total revenues	15,008,798	214,792	15,223,590	14,930,682	-	(292,908)
EXPENDITURES:						
Current:						
Council	38,650	500	39,150	38,949	128	73
Mayor	103,450	-	103,450	103,133	111	206
Financial	391,627	8,664	400,291	343,976	2,079	54,236
Staff	552,058	670	552,728	574,771	2,461	(24,504)
Shared services	539,432	(16,772)	522,660	612,009	2,079	(91,428)
Special items	255,726	(26,060)	229,666	224,955	-	4,711
Police department	3,229,625	50,669	3,280,294	3,362,512	5,442	(87,660)
Fire department	1,908,257	122,884	2,031,141	2,148,611	570	(118,040)
Other public safety	242,115	20,119	262,234	225,344	27,252	9,638
Transportation	1,525,242	58,521	1,583,763	1,051,570	156,421	375,772
Economic assistance and opportunity	45,302	-	45,302	50,370	-	(5,068)
Culture and recreation	661,816	13,604	675,420	676,937	278	(1,795)
Home and community service	799,321	295,011	1,094,332	793,232	3,989	297,111
Employee benefits	4,725,692	-	4,725,692	4,620,579	-	105,313
Debt service:						
Principal	55,000	-	55,000	55,000	-	-
Interest	19,200	-	19,200	19,200	-	-
Total expenditures	15,092,713	527,810	15,620,523	14,901,148	200,810	518,565
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(83,915)	(313,018)	(396,933)	29,534	(200,810)	225,657
FUND BALANCE, January 1	6,176,552	-	6,176,552	6,176,552	-	-
FUND BALANCE, December 31	\$ 6,092,637	\$ (313,018)	\$ 5,779,619	\$ 6,206,086	\$ (200,810)	\$ 225,657

CITY OF DUNKIRK, NEW YORK
BUDGETARY COMPARISON SCHEDULE
WATER FUND
YEAR ENDED DECEMBER 31, 2013

	Original Budget	Revisions	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
REVENUES:						
Departmental income	\$ 2,833,320	\$ -	\$ 2,833,320	\$ 2,656,979	\$ -	\$ (176,341)
Sale of property and compensation for loss	2,300	-	2,300	8,827	-	6,527
Miscellaneous	10,000	-	10,000	16,357	-	6,357
State aid	5,500	-	5,500	-	-	(5,500)
Total revenues	2,851,120	-	2,851,120	2,682,163	-	(168,957)
EXPENDITURES:						
Current:						
Special items	486,813	(36,500)	450,313	378,960	7,967	63,386
Home and community service	1,502,170	43,431	1,545,601	1,615,543	34,582	(104,524)
Employee benefits	571,549	-	571,549	537,022	-	34,527
Debt service:						
Principal	161,500	175,000	336,500	161,500	-	175,000
Interest	129,088	75,001	204,089	142,277	-	61,812
Total expenditures	2,851,120	256,932	3,108,052	2,835,302	42,549	230,201
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(256,932)	(256,932)	(153,139)	(42,549)	61,244
FUND DEFICIT, January 1	(504,475)	-	(504,475)	(504,475)	-	-
FUND DEFICIT, December 31	(504,475)	(256,932)	(761,407)	(657,614)	(42,549)	61,244

CITY OF DUNKIRK, NEW YORK
BUDGETARY COMPARISON SCHEDULE
WASTEWATER TREATMENT FUND
YEAR ENDED DECEMBER 31, 2013

REVENUES:	Original Budget	Revisions	Revised Budget	Actual	Encumbrances	Variance Favorable (Unfavorable)
Departmental income	\$ 4,006,551	\$ -	\$ 4,006,551	\$ 3,739,375	\$ -	\$ (267,176)
Sale of property and compensation for loss	2,000	-	2,000	-	-	(2,000)
Miscellaneous	1,000	4,600	5,600	12,149	-	6,549
State aid	5,673	-	5,673	-	-	(5,673)
Total revenues	4,015,224	4,600	4,019,824	3,751,524	-	(268,300)
Current:						
Special items	385,773	-	385,773	362,247	-	23,526
Home and community service	2,265,461	48,273	2,313,734	2,199,227	66,153	48,354
Employee benefits	629,668	-	629,668	517,129	-	112,539
Debt service:						
Principal	550,000	-	550,000	550,000	-	-
Interest	184,322	-	184,322	174,083	-	10,239
Total expenditures	4,015,224	48,273	4,063,497	3,802,686	66,153	194,658
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(43,673)	(43,673)	(51,162)	(66,153)	(73,642)
FUND DEFICIT, January 1	(396,539)	-	(396,539)	(396,539)	-	-
FUND DEFICIT, December 31	(396,539)	(43,673)	(440,212)	(447,701)	(66,153)	(73,642)

CITY OF DUNKIRK, NEW YORK
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2013

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%
7/1/2013	\$ -	\$ 140,546	\$ 140,546	0.0%	\$ -	0.0%

CITY OF DUNKIRK, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (1)
YEAR ENDED DECEMBER 31, 2013

<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		\$ 34,061
<i>Total U.S. Department of Housing and Urban Development</i>			<u>34,061</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Pass through NYS Department of Transportation:			
Recreational Trails Program	20.219		<u>280,856</u>
<i>Total U.S. Department of Transportation</i>			<u>280,856</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 314,917</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, 2013

Notes:

- (1) Includes all major and nonmajor programs.
- (2) Source: October 2013 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.



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

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, 2014

Honorable Mayor
Members of City Council
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, 2013, 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, 2014.

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.

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.



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

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, 2014

Honorable Mayor
Members of City Council
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, 2013, 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, 2014.

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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. (13-01)

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



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

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

May 30, 2014

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, 2013. 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.

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 for the year ended December 31, 2013.

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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 2013**

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

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.219	Recreational Trails Program

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

Auditee qualified as low-risk auditee? _____yes X no

Section II – Financial Statement Findings

As of and for the year ended December 31, 2013, the City of Dunkirk, New York, had one finding that was required to be reported in accordance with GAGAS.

13-01 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 were followed explicitly to the letter until the loss of a full-time employee in the Treasury Department. Due to time constraints and available staff and work hours, timeliness was impacted by these adjustment procedures. The City is still investigating alternatives to correct the situation.

Section III – Federal Award Findings and Questioned Costs

As of and for the year ended December 31, 2013, the City of Dunkirk, New York, we did not have any findings that were considered Federal Award Findings and Questioned Costs.

**CITY OF DUNKIRK, NEW YORK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2013**

FINDING 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.

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.

Current Status: 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.

FINDING 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.

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

Current Status: The City is working closely with the independent CDBG consultant to ensure that all past facade 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 facade program until all issues have been corrected.

FINDING 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 facade 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 facade 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.

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

Current Status: 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 facade program. Due to the issues outlined by the U.S. Department of Housing and Urban Development in 2012, the City did not authorize new facade activities, instead only paying past obligations that could not be fulfilled in 2011. Due to issues with the program, the City has discontinued the facade program.

FINDING 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.

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

Current Status: 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.

FINDING 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.

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.

Current Status: 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.

Subsequent Monitoring Report

HUD recently completed a report on monitoring of the City's CDBG Program. Due to the fact that monitoring findings pertaining to overall management and financial oversight still remain an issue, it was determined that the review would focus on how the City administered its economic development activities as well its activities pertaining to low-mod area benefit.

The findings from this report are as follows:

Finding Number 1: Dunkirk's Community Development team lacked CDBG program knowledge sufficient to ensure compliance.

Condition: During testing it was determined the program knowledge, capacity for oversight and implementation of CDBG program by the City was not sufficient to ensure compliance with the program regulations.

- Historically, the projects selected do not appear to have been clearly consistent with local needs and priorities.
- Projects lack clear eligibility determinations or supporting documentation to evidence compliance.
- Record keeping and financial management systems were not maintained.
- There was a lack of written agreements to enforce the program requirements.

Recommendation: It is recommended that the City of Dunkirk staff should take a more proactive approach in attending training and seeking feedback from HUD. Staffing changes are also recommended to better administer the CDBG program and continue to evaluate performance and program oversight.

An administrative or operational plan should be developed and adopted to ensure on-going program compliance and sustainability.

Finding Number 2: Dunkirk has historically disregarded CDBG procedural requirements.

Condition: During review of project files it was noted that there was insufficient or no documentation of compliance with requirements such as: Environmental Review Records, pronouncement, labor standards, and reporting including accurate and complete IDIS data.

Recommendation: A written policy and procedures manual should be established which governs the administration of the CDBG program.

Finding Number 3: Lack of clear distinction between City and Dunkirk Local Development Corporation (DLDC) roles and responsibilities.

Condition: The DLDC is a significant partner and there is not a clear agreement to define roles and responsibilities for the administration of economic development and community events being funded under the auspices of the DLDC. Funding has been provided to the DLDC and other entities in the name of the DLDC without sub-recipient agreements or contracts to define the scope of the work, specific budgets, reporting requirements, etc.

The City does not have adequate documentation in place regarding the funds allocated to the DLDC nor has the City properly overseen the DLDC administration and project implementation.

Recommendation: The City should not issue any additional CDBG funds to the DLDC without a clear written agreement that includes the scope of the work, budget, expectations of use and outcomes, and reporting requirements.

Finding Number 4: Questionable CDBG eligibility, questioned costs and insufficient documentation.

Condition: The City expended CDBG funds on activities that may meet one of the HUD National Objectives but the records reviewed lacked the required documentation to evidence beneficiary data, cost documentation and results.

Recommendation: A written policy should be implemented that ensures the following:

- Confirmation of the reported national objective achieved
- Confirmation of the eligibility citation, and eligibility data
- Documentation of who was served and confirmation of eligibility with low/mod income standards
- Documentation of costs and use of funds for the activity
- Documentation of accomplishments

Finding Number 5: Project / Activities did not meet a National Objective and/or were not eligible and CDBG expenditures were therefore not justified.

Condition: Based on the information reported in IDIS certain activities were undertaken and CDBG funds were expended without documentation of a National Objective or verification of eligibility of intended beneficiaries.

Recommendation: A written policy and procedures manual should be established to ensure that all required documentation is provided before any amounts are expended.

Finding Number 6: Economic Development Activities have not met a National Objective.

Condition: During testing it was discovered that a number of activities had no evidence of job creation or due diligence to verify job creation and therefore compliance with the stated National Objective.

Recommendation: A written policy and procedures manual should be established to ensure that all required documentation is provided before any amounts are expended.

CITY OF DUNKIRK, NEW YORK
SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED DECEMBER 31, 2013

<u>PROGRAM TITLE</u>	<u>NYSDOT Contract Number</u>	<u>Expenditures</u>
New York State Arterial Aid	N/A	\$ 95,816
Consolidated Highway Improvement Program (CHIPS)	N/A	344,942
Marchisell Reimbursement	N/A	<u>61,297</u>
TOTAL STATE TRANSPORTATION ASSISTANCE EXPENDED		<u>\$ 502,055</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, 2013**

GENERAL

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

BASIS OF ACCOUNTING

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

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

INDIRECT COSTS

There are no indirect costs associated with these programs.

MATCHING COSTS

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

AMOUNTS PAID TO SUBRECIPIENTS

There were no amounts paid to subrecipients.



JOHNSON, MACKOWIAK
& ASSOCIATES, LLP
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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, 2014

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, 2013. 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, 2013.

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, 2013, and have issued our report thereon dated May 30, 2014. 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, 2013

Summary of Audit Results:

Internal control over state transportation assistance expended:

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

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

Name

Consolidated Highway Improvement Program

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, 2013**

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



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

May 30, 2014

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dunkirk, New York as of December 31, 2013 and for the year then ended, and have issued our report thereon dated May 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our letter dated September 1, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Dunkirk, New York are described in Note 1 to the financial statements. As discussed in Note 1(K) to the basic financial statements, effective for the fiscal year ending December 31, 2013, with retroactive application for the fiscal year ended December 31, 2012, the City adopted provisions of Governmental Accounting Standards Board (GASB) Statement No. 61 - *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. Effective for the fiscal year ending December 31, 2013, with retroactive application for the fiscal year ended December 31, 2012, the City adopted provisions of GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Also, effective

for the fiscal year ending December 31, 2013, with retroactive application for the fiscal year ended December 31, 2012, the City adopted provisions of GASB Statement No. 66 - *Technical Corrections - 2012 - an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Depreciable lives of capital assets
- Annual Cost of Other Postemployment Benefits (OPEB)

Governments may use any established depreciation method of capital assets and may be based on the estimated useful life of a class of assets, a network of assets, a subsystem of a network, or individual assets. For estimated useful lives, governments can use (a) general guidelines obtained from professional or industry organization, (b) information for comparable assets of other governments, or (c) internal information. In determining estimated useful lives, a government also should consider an asset's present condition and how long it is expected to meet service demands. We evaluated the methods of computing depreciation and the estimated useful lives of the County's capital assets and have determined them to be reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

- Total Accrued OPEB Liability as described in Note 7 to the financial statements.

Management's estimate of its accrued OPEB liability is based on actuarially determined amounts. We examined the actuarial valuation performed for the City in 2013 and determined that it was reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures and management provided information were corrected by management:

- County tax receivable and related liability to the County of Chautauqua
- Recording property tax collections
- Recording accounts receivable
- Recording omitted utility billing system transactions
- Recording utility billing system adjustments
- Recording debt service payments
- Adjusting interfund loan activity
- Recording retirement payments

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 30, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Dunkirk, New York's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the City Council and management of the City of Dunkirk, New York and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Johnson, Mackowiak & Associates, LLP

Johnson, Mackowiak & Associates, LLP



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

May 30, 2014

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

In planning and performing our audit of the financial statements of the City of Dunkirk, New York ("the City") for the year ended December 31, 2013; we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated May 30, 2014 on the financial statements of the City of Dunkirk, New York.

Formalize Accounts Receivable Procedures – Reconciliations

The City's accounts receivable system and utility billing system are independent of the general ledger and; therefore, entries made to the subsidiary systems are not automatically recorded in the general ledger and similarly, entries made in the general ledger are not reflected in the subsidiary records. It is necessary to transfer information through batch processing of transactions after each phase of entries affecting the subsidiary receivables, i.e. billings, collections, penalty assessments, and billing adjustments. During the year certain batches were not posted to the general ledger. Failure to perform monthly reconciliations allowed this to go undetected by City personnel. The result was additional research into the cause of account variances and numerous adjustments made during our audit. Monthly reconciliations of these accounts should be performed in order to ensure timely adjustments to the accounts. This would allow the financial record of the City to present a more accurate presentation of the financial position of the City throughout the year and eliminate the need for large audit adjustments at the end of the fiscal year.

Repay Interfund Loans

As we have indicated in previous management letters, the City has transferred monies between funds to assist with cash flows. It has deemed these to be temporary loans. Many of these loans remain unpaid. In the past the Water Fund and the Wastewater Treatment Fund had been charged administration fees by the General Fund. These fees were recorded using the Due To Other Funds/Due From Other Funds accounts and not actually transferred in the form of cash. Additionally, there have been various adjustments made to record corrections of items between funds, adjustments to allocate expenditures to the appropriate funds and allocate revenues to the appropriate funds. Annually, the City turns over delinquent property taxes to the County of Chautauqua for enforcement. The City has turned over delinquent tipping fee charges, selected public works charges, delinquent water bills, and delinquent wastewater treatment bills at the same time so that these amounts can be added to the delinquent taxes for future collection by the County. The County will indemnify the City for the amounts turned over for collection. The General Fund receives the entire remittance. The portion of the remittance due the Water Fund and the Wastewater Fund are recorded through the Due To Other Funds/Due From Other Funds accounts. The operating funds have advanced monies to the capital project funds to allow the project to begin while project financing (Bonds and/or Bond Anticipation Notes) was being secured. These factors are some of the basis that led to the existence of the Due To Other Funds/Due From Funds accounts. The amount that has been accumulated as being due between funds has skyrocketed. It is imperative that the City take steps to eliminate these balances.

Previously the City had begun addressing the issue and has reduced total outstanding interfund balances from approximately \$8 million to approximately \$52 million at December 31, 2013. The remaining balances include amounts advanced to capital projects which have essentially been completed but the respective fund remains open. In many of these cases, the interfund balance will never be repaid and should be considered as an additional City contribution to their financing. In the situation where the project remains ongoing, the amounts advanced should be considered for repayment as part of additional financing when secured.

Deficit in Unrestricted Fund Balance

As of December 31, 2013, the unrestricted class of net assets of the governmental funds still had deficit fund balances in the Water and Wastewater funds. The unrestricted net asset class had incurred significant losses in its operations in prior years. During 2012 and 2011, the City did generate surpluses in operations; however, with the cooperative deficits incurred in 2013 significant deficits still remain. Failure to eliminate these deficits will erode the City's financial stability and depending on the depth of the deficits, could force a going-concern disclosure in the audit opinion. This situation must continue to be addressed if the City is to survive into the future. We strongly suggest that the budget process continue to be more closely reviewed regarding areas where cost savings can occur and revenues may be increased. Success in achieving these goals is critical for the City.

Identify and Close Completed Capital Projects

As stated in prior years, several of the City's Capital Projects appear to be complete with regard to the construction and/or acquisition of the capital asset for which the project was established. There has been little or no activity in these funds for a number of years. The City should determine if these projects are actually complete. If so, the asset should be transferred to the Fixed Asset Account Group. Industrial Appraisal Company should be advised of the asset addition so that depreciation of the asset can begin, the bank account established for the fund should be closed, any remaining assets and liabilities (including interfund balances) should be addressed. If there is cash remaining at the end of a project, the cause should be determined. If it was due to transfers to date exceeding the actual need of the project, the monies should be returned to the sponsoring operating fund. If the source of the additional cash was due to grant or borrowing, the City should determine the appropriate course of action to remain in compliance with the terms of the grant or restrictions of the borrowing. If there is a shortfall of cash, the City should determine if there are any available revenue streams that can be used to finance the remainder of the project. It should be determined if the City is going to have to finance the remaining cost of the project. This should be done on a timely basis.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we would be pleased to discuss them in further detail at your convenience, to perform any additional studies of these matters, or to assist you in implementing the recommendations.

We would like to thank the entire staff at the City for their outstanding cooperation during our audit.

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK & ASSOCIATES, LLP