



**Auditor of State
Betty Montgomery**

VILLAGE OF DUNKIRK
HARDIN COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Dunkirk
Hardin County
201 North Main Street
Dunkirk, Ohio 45836

To the Village Council:

We have audited the accompanying financial statements of the Village of Dunkirk, Hardin County, (the "Village"), as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion 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 opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2005 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the management, and Members of Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 30, 2005

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$13,186		\$13,186
Municipal Income Taxes	60,367		60,367
Intergovernmental Receipts	24,115	34,715	58,830
Charges for Services	3,105		3,105
Fines, Licenses, and Permits	3,667		3,667
Earnings on Investments	4,130		4,130
Miscellaneous	2,063		2,063
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	110,633	34,715	145,348
Cash Disbursements:			
Current:			
Security of Persons and Property	9,360		9,360
Public Health Services	5,068		5,068
Leisure Time Activities	5,147		5,147
Transportation	9,815	58,873	68,688
General Government	40,556		40,556
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	69,946	58,873	128,819
Total Receipts Over/(Under) Disbursements	40,687	(24,158)	16,529
Fund Cash Balances, January 1	156,062	36,284	192,346
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$196,749</u>	<u>\$12,126</u>	<u>\$208,875</u>

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

VILLAGE OF DUNKIRK
HARDIN COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

Operating Cash Receipts:	
Charges for Services	<u>\$188,730</u>
Operating Cash Disbursements:	
Personal Services	38,709
Contractual Services	63,763
Materials and Supplies	<u>31,446</u>
Total Operating Cash Disbursements	<u>133,918</u>
Operating Income	<u>54,812</u>
Non-Operating Cash Receipts:	
Interest	<u>1,395</u>
Non-Operating Cash Disbursements:	
Debt Service	18,654
Interest and Other Fiscal Charges	7,246
Miscellaneous Expense	<u>623</u>
Total Non-Operating Cash Disbursements	<u>26,523</u>
Excess of Receipts Over Disbursements	29,684
Fund Cash Balances, January 1	<u>172,009</u>
Fund Cash Balances, December 31	<u><u>\$201,693</u></u>

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

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$10,696		\$10,696
Municipal Income Tax	62,071		62,071
Intergovernmental Receipts	24,808	50,479	75,287
Charges for Services	9,381		9,381
Fines, Licenses, and Permits	4,276		4,276
Earnings on Investments	4,780		4,780
Miscellaneous	3,123		3,123
	<u>119,135</u>	<u>50,479</u>	<u>169,614</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	26,404		26,404
Leisure Time Activities	8,908		8,908
Transportation	17,670	69,282	86,952
General Government	69,173		69,173
	<u>122,155</u>	<u>69,282</u>	<u>191,437</u>
Total Cash Disbursements			
Total Receipts (Under) Disbursements	(3,020)	(18,803)	(21,823)
Other Financing Receipts:			
Sale of Fixed Assets	1,005		1,005
	<u>1,005</u>		<u>1,005</u>
Cash Receipts and Other Financing Receipts (Under) Cash Disbursements	(2,015)	(18,803)	(20,818)
Fund Cash Balances, January 1	<u>158,077</u>	<u>55,087</u>	<u>213,164</u>
Fund Cash Balances, December 31	<u><u>\$156,062</u></u>	<u><u>\$36,284</u></u>	<u><u>\$192,346</u></u>

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

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002**

Operating Cash Receipts:	
Charges for Services	<u>\$179,381</u>
Operating Cash Disbursements:	
Personal Services	38,982
Contractual Services	37,880
Supplies and Materials	43,102
Other	<u>42</u>
Total Operating Cash Disbursements	<u>120,006</u>
Operating Income	<u>59,375</u>
Non-Operating Cash Receipts:	
Interest	<u>2,494</u>
Non-Operating Cash Disbursements:	
Debt Service Principal	18,121
Interest and Other Charges	8,001
Other Non-Operating Cash Disbursements	<u>534</u>
Total Non-Operating Cash Disbursements	<u>26,656</u>
Excess of Receipts Over Disbursements	35,213
Fund Cash Balances, January 1	<u>136,796</u>
Fund Cash Balances, December 31	<u><u>\$172,009</u></u>
Reserve for Encumbrances, December 31	<u><u>\$3,823</u></u>

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

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Dunkirk, Hardin County, (the "Village"), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides water and sewer utilities, and park operations (leisure time activities). The Village appropriates General Fund money to help support a volunteer fire department and contracts with the Blanchard Dunkirk Ambulance District for emergency medical services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit are valued at cost.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Fund:

Street Construction, Maintenance and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Enterprise Funds

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not use the encumbrance method of accounting. The budgetary presentations have been adjusted to include material items that should have been encumbered.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting. The Superintendent receives sick and vacation leave benefits.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2003	2002
Demand deposits	\$210,568	\$164,355
Certificates of deposit	200,000	200,000
Total deposits	\$410,568	\$364,355

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the specific collateral pledged by the financial institution.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$92,135	\$110,633	\$18,498
Special Revenue	29,561	34,715	5,154
Enterprise	172,150	190,125	17,975
Total	\$293,846	\$335,473	\$41,627

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$92,607	\$69,946	\$22,661
Special Revenue	60,217	58,873	1,344
Enterprise	190,000	160,441	29,559
Total	\$342,824	\$289,260	\$53,564

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$110,458	\$120,140	\$9,682
Special Revenue	27,900	50,479	22,579
Enterprise	180,000	181,875	1,875
Total	\$318,358	\$352,494	\$34,136

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$127,124	\$122,155	\$4,969
Special Revenue	83,529	69,282	14,247
Enterprise	222,770	150,485	72,285
Total	\$433,423	\$341,922	\$91,501

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of 1% percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

6. DEBT

The Ohio Water Development Authority (OWDA) has developed a new Loan Processing computer system which resulted in new account numbers assigned to each loan. The following table reflects the changes in the loan numbers.

Old Account #	New Account #	Prior Report Amount Outstanding at December 31, 2001
0213	2652	\$100,877
0829	1547	78,731

Debt outstanding at December 31, 2003 was as follows:

	Principal	Interest Rate
OWDA Loan # 2652	\$84,132	2.00%
OWDA Loan # 1547	68,700	7.60%
Ohio Public Works Commission Loan CP012	72,493	0.00%
Total	\$225,325	

The Ohio Water Development Authority (OWDA) loan relates to a sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. OWDA loan #2652 was entered into on July 1, 1988, in the amount of \$201,234. The loan will be repaid in semiannual installments of \$5,154 over 25 years with final maturity scheduled for January 1, 2013. OWDA loan #1547 was entered into on July 1, 1988, in the amount of \$119,507. The loan will be repaid in semi-annual installments of \$5,408 over 25 years with final maturity scheduled for January 1, 2013. The OWDA loans are collateralized by sewer receipts.

The Ohio Public Works Commission (OPWC) loan, entered into on July 1, 1996 in the amount of \$99,900 at 0% interest, relates to a waterline and brine tank replacement project. The loan will be repaid in semiannual installments of \$2,500, over 20 years with final maturity scheduled for July 1, 2017. The loan is collateralized by water receipts.

Amortization of the above debt, including interest, is scheduled as follows:

	OWDA Loan #2652	OWDA Loan #1547	OPWC Loan
Year ending December 31:			
2004	\$10,307	\$10,403	\$5,000
2005	10,307	10,437	5,000
2006	10,307	10,473	5,000
2007	10,307	10,512	5,000
2008	10,307	10,553	5,000
2009 - 2013	41,230	42,699	24,997
2014 – 2018			22,498
Total including interest	\$92,765	\$95,077	\$72,495
Less Interest	(8,633)	(26,377)	0
Outstanding Principal	\$84,132	\$68,700	\$72,495

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

7. RETIREMENT SYSTEMS

The Village's law enforcement officers and other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2003.

8. JOINTLY GOVERNED ORGANIZATIONS

The Blanchard-Dunkirk Ambulance District is a jointly-governed organization consisting of Blanchard Township and the Village of Dunkirk, Hardin County, Ohio. The District is governed by a board of trustees consisting of one representative from each entity. The degree of control exercised by any participating entity is limited to its representation on the board. Operating funds for the District are provided from charges assessed for services of the District. The Village provides no other funds to the District. Financial information may be obtained from Kathy Schroeder, Clerk, Blanchard Dunkirk Ambulance District, Hardin County, P.O. Box 95,101 South Main Street, Dunkirk, Ohio 45836.

The Northern Hardin County Fire District is a jointly-governed organization consisting of two townships (Blanchard and Washington) and the Village of Dunkirk, Hardin County, Ohio. The District is governed by a board of trustees consisting of one representative from each township and the Village. The degree of control exercised by any participating entity is limited to its representation on the board. Operating funds for the District are provided from property taxes assessed against property owners located within the townships and the Village making up the District and charges assessed for services of the District. The Village provides no other funds to the District. Financial information may be obtained from Kathy Schroeder, Clerk, Northern Hardin Fire District, Hardin County, 121 South Buckeye Street, Dunkirk, Ohio 45836.

9. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

9. RISK MANAGEMENT (Continued)

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective township.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2003 and 2002:

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$25,288,098	\$20,174,977
Liabilities	(12,872,985)	(8,550,749)
Retained earnings	<u>\$12,415,113</u>	<u>\$11,624,228</u>
<u>Property Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$3,158,813	\$2,565,408
Liabilities	(792,061)	(655,318)
Retained earnings	<u>\$2,366,752</u>	<u>\$1,910,090</u>

10. SUBSEQUENT EVENT

On July 1, 2004, The Village was approved for a water tower grant in the amount of \$468,400 from the Ohio Public Works Commission. The Village was advised by its engineering firm to accept a bid of \$446,894 on November 15, 2004 for this project.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Village of Dunkirk
Hardin County
201 North Main Street
Dunkirk, OH 45836

To the Village Council:

We have audited the financial statements of the Village of Dunkirk, Hardin County (the "Village"), as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents and have issued our report thereon dated March 30, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect 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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated March 30, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-004.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

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



Betty Montgomery
Auditor of State

March 30, 2005

VILLAGE OF DUNKIRK
HARDIN COUNTY

SCHEDULE OF FINDINGS
YEARS ENDED DECEMBER 31, 2003 AND 2002

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2003-001

Findings for Recovery

Ohio Rev. Code Section 9.39 states that all public officials are liable for all public money received or collected by them or by their subordinates under color of office. Thomas L. Foltz, Fiscal Officer for the Village of Dunkirk, was responsible for collecting and depositing revenue for the Village. Payments were reflected in the utility accounting system "Cash Receipts Journals" which were not reflected in the corresponding bank deposit. In addition, pay-in-orders (PIO's) were written for miscellaneous utility receipts (bulk water, tap-in-fees, and utility account deposits) and non-utility receipts (shelter house fees, bank receipts) which were not represented by a corresponding bank deposit. The receipts exceeded the bank deposits by \$1,230 during 2003 and \$1,071 during 2002.

In addition, utility receipts, in the amount of \$2,322, recorded in the "Cash Receipts Journal" could not be supported by bank deposits. The Fiscal Officer, Thomas L. Foltz, indicated these postings did not represent cash receipts. Instead, they represented delinquent accounts certified to the County Auditor during October 2003. However, only \$1,981 of delinquent accounts was certified to the County Auditor for a difference of \$341.

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code Section 117.28**, a Finding for Recovery for public money collected but not accounted for, is hereby rendered against, Thomas L. Foltz, Fiscal Officer, and his bonding company Western Surety Company, jointly and severally, in the amount of two thousand, six hundred and forty-two dollars (\$2,642) and in favor of the Village's General Fund (\$111), Water Fund (\$1,424), Sewer Fund (\$1,042), Water Debt Fund (\$65).

FINDING NUMBER 2003-002

Ohio Rev. Code Section 5705.41 (D) states that no order or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts less than \$3,000 for villages may be paid by the fiscal officer without such certificate of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

**FINDING NUMBER 2003-002
 (Continued)**

One hundred percent of the Village's expenditures were not certified by the Fiscal Officer prior to making orders for the expenditure of Village funds. In addition, neither of the two exceptions above was utilized for these transactions. Procedures should be implemented not only to help ensure compliance with this requirement, but to help prevent the unauthorized obligation of Village funds.

FINDING NUMBER 2003-003

Village Ordinance 280-01, which superseded **Village Ordinance 245-99** and updated the established water and sewer utility rates for 2002, and **Village Ordinance 5-03**, effective for 2003, established the following rates:

Water Rates / Gallon	Ordinance 245-99 For Years 1999-2002	Ordinance 280-01 Effective 1-1-2001	Ordinance 5-03 Effective 12-31-2002
0 to 4,000	33.82	32.52	33.82
5,000 to 14,000	1.81 per 1,000 gallons	1.74 per 1,000 gallons	1.81 per 1,000 gallons
15,000 to 54,000	1.59 per 1,000 gallons	1.74 per 1,000 gallons	1.81 per 1,000 gallons
Over 54,000	1.35 per 1,000 gallons	1.74 per 1,000 gallons	1.81 per 1,000 gallons
Other Charges			
NSF Check Charge	\$20	\$30	\$30
Late Payment Penalty	\$8 (\$6 water & \$2 sewer)	\$8 (\$6 water & \$2 sewer)	\$8 (\$6 water & \$2 sewer)
Deposits	\$100 (\$50 out of town)	\$100 (\$50 out of town)	\$100 (\$50 out of town)
Turn on Fees (for accounts which have been shut off)	\$20	\$20	\$20

Utility billings during 2002 failed to incorporate the new water rates in ordinance 280-01 and continued to utilize the rates in Ordinance 245-99. The accounting records did not reflect pay-in orders for non-sufficient fund (nsf) check charges even though there were three nsf checks during 2003 and seven nsf checks during 2002 which should have earned the Village a total of \$300. In addition, penalties for late payments were only calculated and assessed during the January/February 2002 billing cycle. Based on the utility receipt dates, late penalties were not assessed against accounts that paid after the due date. Receipts identified as utility deposits in the Cash Receipts Journal did not always agree to the approved rate. There was no evidence that turn on fees were charged, collected, or deposited in the audit period, even though there were delinquent accounts noted throughout the audit period. In addition, some customers received special rates or discounts which were not included in the ordinances.

Control procedures should be implemented to help assure that the approved utility rates are entered into the Village's utility billing system and to help assure that all charges are billed as required by the ordinance. In addition, the ordinance should reflect situations that allow for exceptions to the approved rates. Periodically the Council and/or BPA should review utility billings and collections to help assure compliance with the ordinance.

FINDING NUMBER 2003-004

Reportable Condition

Deficiencies in Financial Operations and the Establishment of an Audit Committee

To help reduce the risk of the misuse or loss of money, to help improve accountability over the recording of transactions, and to help assist the governing body in managing its financial resources, an entity should have controls in place to prevent and detect errors and/or irregularities.

During 2003 and 2002, the following weaknesses were identified in the financial operations of the Village:

- The ordinances establishing the utility rates were not clear as to the effective date;
- Two businesses and three individuals received utility rates that did not agree to the utility ordinance;
- The Utility Superintendent who read the meters also collected cash payments seven times during 2003 and 2002. This practice violated Village policy;
- Bank deposit slips did not always provide sufficient detail to show the whether the individual receipts were cash or check, or if they pertained to utility payments or other Village charges;
- Cash collections for utility payments were not always deposited or deposited timely. For example, during 2003, cash collected in January was not deposited until June 13th which contributed to the difficulty in reconciling cash to utility collections;
- Utility billing stubs were handwritten instead of utilizing the computer generated billing stub or the computer generated billing stub had the amount crossed out and replaced with a hand written amount;
- Adjustments to increase or reduce utility account balances were made during 2003 and 2002 without evidence that the adjustments were necessary or had been approved by Council or the BPA. The net effect of the adjustments was to reduce the utility accounts by \$3,556 during 2002 and \$1,676 during 2003;
- There were no procedures to verify that total collections credited to individual accounts agreed to the total amounts both deposited in the bank and recorded in the financial statements. During 2002, the Utility Trial Balance did not reflect any payments for the May-June payment period. In addition, software backups were not available to obtain this information. During 2003, the September-October Trial Balance reflected payments of \$2,322 more than total payments reflected on the Cash Receipts Journals (CRJ). Bank deposits were even less than the CRJ for that time period;
- Delinquent utility accounts certified to the County Auditor were not reconciled to the total amounts removed / reflected as payments in the Utility system;
- During 2003 and 2002, 25 and 41 transactions respectively, were identified as water deposits in the "Cash Receipts Journal", however the Utility Deposit Fund showed only one utility deposit;
- Penalties for late payment of utility bills were not properly charged or collected and recorded which resulted in approximately \$12,712 of lost revenue to the Village;
- Utility collections were taken to the Fiscal Officer's home to create deposit lists on his home computer instead of using the Village's computer. The Fiscal Officer's home computer was also used to recreate monthly financial reports. This practice not only increases the risk or errors and/or irregularities, but also may increase supply costs to the Village;
- Six transactions during 2003 and eight transactions during 2002 were recorded in the accounting system without indicating the check number or other reference, the check numbers for seven checks during 2003 and two checks during 2002 were not in agreement with the check number in the accounting system, and the checks were not always issued in numerical sequence. Enterprise Sewer Fund expenditures in the amount of \$4,191 during 2003 and \$2,493 during 2002 were recorded in the Enterprise Water Fund. Special Revenue Street Fund expenditures in the amount \$458 were paid from the Enterprise Water Fund during 2003;

FINDING NUMBER 2003-004
(Continued)

- Nine invoices during 2003 and nine during 2002 were not paid by the due date which resulted in late payment charges. The monthly usage charge was paid on seven invoices during 2002 when the invoice indicated no payment due for the month. Supporting invoices were not maintained or the payments were made from monthly billing statements that did not provide expenditure detail for 18 expenditures during 2003 and 20 during 2002;
- There were 143 checks written during 2003 and 2002 which were voided in the computer system but that actual check was not defaced;
- December 31, 2003 and December 31, 2002, bank reconciliations included reconciling items that were not supported;
- The estimated receipts and appropriations recorded in the accounting system did not agree to the amounts approved by Council;
- Some time cards did not have evidence of approval for the hours worked;
- Miscellaneous utility payments for tap fees, deposits, and bulk water were sometimes recorded in the utility accounting system, however during 2003 and 2002 \$5,148 and \$6,859, respectively, of miscellaneous revenue was recorded on a pay-in order and not in the utility accounting system;
- Bank charges were listed on the PIO which were not supported by the bank statements. Also, some bank charges on the bank statements did not appear to be recorded on the PIO or in the accounting system. Bank charges for non-sufficient fund checks (nsf) were not collected, receipted, or deposited in the bank;
- The annual financial statements did not present the individual funds of the Enterprise Fund Type and did not include the supporting debt schedule;
- During 2003 and 2002, \$1,571 and \$1,071, respectively, of receipts for utility collections, bulk water, tap-in-fees, and utility account deposits were recorded as collected but not deposited in the bank. This shortage is discussed in Finding 2003-001.

To help reduce the risk that errors and/or irregularities could occur and remain undetected in the normal course of business, the Village Council and/or BPA should implement the following controls and/or procedures:

- Review and clarify the utility rate ordinance (including any accounts which have special rates or benefits). Utility billing and collection reports should be reviewed to help assure the correct rates are being charged for each customer, that adjustments have been authorized, that late payments and non-sufficient fund charges are assessed when necessary, that turn on or shut off fees are being charged to each applicable customer, that utility deposits are recorded in the correct fund, and that delinquencies are followed up on for possible certification to the county auditor. Adjustments to customer accounts that are not addressed in the ordinance should be approved in the BPA minutes. When accounts are certified to the county auditor, the BPA should verify that any adjustments to the billing system are in agreement with the account and amount;
- To the extent practical, segregate the duties in the Utility Department for the reading of meters, billing, collecting and recording receipts, and making bank deposits. Accountability for duties that cannot be segregated can be improved if the Council and/or BPA review reports that show usage for the billing period, total billings for the period, collections for the period, daily receipts, and bank deposits. Knowledge of the reports that can be generated by the utility system should be obtained by Council and/or the BPA to help determine which reports will provide the best monitoring controls;
- Require notification by the Fiscal Officer if there are situations which require a handwritten utility stub or a handwritten correction to a computerized stub. Such situations should require BPA approval and evidence of this approval should be maintained by the Village. Periodically, billing stubs should be reviewed to help assure that all exceptions have the approval of the BPA;
- Each bank deposit slip should have an itemized list that indicates the name of the individual/business/entity that made the payment, the amount and purpose of the payment, and whether the payment was in cash or by check;

**FINDING NUMBER 2003-004
(Continued)**

- Develop a policy that requires all collections to be deposited in a timely manner;
- A periodic reconciliation should be performed, by someone independent of the daily fiscal operations, for utility receipts between the utility department “cash receipts journal”, pay-in orders, bank deposits, and the amount recorded in the general ledger. In addition, a reconciliation should be performed between all Village pay-in orders, bank deposits, and receipts recorded in the general ledger;
- A process to identify non-routine miscellaneous receipts, such as shelter house fees, utility deposits, bulk water, and tap fees, to help assure they are recorded in the correct funds and deposited;
- Require that all accounting transactions are processed utilizing the Village’s computer equipment instead of personal equipment. In addition, electronic back ups should be maintained in a secure off site location;
- Require that expenditure transactions include the date of the check, check number, the payee, description of the expenditure, and amount. Checks should also be issued in numerical sequence and agree to the check number in the accounting system. All expenditures should have evidence of Council and/or BPA review. Expenditures should also be reviewed for appropriateness of the fund posting;
- Require that invoices be paid by the due date, that no payment be made unless an amount is due, and that no payments be made unless there is a detailed supporting invoice. In addition, any recorded bank charges are supported by bank statements;
- Monthly bank reconciliations should have attached support for all reconciling items;
- Voided checks should be defaced;
- Verify that the accounting system reflects the Council approved estimated revenues and expenditures;
- Review the annual financial statements to help assure completeness; and
- Approve all time cards prior to the payment of wages.

The Council and/or BPA should review all transactions identified as “water deposits” to verify if they actually represent water deposits. Adjustments, if necessary, should be made to the funds of the Village to correctly record deposits.

To help assure that the deficiencies identified above are corrected, the Village should establish an audit committee. The Village should consider the following when establishing an audit committee:

- The audit committee should formally be established by charter, enabling resolution, or other appropriate legal means;
- The members of the audit committee collectively should possess the expertise and experience in accounting, auditing, financial reporting, and finance needed to understand and resolve issues raised by the independent audit of the financial statements. When necessary or otherwise desirable, members of the audit committee should be selected from outside the government to provide the needed expertise and experience;
- A majority of the members of the audit committee should include at least one representative each from the executive and legislative branches of the government;
- An audit committee should be sufficiently large to ensure that its members possess all of the skills needed to realize the committee’s objectives. At the same time, the audit committee should be small enough to operate effectively;
- Members of the audit committee should be educated regarding both the role of the audit committee and their personal responsibility as members, including their duty to exercise an appropriate degree of professional skepticism;

FINDING NUMBER 2003-004
(Continued)

- The primary responsibility of the audit committee should be to oversee the independent audit of the Village's financial statements, from the selection of the independent auditor to the resolution of audit findings. In addition to these primary responsibilities, an audit committee should follow-up on noncompliance issues and internal control recommendations made by its auditors, and to serve as a liaison between management and its auditors. In addition, the audit committee should meet periodically throughout the year to monitor the Village's legal compliance, financial condition, and internal controls over the safeguarding of assets and recording of accounting transactions. Periodically the audit committee should perform an internal audit of the accounting records to identify errors or irregularities, a lack of segregation of duties, or overrides of internal controls within or outside the accounting function. During this process, internal control improvements may be identified for implementation;
- The audit committee should present annually, or as often deemed necessary, to the governing body and management a written report on how it has discharged its duties and met its responsibilities. It is further recommended that this report be made public.

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-30233-001	Village Ord. 285-01 - Overpaid salary	Yes	
2001-30233-002	ORC Sec. 9.39 - Finding for Recovery / Undeposited collections	No	Repeated as finding 2003-001
2001-30233-003	ORC Sec. 135.21 & 5705.10 – Incorrect interest allocation	No	Repeated in the management letter
2001-30233-004	ORC Sec. 731.14 – Failure to follow bidding requirements	N/A	No transactions applicable during the audit period
2001-30233-005	ORC Sec. 5705.09 - Establishment of funds	N/A	No new funds were required to be established during the audit period
2001-30233-006	ORC Sec. 5705.10 - Revenue recording	Yes	
2001-30233-007	ORC Sec. 5705.36 - Certifying available resources	Yes	
2001-30233-008	ORC Sec. 5705.38 - Appropriation resolution	Yes	
2001-30233-009	ORC Sec. 5705.40 - Amending appropriations	Yes	
2001-30233-010	ORC Sec. 5705.41 (B) - Appropriations modifications	No	Repeated in the management letter
2001-30233-011	ORC Sec. 5705.41 (D) - Prior certification of expenditures	No	Repeated as finding 2003-002
2001-30233-012	Establishment of an audit committee	No	Repeated in finding 2003-004
2001-30233-013	Accounting records	Yes	
2001-30233-014	Utility billing and collection procedures	No	Revised as finding 2003-004
2001-30233-015	Supporting documentation and approval for expenditures	No	Repeated in finding 2003-004



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VILLAGE OF DUNKIRK

HARDIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 16, 2005**