

B37317

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT

OF

CITY OF DUNKIRK

JAY COUNTY, INDIANA

January 1, 2009 to December 31, 2009



FILED
08/10/2010

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jane Ann Kesler	01-01-08 to 12-31-11
Mayor	Ronald Hunt	01-01-08 to 12-31-11
President of the City Council	A. Craig Faulkner Charles Rife	01-01-09 to 12-31-09 01-01-10 to 12-31-10
Superintendent of the Water Utility	Howard Fisher	01-01-09 to 12-31-10
Superintendent of the Wastewater Utility	Tim Kesler	01-01-09 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF DUNKIRK, JAY COUNTY, INDIANA

We have examined the financial information presented herein of the City of Dunkirk (City), for the period of January 1, 2009 to December 31, 2009. The District's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the District for the year ended December 31, 2009, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

June 23, 2010

CITY OF DUNKIRK
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2009

	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
Governmental Funds:				
General	\$ 539,521	\$ 1,149,354	\$ 1,235,742	\$ 453,133
Motor Vehicle Highway	113,446	188,672	213,527	88,591
Local Road and Street	12,932	10,374	6,206	17,100
Non Reverting - Repair and Maintenance	(5,208)	1,675	-	(3,533)
DTR Economic Development	164,431	22,820	40,291	146,960
Local Law Enforcement Continuing Education	3,145	5,652	1,374	7,423
Park Nonreverting Operating	44,928	22,223	12,230	54,921
Planning and Zoning	(2,429)	1,045	-	(1,384)
Firefighting Equipment	10,103	2,155	3,200	9,058
Drug Free Allotment	51	-	-	51
Highlands Subdivision	900	-	-	900
COPS Grant	17,094	-	-	17,094
Fire Equipment Donation	100	-	-	100
Rainy Day	3,863	46,355	17,094	33,124
Cumulative Capital Improvement	18,535	9,238	-	27,773
Cumulative Improvement	839	-	-	839
Economic Development Income Tax	13,178	123,913	-	137,091
Proprietary Funds:				
Water Utility - Operating	145,580	703,227	799,297	49,510
Water Utility - Depreciation	(43,902)	89,148	31,483	13,763
Water Utility - Customer Deposit	39,425	7,569	5,007	41,987
Water Utility - Fiscal Agent SRF Sinking	31,934	118,549	119,174	31,309
Water Utility - Fiscal Agent SRF Debt Service Reserve	99,707	6	-	99,713
Wastewater Utility - Operating	525,481	596,496	887,036	234,941
Wastewater Utility - Bond and Interest	317,896	30,539	219,933	128,502
Wastewater Utility - Improvement	168,892	574,494	110,922	632,464
Wastewater Utility - Reserve	116,600	-	116,600	-
Wastewater Utility - Fiscal Agent SRF Sinking	42,442	163,035	160,006	45,471
Wastewater Utility - Fiscal Agent SRF Debt Service Reserve	185,698	129	65,760	120,067
Fiduciary Funds:				
Police Officers' Pension	31,149	31,816	20,397	42,568
User Fees	6,781	151	-	6,932
City Court	30,201	23,504	44,370	9,335
Payroll	(15,215)	1,233,565	1,208,679	9,671
Totals	\$ 2,618,098	\$ 5,155,704	\$ 5,318,328	\$ 2,455,474

The accompanying notes are an integral part of the financial information.

CITY OF DUNKIRK
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, culture and recreation, planning and zoning, water, wastewater, sanitation, economic development, and general administrative services.

Note 2. Fund Accounting

The City uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the District in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the District on or prior to December 31 of the year collected.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the District to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

CITY OF DUNKIRK
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plan

A. Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the District authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

B. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

CITY OF DUNKIRK
NOTES TO FINANCIAL INFORMATION
(Continued)

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF.

CITY OF DUNKIRK
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2009

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets have not been reported.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 39,443
Buildings	693,241
Improvements other than buildings	272,166
Machinery and equipment	<u>1,187,554</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 2,192,404</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 24,164
Buildings	950,816
Improvements other than buildings	946,240
Machinery and equipment	<u>655,469</u>
Total Water Utility capital assets	<u>2,576,689</u>

Wastewater Utility:	
Capital assets, not being depreciated:	
Land	27,000
Construction in progress	-
Buildings	4,123,084
Improvements other than buildings	6,367,667
Machinery and equipment	<u>456,789</u>
Total Wastewater Utility capital assets	<u>10,974,540</u>

Total business-type activities capital assets	<u>\$ 13,551,229</u>
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CITY OF DUNKIRK
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 For The Year Ended December 31, 2009

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital leases:		
Lease payment on House at 207 E. Commerce	\$ 5,000	\$ 2,500
Business-type activities:		
Water Utility		
Revenue bonds:		
SRF Loan	960,000	92,840
Wastewater Utility		
Revenue bonds:		
SRF Loan	1,026,000	119,754
Total business-type activities debt	<u>1,986,000</u>	<u>212,594</u>
Total debt	<u>\$ 1,991,000</u>	<u>\$ 215,094</u>

CITY OF DUNKIRK
EXAMINATION RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

As stated in prior Reports B30700 and B33590, depository reconciliations presented for examination did not always accurately reconcile the fund balances to the bank account balances. The bank reconciliation for December 31, 2009, included cash necessary to balance of \$3,000. Also, the bank reconciliation included an amount of \$331,168.22 listed as investments. Of this \$331,168.22, only \$183,992.71 could be documented. The unit did not maintain an investment ledger and no documentation of the remaining \$147,175.51 was presented for examination.

IC 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PUBLIC RECORDS RETENTION

One sewage claim for \$45,560 was not presented for examination.

IC 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECEIPT ISSUANCE

A review of receipts issued revealed that, for one state distribution, no receipt was issued. There was also an instance where a receipt was not issued until over one month from the date of the deposit.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF DUNKIRK
EXAMINATION RESULTS AND COMMENTS
(Continued)

CONDITION OF RECORDS

There were numerous posting errors found during the course of the examination. These errors included amounts being posted to the wrong fund and receipts not being posted at all.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DEPOSITS

As stated in the prior Report B33590, there was an instance in which receipts were deposited later than the next business day.

IC 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

PRESCRIBED FORMS - CITY COURT

As noted in the prior Report B33590, the Register of Trust Funds, General Form 102, was not in use.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 1)

COLLECTION OF AMOUNTS DUE - POLICE PENSION

In Report B27751 for the year 2005, it was noted that a pensioner paid from the Police Pension Fund had been overpaid. After that examination, the City hired a private Certified Public Accounting (CPA) firm to review the pension paid to the pensioner. The CPA firm concluded that the pensioner had been overpaid by \$8,422. The overpayment has not been collected.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CONDITION OF RECORDS – PAYROLL

As was also reported in prior Reports B26084, B27751, B30700 and B33590, the balances in payroll subaccounts do not accurately reflect net pay and payroll withholdings balances at year-end. Errors have occurred in both posting receipts and disbursements to the accounts for several years with no corrections having been made.

CITY OF DUNKIRK
EXAMINATION RESULTS AND COMMENTS
(Continued)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CUSTOMER DEPOSIT REGISTER

As was also stated in prior Reports B30700 and B33590, the detailed Customer Deposit Register balance did not reconcile with the cash balance in the Customer Deposit Fund. Our testing disclosed that none of the deposits refunded or applied in 2007 had been posted to the Customer Deposit Register and 18% of the deposits received had not been recorded.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for cities and Towns, Chapter 7)

COMMERCIAL REHABILITATION LOAN RECEIVABLE

At the City Council meeting on November 28, 2005, the City Council approved issuing a commercial rehabilitation loan to American Legion Post 227 in the amount of \$20,000 for a period of five years at 4% interest. The loan agreement was signed January 3, 2007; however, the Terms of Loan section of the agreement with blanks to be completed for period of the loan, amount of the monthly payment, date payments are to commence, due date of the payments and the final payment were not completed. In the text of the Term of Loan section the interest rate is 0%, not 4% as approved by the Council. On January 4, 2007, the Legion made a payment of \$2,000. Subsequent payments of \$2,000 were made on January 8, 2008 and January 19, 2009. No corrected loan agreement has been presented for review.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF DUNKIRK
EXAMINATION RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS

As was also stated in the prior Reports B30700 and B33590, controls over receiving and posting collections and reconciling the bank account were insufficient. The City office is staffed by two individuals, the Clerk-Treasurer and the Deputy Clerk-Treasurer. The Deputy Clerk-Treasurer bills utility customers, receives customer payments, posts payments and adjustments to customer accounts, receives and posts park and police department collections, and performs the monthly bank reconciliations. The duties of receiving and posting collections should be separated from the duty of reconciling the bank account balances to the record cash balances. The City Council should review printouts of all adjustments made to customer accounts.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT WASTEWATER ACCOUNTS

As stated in prior Report B33590, delinquent Wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

IC 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

(1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:

(A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;

(B) A description of the premises, as shown by the records of the county auditor; and

(C) The amount of the delinquent fees, together with the penalty; or

(2) An individual instrument for each lot or parcel of real property on which the fees are delinquent."

"(c) The officer shall record a copy of each list or each individual instrument with the county recorder. . . ."

CITY OF DUNKIRK
EXAMINATION RESULTS AND COMMENTS
(Continued)

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . ."

OVERDRAWN FUND BALANCES

The Nonreverting - Repair and Maintenance Fund and the Planning and Zoning Fund were overdrawn in 2009 by \$3,533 and \$1,384, respectively.

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

The City did not comply with directives of the Internal Revenue Service and the Indiana Department of Revenue by correctly completing information returns. The amounts as reported on Form 941 did not agree with the amounts that were reported on the Form W-2 and form W-3. In addition the amount of state and county withholding paid into the department did not agree with the amount reported on the from WH-3.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DEPOSITS - UTILITIES

As stated in the prior Report B33590, in numerous instances, receipts were deposited later than the next business day.

IC 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

CITY OF DUNKIRK
EXAMINATION RESULTS AND COMMENTS
(Continued)

CLERK'S RECORD PERPETUATION FUND

The City receives remittances of document storage fees from the Dunkirk City Court. The fees have been receipted to the City General Fund instead of a Clerk's Record Perpetuation Fund.

IC 33-37-5-2 requires each city or town operating a city or town court to establish a clerk's record perpetuation fund. The following shall be deposited in the fund:

1. Revenue received by the court clerk for the transmitting of documents by facsimile machine to a person under Indiana Code 5-14-3; and
2. Document storage fees required under Indiana Code 33-37-5-20.

Such fees are to be remitted by the court to the city or town fiscal officer at the end of each month. The clerk of a city or town court may use the money in the fund for the preservation of records and improvement of record keeping systems and equipment. The fund would require appropriation. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2004)

DEPOSITS – CITY COURT

As stated in the prior Report 33590, in numerous instances, receipts were deposited later than the next business day. Three instances were found where receipts were issued, but a deposit was not made. These receipts totaled \$182.50 and the Clerk will be asked to repay that amount.

IC 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

ORDINANCES AND RESOLUTIONS

Resolution 2007-04, which establishes rates for the water and wastewater, states that wastewater service will have a base rate of \$2.72 and water service will have a base rate of \$2.09. A new water ordinance was passed in 2008 without mention of a base rate. The Clerk changed the base rate for the wastewater service to \$2.09 and for water service to \$2.72. Neither the new Water ordinance nor any motion approved by the Board authorizes the change to the base rate for water or wastewater service.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF DUNKIRK
EXIT CONFERENCE

The contents of this report were discussed on June 23, 2010, with Jane Ann Kesler, Clerk-Treasurer; Ronald Hunt, Mayor; Judy Garr, City Council member; and Charles Rife, President of the City Council. The officials concurred with our findings.