



**Auditor of State
Betty Montgomery**

VILLAGE OF DUNKIRK
HARDIN COUNTY

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**Auditor of State
Betty Montgomery**

Village of Dunkirk
Hardin County
P.O. Box 115
Dunkirk, Ohio 45836

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

October 31, 2006

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Dunkirk
Hardin County
P.O. Box 115
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, 2005 and 2004. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2004, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, 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, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

October 31, 2006

**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, 2005**

	<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	\$11,489		\$11,489
Municipal Income Taxes	60,946		60,946
Intergovernmental Receipts	25,764	75,124	100,888
Fines, Licenses, and Permits	1,463		1,463
Earnings on Investments	5,372		5,372
Miscellaneous	18,659		18,659
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	123,693	75,124	198,817
Cash Disbursements:			
Current:			
Security of Persons and Property	7,203		7,203
Public Health Services	12,161		12,161
Leisure Time Activities	37,737		37,737
Community Environment	523		523
Basic Utility Services	885		885
Transportation	4,629	72,744	77,373
General Government	70,840		70,840
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	133,978	72,744	206,722
Total Receipts Over/(Under) Disbursements	(10,285)	2,380	(7,905)
Fund Cash Balances, January 1	157,405	11,319	168,724
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	\$147,120	\$13,699	\$160,819
	<hr/>	<hr/>	<hr/>
Reserves for Encumbrances, December 31	\$4,745	\$4,745	\$4,745
	<hr/>	<hr/>	<hr/>

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, 2005**

Operating Cash Receipts:	
Charges for Services	\$195,162
Fines, Licenses and Permits	1,400
Miscellaneous	2,531
	199,093
Operating Cash Disbursements:	
Personal Services	32,786
Employee Fringe Benefits	4,773
Contractual Services	96,991
Supplies and Materials	32,576
Other	1,531
	168,657
Total Operating Cash Receipts	199,093
Total Operating Cash Disbursements	168,657
Operating Income	30,436
Non-Operating Cash Receipts:	
Intergovernmental	268,400
Other Debt Proceeds	184,937
	453,337
Total Non-Operating Receipts	453,337
Non-Operating Cash Disbursements:	
Capital Outlay	500,894
Redemption of Principal	19,816
Interest and Other Fiscal Charges	5,928
	526,638
Total Non-Operating Cash Disbursements	526,638
Total Receipts (Under) Disbursements	(42,865)
Fund Cash Balances, January 1	226,967
Fund Cash Balances, December 31	\$184,102
Reserves for Encumbrances, December 31	\$14,063

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, 2004**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$10,463		\$10,463
Municipal Income Tax	57,162		57,162
Intergovernmental Receipts	26,304	33,638	59,942
Fines, Licenses, and Permits	3,367		3,367
Earnings on Investments	2,590		2,590
Miscellaneous	3,643		3,643
Total Cash Receipts	<u>103,529</u>	<u>33,638</u>	<u>137,167</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	10,439		10,439
Public Health Services	8,804		8,804
Leisure Time Activities	13,946		13,946
Community Environment	381		381
Basic Utility Services	21,888		21,888
Transportation	6,669	34,444	41,113
General Government	80,748		80,748
Total Cash Disbursements	<u>142,875</u>	<u>34,444</u>	<u>177,319</u>
Total Receipts (Under) Disbursements	(39,346)	(806)	(40,152)
Fund Cash Balances, January 1	<u>196,751</u>	<u>12,125</u>	<u>208,876</u>
Fund Cash Balances, December 31	<u><u>\$157,405</u></u>	<u><u>\$11,319</u></u>	<u><u>\$168,724</u></u>
Reserves for Encumbrances, December 31	<u><u></u></u>	<u><u>\$709</u></u>	<u><u>\$709</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, 2004

Operating Cash Receipts:	
Charges for Services	<u>\$188,234</u>
Operating Cash Disbursements:	
Personal Services	38,406
Employee Fringe Benefits	1,182
Contractual Services	61,014
Supplies and Materials	22,796
Other	789
Capital Outlay	<u>16,124</u>
Total Operating Cash Disbursements	<u>140,311</u>
Operating Income	<u>47,923</u>
Non-Operating Cash Receipts:	
Earnings on Investments	<u>3,061</u>
Non-Operating Cash Disbursements:	
Redemption of Principal	18,695
Interest and Other Fiscal Charges	<u>7,015</u>
Total Non-Operating Cash Disbursements	<u>25,710</u>
Excess of Receipts Over Disbursements	25,274
Fund Cash Balances, January 1	<u>201,693</u>
Fund Cash Balances, December 31	<u><u>\$226,967</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, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Dunkirk, Hardin County, (the Village), as a body corporate and politic. A publicly-elected six-member Council governs the Village. 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 accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements 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 adequately disclose material matters the Auditor of State prescribes.

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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds 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, 2005 AND 2004
(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 to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

Water Tower Fund - This fund receives grant and loan proceeds from the Ohio Water Development Authority to finance a water tower replacement project. A utility surcharge recorded in this fund will repay loan proceeds from this fund.

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 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(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 all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2005	2004
Demand deposits	\$144,921	\$195,691
Certificates of deposit	200,000	200,000
Total deposits	\$344,921	\$395,691

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, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$111,482	\$123,693	\$12,211
Special Revenue	77,033	75,124	(1,909)
Enterprise	601,544	652,430	50,886
Total	\$790,059	\$851,247	\$61,188

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$168,814	\$133,978	\$34,836
Special Revenue	78,377	77,489	888
Enterprise	698,371	709,358	(10,987)
Total	\$945,562	\$920,825	\$24,737

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$101,832	\$103,529	\$1,697
Special Revenue	36,083	33,638	(2,445)
Enterprise	441,426	191,295	(250,131)
Total	\$579,341	\$328,462	(\$250,879)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$178,814	\$142,875	\$35,939
Special Revenue	45,800	35,153	10,647
Enterprise	255,321	166,021	89,300
Total	\$479,935	\$344,049	\$135,886

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment 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.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of one 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, 2005 AND 2004
(Continued)**

6. DEBT

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
OWDA Loan # 2652	\$66,711	2.00%
OWDA Loan # 1547	57,086	7.60%
Ohio Public Works Commission Loan CP012	62,494	0.00%
Ohio Public Works Commission Loan CP08H	184,937	0.00%
Total	\$371,228	

The Ohio Water Development Authority (OWDA) loans relate 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 CP012, 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.

The OPWC loan CP08H, entered into on July 1, 2004 in the amount of \$184,937 at 0% interest, relates to a water tower replacement project. The loan will be repaid in semiannual installments of \$4,623, over 20 years with final maturity scheduled for January 1, 2026. 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 CP012	OPWC Loan CP08H
Year ending December 31:				
2006	\$10,307	\$10,473	\$5,000	\$9,247
2007	10,307	10,512	5,000	9,247
2008	10,307	10,553	5,000	9,247
2009	10,307	10,598	5,000	9,247
2010	10,307	10,647	5,000	9,247
2011-2015	20,616	21,454	24,997	46,234
2016-2020			12,497	46,234
2021-2025				46,234
Total including interest	\$72,151	\$74,237	\$62,494	\$184,937
Less Interest	(5,440)	(17,151)	0	0
Outstanding Principal	\$66,711	\$57,086	\$62,494	\$184,937

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

7. RETIREMENT SYSTEMS

The Village's law enforcement officers and other full-time employees belong to the Ohio Public Employees Retirement System (OPERS) 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 2005 and 2004, OPERS 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, 2005.

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.

The Hardin County Regional Planning Commission (the Commission) is a jointly-governed organization consisting of twenty-five subdivisions in Hardin County. The Board consists of representatives from participating political subdivisions, the county commissioners, and appointed citizens. Financial information may be obtained from Mark Doll, Director, One Courthouse Square, Suite 130, Kenton, Ohio 43326

9. RISK MANAGEMENT

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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.

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

9. RISK MANAGEMENT (Continued)

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence, including claim 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 \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

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.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

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, 2005 and 2004.

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

9. RISK MANAGEMENT (Continued)

Casualty Coverage	2005	2004
Assets	\$29,719,675	\$27,437,169
Liabilities	<u>(15,994,168)</u>	<u>(13,880,038)</u>
Retained earnings	<u>\$13,725,507</u>	<u>\$13,557,131</u>

Property Coverage	2005	2004
Assets	\$4,443,332	\$3,648,272
Liabilities	<u>(1,068,245)</u>	<u>(540,073)</u>
Retained earnings	<u>\$3,375,087</u>	<u>\$3,108,199</u>

The Casualty Coverage assets and retained earnings above include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The Village's share of these unpaid claims is approximately \$11,300.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Village of Dunkirk
Hardin County
P.O. Box 115
Dunkirk, Ohio 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, 2005 and 2004, and have issued our report thereon dated October 31, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. 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. Reportable conditions are described in the accompanying schedule of findings as items 2005-004 and 2005-005.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the Village's management dated October 31, 2006 we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-003. In a separate letter to the Village's management dated October 31, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and the Village Council. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

October 31, 2006

VILLAGE OF DUNKIRK
HARDIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004

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

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that 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 County can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance 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 Council.

2. **Blanket certificate** – Fiscal officers may prepare "blanket" certificates not exceeding an amount established by resolution or ordinance adopted by the legislative authority, against any specific line item account or running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket certificate** – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

Ninety-eight percent of the expenditures tested were not certified by the Fiscal Officer prior to making orders for the expenditure of Village funds. In addition, none of the three 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 2005-001
(Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, the Village's Fiscal Officer should certify that the funds are or will be available prior to the obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

The Village Fiscal Officer should certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Rev. Code Section 5705.09 states each subdivision must establish a special fund for each class of revenue derived from a source other than the general property tax, which the law requires to be used for a particular purpose. **Auditor of State Bulletin 98-013** outlines the procedures for the treatment of money received from the Federal Emergency Management Agency (FEMA). The Village failed to establish a separate fund to account for a FEMA grant, in the amount of \$38,176 during 2005. The grant proceeds were accounted for in the Village's General Fund. In addition, the Village recorded the receipt of this grant as miscellaneous revenue instead of intergovernmental revenue. The accompanying financial statements and accounting records have been adjusted to reflect this activity in a separate fund.

The Village Fiscal Officer and the Audit Committee should review the Ohio Compliance Supplement and Auditor of State Bulletins to gain a more thorough understanding of the required funds for the Village.

FINDING NUMBER 2005-003

Noncompliance Citation

Ohio Rev. Code Section 5705.10 states that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.

The Village recorded all of the repayment of the prior audit finding for recovery in the General Fund. Prior audit finding 2003-001 indicates that \$111 was to be repaid to the General Fund; \$1,424 to the Water Fund; \$1,042 to the Sewer Fund; and \$65 to the Water Debt Fund. The Village recorded gasoline tax revenue, in the amount of \$1,153 during 2005 and \$1,220 during 2004, belonging to the State Highway Fund in the Street Construction, Maintenance and Repair Fund. The accompanying financial statements and accounting records have been adjusted to reflect these receipts in the correct funds.

The Village Audit Committee should periodically perform a detailed review of the accounting records to help identify revenue recording errors.

FINDING NUMBER 2005-004

Reportable Condition

Deficiencies in Financial Operations

To help reduce the risk of 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 2005 and 2004, the following weaknesses were identified in the financial operations of the Village:

- One business was billed at a rate that did not appear to agree with the utility ordinance;
- Some 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 handwritten amount;
- Adjustments to increase or reduce utility account balances were made during 2004 and part of 2005 without evidence that the adjustments were necessary or had been approved by Council or the Board of Public Affairs;
- Bank deposit slips did not always provide sufficient detail to show if they pertained to utility payments or other Village receipts. In addition, the utility deposit slips did not always show the amount collected in cash or list the individual checks;
- Three payments were made without an invoice;
- The check number on 10 checks did not agree with the check number in the accounting system.

To help reduce the risk that errors and/or irregularities could occur and remain undetected in the normal course of business, the Village Council, BPA and/or audit committee 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;
- 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;
- Adjustment to utility accounts should be approved individually by the Board of Public Affairs;
- 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;
- Council and BPA should not approve the payment of bills unless the list of bills is printed from the Village's accounting system and each payment has a supporting invoice;
- Checks should be compared to financial reports to assure the check numbers agree.

Periodically the Audit Committee should review the accounting records to help assure the above noted deficiencies no longer exist.

FINDING NUMBER 2005-005

Reportable Condition

Depositing of Utility Revenue

During 2004, the following variances were noted between the Utility System Monthly Cash Receipt Journal and the bank deposit amount.

- Cash Receipt Journal dated 6/3/04 had receipts of \$80.00 and \$98.00 listed that were not deposited;
- Cash Receipt Journal dated 6/7/04 had total receipts of \$1,983.84; however the deposit slip dated 6/7/04 only showed \$1,364.84 being deposited into the bank;
- Cash Receipt Journal dated 6/12/04 had total receipts of \$612.13; however the deposit slip dated 6/12/04 only showed \$322.13 being deposited into the bank;
- Cash Receipt Journal dated 6/13/04 had a receipt of \$130.00 that was not deposited;
- Cash Receipt Journal dated 6/20/04 had a receipt of \$50.00 that was not deposited;
- Cash Receipt Journal dated 8/7/04 had a receipt of \$80.55 listed that was not deposited;
- Cash Receipt Journal dated 8/7/04 had a receipt of \$43.68 listed that there was no deposit noted;
- Cash Receipt Journal dated 8/14/04 had total receipts of \$1,863.86; however the deposit slip dated 8/14/04 only showed \$1,398.41 being deposited into the bank;
- Cash Receipt Journal date 8/16/04 had total receipts of \$223.38 listed that there was no deposit noted.

The total shortage between Cash Receipt Journal and the amount deposited in the bank is \$2,080.06; however on August 27, 2004 an unsupported cash deposit was made in the amount of \$2,100.38 to the bank and recorded in the Utility Funds. The difference between the shortage in the amount deposited and the unsupported deposit is \$20.32.

The Audit Committee should perform a periodic reconciliation between the utility department "cash receipts journal", pay-in orders, bank deposits, and the amount recorded in the general ledger. In addition, monthly reconciliations should be performed between all Village pay-in orders, bank deposits, and receipts recorded in the general ledger.

OFFICIAL'S RESPONSE

We did not receive responses from Officials to these findings.

**VILLAGE OF DUNKIRK
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer</u> Valid; <i>Explain:</i>
2003-001	ORC Sec. 9.39 – Finding for Recovery rendered against the fiscal officer.	Yes - Repaid	
2003-002	ORC Sec. 5705.41 (D) – Failure to certify funds prior to expenditures.	No	Repeated as Finding #2005-001
2003-003	Village Ordinance 280-01 – The Village failed to follow their adopted customer utility rates.	Yes	
2003-004	Deficiencies in Financial Operations and the Establishment of an Audit Committee.	No	Repeated as Finding # 2005-004



**Auditor of State
Betty Montgomery**

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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
DECEMBER 12, 2006**