

B37316

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

ANNUAL FINANCIAL REPORT

2008

CITY OF DUNKIRK

JAY COUNTY, INDIANA



FILED
08/10/2010

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SCHEDULE OF 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	01-01-08 to 12-31-09 01-01-10 to 12-31-10
Superintendent of Water Utility	Dace Mumbower Howard Fisher	01-01-08 to 12-31-08 01-01-09 to 12-31-10
Superintendent of Wastewater Utility	Greg Buckner Howard Fisher	01-01-08 to 12-31-08 01-01-09 to 12-31-10



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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dunkirk (City), as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the City prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Town's management did not report accurate information in the Annual Report filed with the Indiana State Board of Accounts for the year audited. The Annual Report is used to compile the GASB 34 cash basis financial statements. Therefore, accurate GASB 34 financial statements were not presented for audit. The cash receipts, disbursements, and balances as shown in the Annual Report for the year ended December 31, 2008, do not reconcile to the unit's books and ledgers nor do they reconcile to the corresponding bank accounts.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2008, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

In accordance with Government Auditing Standards, we have also issued a report dated June 23, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

The Schedule of Funding Progress is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented Management's Discussion and Analysis, or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are not fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

The City's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the City's response and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

June 23, 2010



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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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dunkirk (City), as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 23, 2010. The opinions to the financial statements were adverse due to the financial statements had misclassified funds, incomplete information and did not reconcile with the bank reconciliation. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in items 2008-1 and 2008-2 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item 2008-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2008-1 and 2008-2.

We noted certain matters that we reported to management in a separate letter dated June 23, 2010.

The City's response to the findings identified in our audit is described in the accompanying section of the report entitled Official Response and Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City's management, the Clerk-Treasurer, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 23, 2010

CITY OF DUNKIRK
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2008

Functions/Programs	Program Receipts			Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Primary Government		Totals
				Governmental Activities	Business-Type Activities	
Primary government:						
Governmental activities:						
General government	\$ 1,044,514	\$ 121,008	\$ -	\$ (923,506)	\$ -	\$ (923,506)
Public safety	594,821	70,119	-	(524,702)	-	(524,702)
Highways and streets	180,000	-	70,508	(109,492)	-	(109,492)
Sanitation	-	17,275	-	17,275	-	17,275
Health and welfare	24,778	-	-	(24,778)	-	(24,778)
Economic development	76,214	-	-	(76,214)	-	(76,214)
Culture and recreation	122,822	22,686	-	(100,136)	-	(100,136)
Urban redevelopment and housing	451	-	-	(451)	-	(451)
Total governmental activities	<u>2,043,600</u>	<u>231,088</u>	<u>70,508</u>	<u>(1,742,004)</u>	<u>-</u>	<u>(1,742,004)</u>
Business-type activities:						
Water Utility	496,825	496,268	-	-	(557)	(557)
sewage Utility	<u>1,260,722</u>	<u>619,681</u>	<u>-</u>	<u>-</u>	<u>(641,041)</u>	<u>(641,041)</u>
Total business-type activities	<u>1,757,547</u>	<u>1,115,949</u>	<u>-</u>	<u>-</u>	<u>(641,598)</u>	<u>(641,598)</u>
Total primary government	<u>\$ 3,801,147</u>	<u>\$ 1,347,037</u>	<u>\$ 70,508</u>	<u>(1,742,004)</u>	<u>(641,598)</u>	<u>(2,383,602)</u>
General receipts:						
Property taxes				766,101	-	766,101
Intergovernmental				421,600	-	421,600
Other local sources				68,569	-	68,569
Net proceeds from borrowings				549,539	-	549,539
Grants and contributions not restricted to specific programs				1,296	-	1,296
Investment earnings				<u>11,228</u>	<u>160,664</u>	<u>171,892</u>
Total general receipts				<u>1,818,333</u>	<u>160,664</u>	<u>1,978,997</u>
Change in net assets				76,329	(480,934)	(404,605)
Net assets - beginning				<u>885,708</u>	<u>1,558,503</u>	<u>2,444,211</u>
Net assets - ending				<u>\$ 962,037</u>	<u>\$ 1,077,569</u>	<u>\$ 2,039,606</u>
<u>Assets</u>						
Cash and investments				\$ 961,147	1,077,569	\$ 2,038,716
Restricted assets:						
Cash and investments				<u>890</u>	<u>-</u>	<u>890</u>
Total assets				<u>\$ 962,037</u>	<u>\$ 1,077,569</u>	<u>\$ 2,039,606</u>
<u>Net Assets</u>						
Restricted for:						
Public safety				\$ 51	\$ -	\$ 51
Capital outlay				839	-	839
Unrestricted				<u>961,147</u>	<u>1,077,569</u>	<u>2,038,716</u>
Total net assets				<u>\$ 962,037</u>	<u>\$ 1,077,569</u>	<u>\$ 2,039,606</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DUNKIRK
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2008

	General	Motor Vehicle Highway	Dtr Economic. Development	Other Governmental Funds	Totals
Receipts:					
Taxes	\$ 766,101	\$ 46,993	\$ -	\$ 8,605	\$ 821,699
Licenses and permits	-	-	-	1,330	1,330
Intergovernmental	382,023	98,209	-	11,876	492,108
Charges for services	149,237	-	-	23,957	173,194
Fines and forfeits	4,436	-	-	52,128	56,564
Other	11,317	2,559	-	2,177	16,053
	<u>1,313,114</u>	<u>147,761</u>	<u>-</u>	<u>100,073</u>	<u>1,560,948</u>
Disbursements:					
General government	453,685	-	25,268	3,907	482,860
Public safety	576,942	-	-	651	577,593
Highways and streets	-	180,000	-	-	180,000
Health and welfare	24,778	-	-	-	24,778
Economic development	-	-	-	68,553	68,553
Culture and recreation	74,042	-	-	7,906	81,948
Urban redevelopment and housing	451	-	-	-	451
Capital outlay:					
General government	1,163	-	519,058	33,601	553,822
Public safety	17,228	-	-	-	17,228
Economic development	-	-	-	7,661	7,661
Culture and recreation	17,588	-	-	23,286	40,874
	<u>1,165,877</u>	<u>180,000</u>	<u>544,326</u>	<u>145,565</u>	<u>2,035,768</u>
Excess (deficiency) of receipts over disbursements	<u>147,237</u>	<u>(32,239)</u>	<u>(544,326)</u>	<u>(45,492)</u>	<u>(474,820)</u>
Other financing sources (uses):					
Net proceeds from borrowings	-	-	549,539	-	549,539
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>147,237</u>	<u>(32,239)</u>	<u>5,213</u>	<u>(45,492)</u>	<u>74,719</u>
Cash and investment fund balance - beginning	<u>386,266</u>	<u>145,683</u>	<u>159,217</u>	<u>183,221</u>	<u>874,387</u>
Cash and investment fund balance - ending	<u>\$ 533,503</u>	<u>\$ 113,444</u>	<u>\$ 164,430</u>	<u>\$ 137,729</u>	<u>949,106</u>
Amounts reported for governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis are different because:					
Internal services funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis.					
					<u>12,931</u>
Net assets of governmental activities					<u>\$ 962,037</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ 533,503	\$ 113,444	\$ 164,430	\$ 136,839	\$ 948,216
Restricted assets:					
Cash and investments	-	-	-	890	890
	<u>\$ 533,503</u>	<u>\$ 113,444</u>	<u>\$ 164,430</u>	<u>\$ 137,729</u>	<u>\$ 949,106</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ 51	\$ 51
Capital outlay	-	-	-	839	839
Unrestricted	533,503	113,444	164,430	136,839	948,216
	<u>\$ 533,503</u>	<u>\$ 113,444</u>	<u>\$ 164,430</u>	<u>\$ 137,729</u>	<u>\$ 949,106</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DUNKIRK
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2008

	Water Utility	Wastewater Utility	Internal Service Funds
Operating receipts:			
Metered/measured	\$ 8,720	\$ 250	\$ -
Fees	487,548	572,564	-
Miscellaneous	-	46,867	9,442
	<u>496,268</u>	<u>619,681</u>	<u>9,442</u>
Total operating receipts			
Operating disbursements:			
Salaries and wages	4,569	-	-
Contractual services	1,307	-	-
Rents	2,275	-	-
Transportation	7,288	-	-
Insurance claims and expense	6,576	-	-
Source of supply	-	77,402	-
Transmission and distribution	212,653	-	-
Administration and general	258,562	232,314	-
Sales	58,786	-	-
Production and supply	-	713,430	-
Miscellaneous	39,899	15,050	7,832
	<u>591,915</u>	<u>1,038,196</u>	<u>7,832</u>
Total operating disbursements			
Excess (deficiency) of operating receipts over operating disbursements	<u>(95,647)</u>	<u>(418,515)</u>	<u>1,610</u>
Nonoperating receipts (disbursements):			
Investment income	24,112	136,552	-
Debt service of principal	-	(142,440)	-
Interest disbursements	95,090	(80,086)	-
	<u>119,202</u>	<u>(85,974)</u>	<u>-</u>
Total nonoperating receipts (disbursements)			
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	23,555	(504,489)	1,610
Transfers in	19,643	-	-
Transfers out	<u>(19,643)</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	23,555	(504,489)	1,610
Cash and investment fund balance - beginning	<u>106,385</u>	<u>1,452,118</u>	<u>11,321</u>
Cash and investment fund balance - ending	<u>\$ 129,940</u>	<u>\$ 947,629</u>	<u>\$ 12,931</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	<u>\$ 129,940</u>	<u>\$ 947,629</u>	<u>\$ 12,931</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Unrestricted	<u>\$ 129,940</u>	<u>\$ 947,629</u>	<u>\$ 12,931</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DUNKIRK
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2008

	Pension Trust Funds	Agency Funds
Additions:		
Contributions:		
Plan members	\$ 11,748	\$ -
Agency fund additions	-	1,159,036
Total additions	11,748	1,159,036
Deductions:		
Agency fund deductions	-	1,188,503
Excess (deficiency) of total additions over total deductions	11,748	(29,467)
Cash and investment fund balance - beginning	8,409	18,902
Cash and investment fund balance - ending	\$ 20,157	\$ (10,565)

The notes to the financial statements are an integral part of this statement.

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, and urban redevelopment.

The City's financial reporting entity is composed of the following:

Primary Government: City of Dunkirk

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Motor Vehicle Highway fund. It accounts for all financial resources used for maintaining of the city's roads.

The DTR Economic Development fund. It accounts for all financial resources of the water main relocation project.

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
(Continued)

The City reports the following major enterprise funds:

The Water Utility Fund accounts for the operation of the water distribution system.

The Wastewater Utility Fund accounts for the operation of the wastewater treatment plant, pumping stations, and collection systems.

Additionally, the City reports the following fund types:

The pension trust funds account for the activities of the 1925 police pension fund and the utilities pension fund which accumulate resources for pension benefit payments.

Agency funds account for assets held by the City as an agent for federal and state revenue agencies and serve as control of accounts for cash transactions during the time they are a liability to the City.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund, and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City and its enterprise funds. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services.

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
(Continued)

Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government. The City does not have any internal service funds.

When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Restricted Assets

All restricted assets, as presented in the accompanying financial statements, are restricted due to enabling legislation.

2. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

3. Property Taxes

Normally, property taxes levied are collected by the County Treasurer and are distributed to the City in June and in 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. 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 may 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 City on or prior to December 31 of the year collected.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as a liability in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
(Continued)

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

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

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

- 1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
- 2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
- 3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.
- 4. Interfund loans – Flow of assets from one fund to another where repayment is expected is reported as interfund loans.

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
(Continued)

Government-Wide Financial Statements

Interfund activity, if any, is eliminated or reclassified in the government-wide financial statements as follows:

1. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund loans and services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.
2. Primary government and component unit activity – Resource flows between the primary government and the discretely-presented component unit(s) are reported as if they were external transactions and are classified separately from internal activities within the primary government.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the City submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. Prior to November 1, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the City receives approval of the Indiana Department of Local Government Finance.

The City's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

B. Disbursements in Excess of Appropriations

For the year ended December 31, 2008, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund	2008
General	\$ 26,028
Park	21,681
Total	\$ 47,709

The City failed to obtain additional appropriations for additional revenue it had received or for funds it had on hand at the beginning of the year.

C. Cash and Investment Balance Deficits

At December 31, 2008, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines as authorized by state statute:

Fund	2008
Planning and Zoning	\$ 2,430
Non Reverting/Repair & Maintenance	5,208
Payroll	15,216

The deficits arose because the City spent more funds than were received. The City plans to use current receipts and reduce disbursements to bring the funds back into positive balances.

III. Detailed Notes on All Funds

Deposits and Investments

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. IC 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The City does not have a deposit policy for custodial credit risk. At December 31, 2008, the City had deposit balances in the amount of \$2,049,107.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Investments

As of December 31, 2008, the City had no investments.

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
(Continued)

IV. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters are covered by commercial insurance from independent third parties.

Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Loans Receivable – Economic Development

The City makes low interest loans to local businesses for economic development through the DTR - Economic Development. Loans receivable under this program are as follows:

Borrower	Date of Loan	Amount	Rate	Annual Payment	December 31, 2008
American Legion Post 227	11-28-08	\$ 20,000	0.00%	\$ 2,000	\$ 14,000

C. Rate Structure – Enterprise Funds

Water Utility

On December 12, 2005, the City Council adopted Ordinance 2005-7 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The current rate structure was approved by the Council on November 24, 2008.

Wastewater Utility

The current rate structure was approved by the City Council on November 24, 2008.

D. Pension Plans

Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

1. 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 the defined benefit plan. State statutes (IC 5-10.2 and

CITY OF DUNKIRK
NOTES TO FINANCIAL STATEMENTS
(Continued)

5-10.3) govern, through the PERF Board, most requirements of the system and give the City 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 member's 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. The 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

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The total contributions made to PERF by the City during the period were \$70,066.

2. 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

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The contributions made by the City during the period were \$8,137.

CITY OF DUNKIRK
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-07	\$ 254,004	\$ 545,541	\$ (291,537)	47%	\$ 548,002	(53%)
07-01-08	325,139	660,630	(335,491)	49%	555,146	(60%)
07-01-09	345,495	699,124	(353,629)	49%	601,463	(59%)

CITY OF DUNKIRK
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2008

	Court	Non-Reverting	Economic Development Operating	Law Enforcement Continuing Education	Drug Free Community
Receipts:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	1,330	-
Intergovernmental	-	-	889	-	-
Charges for services	-	-	-	260	-
Fines and forfeits	52,119	-	-	9	-
Other	-	-	-	-	50
Total receipts	52,119	-	889	1,599	50
Disbursements:					
General government	-	3,907	-	-	-
Public safety	-	-	-	651	-
Economic development	-	-	-	-	-
Culture and recreation	-	-	-	-	-
General government	30,851	-	-	-	-
Economic development	-	-	7,661	-	-
Culture and recreation	-	-	-	-	-
Total disbursements	30,851	3,907	7,661	651	-
Excess (deficiency) of receipts over disbursements	21,268	(3,907)	(6,772)	948	50
Cash and investment fund balance - beginning	8,933	(1,301)	19,950	2,197	1
Cash and investment fund balance - ending	<u>\$ 30,201</u>	<u>\$ (5,208)</u>	<u>\$ 13,178</u>	<u>\$ 3,145</u>	<u>\$ 51</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ 30,201	\$ (5,208)	\$ 13,178	\$ 3,145	\$ -
Restricted assets:					
Cash and investments	-	-	-	-	51
Total cash and investment assets - ending	<u>\$ 30,201</u>	<u>\$ (5,208)</u>	<u>\$ 13,178</u>	<u>\$ 3,145</u>	<u>\$ 51</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 51
Capital outlay	-	-	-	-	-
Unrestricted	30,201	(5,208)	13,178	3,145	-
Total cash and investment fund balance - ending	<u>\$ 30,201</u>	<u>\$ (5,208)</u>	<u>\$ 13,178</u>	<u>\$ 3,145</u>	<u>\$ 51</u>

CITY OF DUNKIRK
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2008
 (Continued)

	Parks And Recreation	Rainy Day	Fire Equipment	Cops Grant	Fire Equipment. (Not Debt Service)
Receipts:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Intergovernmental	-	10,987	-	-	-
Charges for services	20,436	-	3,261	-	-
Fines and forfeits	-	-	-	-	-
Other	1,296	-	-	-	-
Total receipts	21,732	10,987	3,261	-	-
Disbursements:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Economic development	-	19,999	-	-	-
Culture and recreation	7,906	-	-	-	-
General government	-	-	2,750	-	-
Economic development	-	-	-	-	-
Culture and recreation	23,286	-	-	-	-
Total disbursements	31,192	19,999	2,750	-	-
Excess (deficiency) of receipts over disbursements	(9,460)	(9,012)	511	-	-
Cash and investment fund balance - beginning	54,388	12,875	9,592	17,094	100
Cash and investment fund balance - ending	<u>\$ 44,928</u>	<u>\$ 3,863</u>	<u>\$ 10,103</u>	<u>\$ 17,094</u>	<u>\$ 100</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ 44,928	\$ 3,863	\$ 10,103	\$ 17,094	\$ 100
Restricted assets:					
Cash and investments	-	-	-	-	-
Total cash and investment assets - ending	<u>\$ 44,928</u>	<u>\$ 3,863</u>	<u>\$ 10,103</u>	<u>\$ 17,094</u>	<u>\$ 100</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ -	\$ -
Capital outlay	-	-	-	-	-
Unrestricted	44,928	3,863	10,103	17,094	100
Total cash and investment fund balance - ending	<u>\$ 44,928</u>	<u>\$ 3,863</u>	<u>\$ 10,103</u>	<u>\$ 17,094</u>	<u>\$ 100</u>

CITY OF DUNKIRK
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2008
 (Continued)

	Cumulative Capl Improvement Cigarette Tax	Capital Improvements	Highlands Subdivision	Brownfield Grant	Totals
Receipts:					
Taxes	\$ 8,605	\$ -	\$ -	\$ -	\$ 8,605
Licenses and permits	-	-	-	-	1,330
Intergovernmental	-	-	-	-	11,876
Charges for services	-	-	-	-	23,957
Fines and forfeits	-	-	-	-	52,128
Other	-	-	-	831	2,177
Total receipts	<u>8,605</u>	<u>-</u>	<u>-</u>	<u>831</u>	<u>100,073</u>
Disbursements:					
General government	-	-	-	-	3,907
Public safety	-	-	-	-	651
Economic development	47,723	-	-	831	68,553
Culture and recreation	-	-	-	-	7,906
General government	-	-	-	-	33,601
Economic development	-	-	-	-	7,661
Culture and recreation	-	-	-	-	23,286
Total disbursements	<u>47,723</u>	<u>-</u>	<u>-</u>	<u>831</u>	<u>145,565</u>
Excess (deficiency) of receipts over disbursements	<u>(39,118)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(45,492)</u>
Cash and investment fund balance - beginning	<u>57,653</u>	<u>839</u>	<u>900</u>	<u>-</u>	<u>183,221</u>
Cash and investment fund balance - ending	<u>\$ 18,535</u>	<u>\$ 839</u>	<u>\$ 900</u>	<u>\$ -</u>	<u>\$ 137,729</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	\$ 18,535	\$ -	\$ 900	\$ -	\$ 136,839
Restricted assets:					
Cash and investments	-	839	-	-	890
Total cash and investment assets - ending	<u>\$ 18,535</u>	<u>\$ 839</u>	<u>\$ 900</u>	<u>\$ -</u>	<u>\$ 137,729</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Restricted for:					
Public safety	\$ -	\$ -	\$ -	\$ -	\$ 51
Capital outlay	-	839	-	-	839
Unrestricted	<u>18,535</u>	<u>-</u>	<u>900</u>	<u>-</u>	<u>136,839</u>
Total cash and investment fund balance - ending	<u>\$ 18,535</u>	<u>\$ 839</u>	<u>\$ 900</u>	<u>\$ -</u>	<u>\$ 137,729</u>

CITY OF DUNKIRK
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 AGENCY FUNDS
 For The Year Ended December 31, 2008

	<u>Payroll</u>	<u>Planning & Zoning</u>	<u>User Fee Fund</u>	<u>Totals</u>
Additions:				
Agency fund additions	\$ 1,158,146	\$ 297	\$ 593	\$ 1,159,036
Deductions:				
Agency fund deductions	<u>1,188,503</u>	<u>-</u>	<u>-</u>	<u>1,188,503</u>
Excess (deficiency) of total additions over total deductions	(30,357)	297	593	(29,467)
Cash and investment fund balance - beginning	<u>15,141</u>	<u>(2,727)</u>	<u>6,488</u>	<u>18,902</u>
Cash and investment fund balance - ending	<u>\$ (15,216)</u>	<u>\$ (2,430)</u>	<u>\$ 7,081</u>	<u>\$ (10,565)</u>

CITY OF DUNKIRK
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2008

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 completed in the current and prior years have not been reported. Retroactive reporting of general infrastructure assets will occur by December 31, 2010.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 39,443
Buildings	687,841
Improvements other than buildings	254,449
Machinery and equipment	<u>1,210,497</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 2,192,230</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>647,570</u>
Total Water Utility capital assets	<u>2,568,790</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	27,000
Buildings	4,123,084
Improvements other than buildings	6,367,667
Machinery and equipment	<u>438,658</u>
Total Wastewater Utility capital assets	<u>10,956,409</u>
Total business-type activities capital assets	<u>\$ 13,525,199</u>

CITY OF DUNKIRK
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2008

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital leases:		
2008 Ford Frown Vic Police Car	\$ 7,442	\$ 7,955
Lease payment on House at 207 E. Commerce	<u>7,500</u>	<u>2,500</u>
Total governmental activities debt	<u>\$ 14,942</u>	<u>\$ 10,455</u>
Business-type activities:		
Water Utility:		
Revenue bonds:		
SRF Loan	\$ 1,025,000	\$ 94,725
Wastewater Utility		
Revenue bonds:		
SRF Loan	<u>1,117,013</u>	<u>123,406</u>
Total business-type activities debt	<u>\$ 2,142,013</u>	<u>\$ 218,131</u>

CITY OF DUNKIRK
AUDIT RESULTS AND COMMENTS

OLD OUTSTANDING WARRANTS

Our review of the bank reconciliations as of December 31, 2008 revealed warrants outstanding in excess of two years.

IC 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

IC 5-11-10.5-3 states in part:

"Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the board of finance of the political subdivision or the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

IC 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were incorrect. Void warrants were included in the outstanding check list and had not been added back to the fund balance from which the checks had been written. In addition, there were unexplained variances between the bank balance and the book balance.

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)

CITY OF DUNKIRK
AUDIT RESULTS AND COMMENTS
(Continued)

PUBLIC RECORDS RETENTION

The following records were not presented for audit:

The bank statement for the December 2008 General bank account
The bank statement for May 2008 Sewage bank account
Numerous original voided receipts
One claim to support disbursement

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)

CONDITION OF RECORDS

There were a considerable number of posting errors. These errors included receipts being posted to the wrong fund, voided warrants not being reflected in the records and other unidentified errors. In addition to these problems, the City's Annual Report did not agree with the City's financial records.

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)

ORDINANCES AND RESOLUTIONS

The City has a State Revolving Fund loan (SRF) for their Water Utility and another for their Wastewater Utility. In February 2007, at the request of the SRF staff, the City entered into agreements with the Bank of New York Trust Company and established a debt service reserve account and a bond and interest sinking account for each loan. The agreements required that, beginning February 2007, after initial deposits are made to properly fund the accounts, deposits be made monthly into the bond and interest sinking account to accumulate funds to make principal and interest payments when due. During 2008, for the Wastewater Utility, monthly payments as required did not start until October and the total amount transferred for the year was less than required by over \$17,000. For the Water Utility, the total amount for the year did exceed the required amounts; however, the amount required to be transferred monthly was not correct until September 2008.

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
AUDIT RESULTS AND COMMENTS
(Continued)

PRESCRIBED FORMS

As stated 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 determined 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)

PAYROLL WITHHOLDING SUBACCOUNTS

As was 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.

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 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)

CITY OF DUNKIRK
AUDIT RESULTS AND COMMENTS
(Continued)

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)

INTERNAL CONTROLS

As was 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 reconciliements. 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.

CITY OF DUNKIRK
AUDIT RESULTS AND COMMENTS
(Continued)

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. . . ."

"(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 Non-Reverting/Repair Maintenance Fund, Payroll Fund, and Water Depreciation Fund were overdrawn in 2008 by \$5,208, \$15,216, and \$43,901, 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)

ERRORS ON CLAIMS

We were not able to trace many disbursements to the unit's ledger. A detail of disbursements for the year was not presented for audit. We were not able to determine where several disbursements had been posted based on the monthly Journal of Entries for Appropriation File Update that was presented. As a result, we are not able to say that those disbursements were properly posted.

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)

CITY OF DUNKIRK
AUDIT RESULTS AND COMMENTS
(Continued)

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)

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 form 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

As stated in the prior Report B33590, in numerous instances, receipts were deposited later than the next business day. Utility payment stubs in some instances were posted three days after the deposit was made. There were numerous instances where utility payment stub were not stamped with payment date.

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 COURT DISTRIBUTIONS TO STATE AND COUNTY

The City Court is required to make monthly distributions to the County and semiannual distributions to the State for the representative share of court costs collected by the City Court. The Court did not make twelve monthly distributions to the County in 2008 and only one distribution was made to the State in 2008.

IC 33-37-7-8(e) states:

"The clerk of the city or town court shall monthly distribute to the county auditor the following fees:

CITY OF DUNKIRK
AUDIT RESULTS AND COMMENTS
(Continued)

1. Seventy-five percent (75%) of the drug abuse, prosecution, interdiction, and corrections fees collected under IC 33-37-4-1(b)(5).
2. Seventy-five percent (75%) of the alcohol and drug countermeasures fees collected under IC 33-37-4-1(b)(6), IC 33-37-4-2(b)(4) and IC 33-37-4-3(b)(5)."

IC 33-37-7-8(d) states:

"The clerk of a city or town court shall semiannually distribute to the auditor of state for deposit in the state user fee fund established under IC 33-37-9 the following fees:

1. Twenty-five percent (25%) of the drug abuse, prosecution, interdiction, and corrections fees collected under IC 33-37-4-1(b)(5).
2. Twenty-five percent (25%) of the alcohol and drug countermeasures fees collected under IC 33-37-4-1(b)(6), IC 33-37-4-2(b)(4), and IC 33-37-4-3(b)(5).
3. One hundred percent (100%) of the highway worksite zone fees collected under IC 33-37-4-1 and IC 33-37-4-2.
4. One hundred percent (100%) of the safe schools fees collected under IC 33-37-5-18.
5. One hundred percent (100%) of the automated record keeping fees collected under IC 33-37-5-21."

These fees shall be retained by the court clerk and transmitted semiannually to the Auditor of State along with the 55% of the court costs due the state, public defense administration fees, DNA sample processing fees, domestic violence fees, judicial insurance adjustment fees, court administration fees automated record keeping fees, automated record keeping – deferral/diversion fees, and seventy-five percent (75%) of the judicial salaries fees.

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 33-36-5-20.

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)

CITY OF DUNKIRK
AUDIT RESULTS AND COMMENTS
(Continued)

CITY COURT - DISTRIBUTION OF COLLECTIONS

Our review of the distribution of Dunkirk City Court Collections disclosed that 100% of the Judicial Salaries Fees collected were being remitted to the Auditor of the State. This included the City's share of the fee which would be 25%.

In each action in which a person is:

- (1) convicted of an offense;
- (2) required to pay a pretrial diversion fee;
- (3) found to have violated an infraction; or
- (4) found to have violated an ordinance;

The clerk shall collect a judicial salaries fee of sixteen dollars (\$16). [Indiana Code 33-37-5-26(a)] Such fee is scheduled to raise one dollar (\$1) on July for the next two years. The clerk shall semiannually distribute to the Auditor of the State seventy-five percent (75%) of the fees and retain twenty-five percent (25%) as the city or town share. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 3)

DEPOSITS - COURT

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."

PUBLIC RECORDS RETENTION - COURT

Court dockets for the period February 2008 to December 2008 and Receipts for January 2008 to April 2008 were not presented for audit.

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)

CITY OF DUNKIRK
AUDIT RESULTS AND COMMENTS
(Continued)

PUBLIC RECORDS RETENTION - FEDERAL

The grant agreement for the federal funds received for the water main relocation and the contract for the vendor payments were not presented for audit. The only information provided was a contract with Commonwealth for engineering services and the claims that were paid. Without the grant agreement and the contract, we were not able to determine if federal funds were properly disbursed. In addition, the internal controls were not in place to ensure that proper documentation for federal disbursements was maintained.

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)

SERVICE AND TIME RECORDS

The time card for the Deputy Clerk for the period tested was not filled out completely with hours worked. Only leave time was noted on the time card. The time card also was not approved by the Clerk-Treasurer.

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)

ORDINANCES AND RESOLUTIONS - WATER UTILITY

The Water Utility has an ordinance concerning water and wastewater rates. However, the Utilities did not charge according to the ordinances. The Water Utility ordinance does not mention the base rate of \$2.09 which is applied to bills for St. Gobain, a local manufacturing business in Dunkirk. In addition, the amount for the month tested was not calculated properly and St. Gobain was overcharged \$112.10.

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)

ORDINANCES AND RESOLUTIONS - PAYROLL

The City has an ordinance concerning payroll leave time. The City did not properly follow the ordinance for the Deputy Clerk. The Deputy Clerk was paid for 127.50 vacation hours and 48.50 personal hours. The salary ordinance authorized her to have 120 hours vacation and 48 hours personal leave time. This resulted in the Deputy being paid for 8 hours of leave time that was not authorized. The resulting \$114.32 overpayment will be paid back to the City through payroll deductions in 2010.

CITY OF DUNKIRK
AUDIT RESULTS AND COMMENTS
(Continued)

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)

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
General	2008	\$ 26,028
Park	2008	21,681

IC 6-1.1-18-4 states, in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

FINANCIAL REPORT OPINION MODIFICATION

The financial statements presented for audit included misclassified funds and incomplete financial information. As a result, the financial statements did not accurately reflect the financial transactions of the City and do not reconcile to the City's bank accounts. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Auditors' Report for the financial statements.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PRIVATE PROPERTY

Payments were made for major renovations to a building being leased by the City. The lease agreement states "The Lessee shall, at its own expense, make all necessary repairs and replacements to the interior and exterior of the leased property and to the window glass . . ." The lease agreement further states: "Any alteration, addition or improvement made by the lessee after such consent shall have been given, and any fixtures installed as part thereof, shall at the Lessor's option become the property of the Lessor upon the expiration or other sooner termination of the lease; . . ."

Generally, public funds may not be used to make improvements to property not owned by the governmental unit, unless permitted by statute, federal or state requirements, or safety concerns. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the City of Dunkirk (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2008. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

Except as discussed in the following paragraph, 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the City with Highway Planning and Construction grant regarding activities allowed, allowable cost principals, cash management, Davis-Bacon Act, equipment and real property, matching, period of availability, procurement and suspension, real property acquisition, and reporting, nor were we able to satisfy ourselves as to the City's compliance with those requirements by other auditing procedures as described in item 2008-1.

Due to the effects of the information disclosed in the preceding paragraph, we were unable to determine that the City complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended December 31, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2008-2.

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

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in items 2008-1 and 2008-2 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2008-2 to be material weaknesses.

The City's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City's management, the Clerk-Treasurer, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 23, 2010

CITY OF DUNKIRK
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2008

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through the Indiana Department of Transportation Highway Planning and Construction	20.205		<u>\$ 661,338</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF DUNKIRK
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Dunkirk (City) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

CITY OF DUNKIRK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Adverse

Internal control over financial reporting:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	yes

Noncompliance material to financial statements noted? yes

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	yes

Type of auditor's report issued on compliance for major programs: Disclaimer

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
20.205	Highway Planning and Construction

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

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2008-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the City related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the City to reduce risks to achievement of financial reporting objectives. The City has not separated incompatible activities related to receipts, (utility billings and collections,) disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

CITY OF DUNKIRK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statements and then determining how those identified risks should be managed. The City has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the City Council to monitor and assess the quality of the City's system of internal control. The City Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the City at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the City has no process to identify or communicate corrective actions to improve controls.

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 objections, 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.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7) (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1) (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Section III – Federal Award Findings and Questioned Costs

FINDING 2008-2, RETENTION OF RECORDS

Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205

The City did not maintain a federal grant agreement or contract for the relocation of water lines and could not provide the information for audit.

A lack of internal controls over the City's records and poor recordkeeping by City officials caused the records not to be presented for audit.

As a result of the records not being maintained, we were unable to audit the federal disbursements.

We recommend that the City update its internal controls over the records. We also recommend that the City continue to attempt to obtain the grant agreement and contract needed for this project.

CITY OF DUNKIRK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF DUNKIRK

Glass Capital of Indiana
131 South Main Street
Dunkirk, Indiana 47336
Office: 765-768-6565
Mayor: 765-768-6858
Fax: 765-768-7836

Ronald Hunt
Mayor

Jane A. Kesler
Clerk Treasurer

July 13, 2010

To: State Board of Accounts

Re: 2008-1& 2008-2 Response

2008-1 – Some of the findings have been corrected and some are in progress. Some of the reports, statements and documents that were required were available but not presented in a timely manner. They were presented after the auditor had already completed those parts of the audit.

2008-2 – We are in the process of trying to obtain a grant agreement from the state for the water main relocation project.

Jane Kesler
Dunkirk City Clerk Treasurer

CITY OF DUNKIRK
EXIT CONFERENCE

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