

CITY OF DOVER
FINANCIAL STATEMENTS
SEPTEMBER 30, 2000

MERRELL HUTCHENS
CERTIFIED PUBLIC ACCOUNTANTS



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INDEPENDENT AUDITORS' REPORT

City Council
Dover, Idaho

We have audited the accompanying general purpose financial statements of the City of Dover, Idaho, as of September 30, 2000. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Audit 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 general purpose financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Dover, Idaho, as of September 30, 2000, and the results of its operations and its cash flows of its water and sewer funds for the year then ended in conformity with generally accepted accounting principles.

The 1999 general purpose financial statements of the City of Dover were audited by other accountants whose report dated April 17, 2000 presents fairly in all material respects the financial position and the results of its operations and changes in fund balance for the year ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 13, 2001, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City of Dover, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Merrell & Hutchens, P.A.

Merrell & Hutchens, P.A.
June 12, 2001

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CITY OF DOVER
 COMBINED BALANCE SHEETS - ALL FUND TYPES AND ACCOUNT GROUPS
 September 30, 2000

	<u>Governmental</u>
	<u>General</u>
ASSETS	
Cash	\$ 118,075
Accounts Receivable	
Due from Other Funds	
Cash - Restricted	216
Property, Plant & Equipment	
Accumulated Depreciation	
	<hr/>
Total Assets	<u>\$ 118,291</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable & Accrued Expenses	\$ 6,168
Accrued Interest Payable	
Due to Other Funds	25,999
Long-Term Debt	
	<hr/>
Total Liabilities	<u>32,167</u>
 Fund and Account Group Equity:	
Investment in General Fixed Assets	
Contributed Capital	
Retained Earnings (Deficit):	
Restricted for Bond Retirement	
Unrestricted	
Fund Balances:	
Unreserved	86,124
	<hr/>
Total Fund and Account Group Equity	<u>86,124</u>
Total Liabilities and Fund and Account Group Equity	<u>\$ 118,291</u>

The accompanying notes are an integral part of these financial statements.

Types Special Revenue Street)	Enterprise Funds			General Fixed Assets Account Group	Totals (Memo Only)
	Water	Sewer	Combined		
-	\$ 25,528	\$ 18,772	\$ 44,300	\$ -	\$ 162,375
	2,824	6,914	9,738		9,738
8,248	21,137		21,137		29,385
	12,437	33,016	45,453		45,669
	772,596	2,708,056	3,480,652	31,322	3,511,974
	(169,330)	(268,058)	(437,388)		(437,388)
<u>8,248</u>	<u>\$ 665,192</u>	<u>\$ 2,498,700</u>	<u>\$ 3,163,892</u>	<u>\$ 31,322</u>	<u>\$ 3,321,753</u>
255	\$ 515	\$ 6,199	\$ 6,714	\$ -	13,137
	799	14,779	15,578		15,578
		3,386	3,386		29,385
	193,624	554,961	748,585		748,585
<u>255</u>	<u>194,938</u>	<u>579,325</u>	<u>774,263</u>	<u>-</u>	<u>806,685</u>
	499,145	715,584	1,214,729	31,322	31,322
	12,437	33,016			1,214,729
	(41,328)	1,170,775	1,129,447		-
<u>7,993</u>					1,129,447
					94,117
<u>7,993</u>	<u>470,254</u>	<u>1,919,375</u>	<u>2,344,176</u>	<u>31,322</u>	<u>2,469,615</u>
<u>8,248</u>	<u>\$ 665,192</u>	<u>\$ 2,498,700</u>	<u>\$ 3,118,439</u>	<u>\$ 31,322</u>	<u>\$ 3,276,300</u>

CITY OF DOVER
 COMBINED STATEMENTS OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
 For the Year Ended September 30, 2000

	<u>General</u>	<u>Special Revenue (Street)</u>	<u>Totals (Memo Only)</u>
Revenues:			
Property Taxes	\$ 38,889	\$ 19,257	\$ 58,146
Other Taxes	25,505	3,969	29,474
Interest	3,619		3,619
Other	18,812		18,812
	<u>86,825</u>	<u>23,226</u>	<u>110,051</u>
Expenditures:			
General Government	47,616		47,616
Street and Highways		24,093	24,093
	<u>47,616</u>	<u>24,093</u>	<u>71,709</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	39,209	(867)	38,342
Fund Balance:			
Beginning of Year	<u>46,915</u>	<u>8,860</u>	<u>55,775</u>
End of Year	<u>\$ 86,124</u>	<u>\$ 7,993</u>	<u>\$ 94,117</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DOVER
 COMBINED STATEMENTS OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 ALL GOVERNMENTAL FUND TYPES
 For the Year Ended September 30, 2000

	General Fund			Special Revenue Fund			Variance Favorable (Unfavorable)
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	
Revenues:							
Property Taxes	\$ 32,726	\$ 38,889	\$ 6,163	\$ 24,909	\$ 19,257	\$ (5,652)	
Other Taxes	26,293	25,505	(788)		3,969	3,969	
Interest		3,619	3,619		-	-	
Other Revenues		18,812	18,812		-	-	
Total Revenues	59,019	86,825	27,806	24,909	23,226	(1,683)	
Expenditures:							
General Government	102,293	47,616	54,677				
Street and Highways							
Total Expenditures	102,293	47,616	54,677	0	24,093	(24,093)	
Excess (Deficiency) of Revenues Over (Under) Expenditures	(43,274)	39,209	82,483	24,909	(867)	(25,776)	
Fund Balance:							
Beginning of Year	18,365	46,915					
End of Year	\$ (24,909)	\$ 86,124	\$ 82,483	\$ 24,909	\$ 7,993	\$ (25,776)	

CITY OF DOVER
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
For the Year Ended September 30, 2000

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues:			
Charges for Services	\$ 33,264	\$ 86,792	\$ 120,056
Hook up Fees		7,000	7,000
Interest Income	1,719	923	2,642
Miscellaneous Income		139	139
Total Operating Revenues	<u>34,983</u>	<u>94,854</u>	<u>129,837</u>
Operating Expenses:			
Administration	9,559	28,609	38,168
Maintenance & Repairs	8,000	84,928	92,928
Depreciation	19,175	34,726	53,901
Interest	9,868	34,906	44,774
Total Operating Expenses	<u>46,602</u>	<u>183,169</u>	<u>229,771</u>
Income (Loss) from Operations	(11,619)	(88,315)	(99,934)
Retained Earnings:			
Beginning of Year	<u>(17,272)</u>	<u>1,292,106</u>	<u>1,274,834</u>
End of Year	<u>\$ (28,891)</u>	<u>\$ 1,203,791</u>	<u>\$ 1,174,900</u>
Contributed Capital:			
Beginning of Year	\$ 499,145	\$ 532,644	\$ 1,031,789
Grant Funds for Construction	<u>-</u>	<u>182,940</u>	<u>182,940</u>
End of Year	<u>\$ 499,145</u>	<u>\$ 715,584</u>	<u>\$ 1,214,729</u>

The accompanying notes are an integral part of these financial statements.

CITY OF DOVER
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPES
For the Year Ended September 30, 2000

	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income (Loss) from Operations	\$ (11,619)	\$ (88,315)	\$ (99,934)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	19,175	34,726	53,901
(Increase) Decrease in Accounts Receivable	503	(2,290)	(1,787)
(Decrease) in Accounts Payable and Accrued Expenses	(83)	(29,855)	(29,938)
Increase in Accrued Interest Payable	15	10,022	10,037
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	<u>7,991</u>	<u>(75,712)</u>	<u>(67,721)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital Outlay for New Sewer Plant		(351,671)	(351,671)
Net Increase (Decrease) in Long-Term Debt	(2,781)	120,724	117,943
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	(2,781)	(230,947)	(233,728)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease in Amounts Due from Other Funds	(21,137)	52,647	31,510
Increase (Decrease) in Amounts Due to Other Funds	(6,579)	(15,951)	(22,530)
Decrease in Restricted Cash	6,685	40,708	47,393
Grant Funds Received		182,940	182,940
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	<u>(21,031)</u>	<u>260,344</u>	<u>239,313</u>
TOTAL CASH FLOWS	(15,821)	(46,315)	(62,136)
UNRESTRICTED CASH - OCTOBER 1, 1999	<u>41,349</u>	<u>65,087</u>	<u>106,436</u>
UNRESTRICTED CASH - SEPTEMBER 30, 2000	<u>\$ 25,528</u>	<u>\$ 18,772</u>	<u>\$ 44,300</u>
Supplemental Information:			
Interest Paid	<u>\$ 9,868</u>	<u>\$ 24,884</u>	<u>\$ 34,752</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF DOVER
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The City of Dover, Idaho (the City) operates under a Mayor/Council form of Government. The City's major operations include street improvement and maintenance, general and administrative services and water and sewer services.

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City.

The financial statements of the City potentially include those separately administered organizations that are controlled by or are dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing body. Based on the foregoing criteria, the City has not included financial statements of any organizations not directly administered by the City.

The accounting policies of the City of Dover conform to generally accepted accounting principle as applicable to governments.

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are to be accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in these financial statements into governmental funds (General Fund and special Revenue (Street) Fund), two proprietary funds (enterprise funds for water and sewer) and one account group (General Fixed Assets). Account groups are not "funds". They are concerned only with the measurement of financial position. They are not involved with the measurement of result of operations.

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds.

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects), which are legally restricted to expenditures for specific purposes. The City's special revenue fund is used to account for revenues and expenditures allocated to street and road maintenance and construction.

**CITY OF DOVER
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Proprietary Funds – Enterprise Funds

The City's operations of a water utility and a sewer utility are accounted for in enterprise funds. Enterprise funds are used to account for financial activity that is:

- a. Financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or
- b. Where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprises funds are accounted for on a cost of services or "capital-maintenance" measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on the balance sheet.

General Fixed Assets Account Group

The accounting and reporting treatment applied to the fixed assets associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources of "available spending resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings and lighting systems are capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

As assets are sold or otherwise relieved, the related cost or estimated cost is removed from the General Fixed Assets Account Group.

**CITY OF DOVER
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, cont.

Total Columns on Combined Statements

Total columns on the combined statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Budgetary Basis of Accounting

Budgets for the General and Special Revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed in any fund type or account group.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using a modified accrual basis of accounting. Their revenues are recognized when they become susceptible to accrual, that is, measurable and available as net current assets. Taxes are considered “measurable” when available to finance expenditures of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Proprietary funds use the economic resources measurement focus. The accounting objectives are net income, financial position, and cash flows. All assets and liabilities associated with proprietary fund’s activities are included on its balance sheet. Proprietary fund equity is segregated into contributed capital and retained earnings.

NOTE 2 - CASH AND INVESTMENTS

The City may invest idle public funds in accordance with Idaho Code. The Code provisions require deposits to be made only to state or federally chartered banks, which are currently on the approved list published by the office of the State Treasurer. Investments of idle public funds are also limited to certificates of deposit with those banks, to securities issued by the United State Treasury, or to deposits with the Treasurer of the State of Idaho.

**CITY OF DOVER
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000**

NOTE 2 – CASH AND INVESTMENTS, cont.

The City's cash in checking and saving accounts is insured by FDIC on deposits up to \$100,000 per account held with a bank. During the year, no accounts exceeded this coverage. Because the City is not issued securities for its deposits, the bank has not been assigned a risk category.

NOTE 3 – ACCOUNTS RECEIVABLE AND TAXES RECEIVABLE

Property taxes attach as an enforceable lien on real property. They are levied in October of each year and are due and payable in two equal installments. The first installment is due on or before December 20, and the second is due on or before June 20. Property tax revenues are recognized when they become measurable and available. "Available" includes those property taxes receivable expected to be collected within sixty days after year-end. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided. All property taxes are assessed and collected by Bonner County.

"Property Taxes Receivable" include revenues allocable to the fiscal year ended September 30, 2000, which were not remitted to the City until after September 30, 2000, "Accounts Receivable" represent taxes collected and held by the County at September 30, but not remitted to the City until after September 30, 2000.

NOTE 4 – PROPERTY AND EQUIPMENT

Changes in the General Fixed Assets Account group for the year ended September 30, 2000 are as follows:

Balance, September 30, 1999	\$ 26,573
Additions:	
General	1,898
Streets	<u>2,851</u>
Sub-Total:	31,322
Deletions:	<u>-0-</u>
Balance, September 30, 2000	<u>\$ 31,322</u>

NOTE 5 – DEFERRED REVENUE

Under the modified accrual basis of accounting, only revenue that is measurable and available is recognized in financial statements of governmental type funds. Because property taxes levied in a year may not be remitted by the taxpayer for up to three years, the taxes are not available as a spendable resource until received by the City. Property taxes levied prior to September 30, 2000 but not paid to the City within sixty days after September 30 are potentially reflected on the accompanying financial statements as deferred revenue; however, such amounts were not material.

**CITY OF DOVER
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000**

NOTE 6 – INSURANCE

Insurance coverage is carried through Idaho Counties Risk Management Program (ICRMP). The effective coverage period is October 1, 1999 to September 30, 2000. Liability coverage is carried at \$2,000,000 per occurrence and \$3,000,000 aggregate per year. There is also coverage on the City for employee dishonesty. Premiums for workmen's compensation are paid to the State Insurance Fund.

NOTE 7 – PENSION PLAN

The Public Employee Retirement System of Idaho (PERSI), a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members' years of service, age and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Designed as a mandatory system for eligible state and school district employees, the legislation provides for other political subdivisions to participate by contractual agreement with PERSI. Financial reports for the plan are available from PERSI upon request.

After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 1.917% of the average monthly salary for the highest consecutive 42 months.

For the year ended September 30, 2000, the required contribution rate for general employees was 9.77% and 5.86% of covered payroll for the City of Clark Fork and its employees, respectively. The City of Clark Fork contributions required and paid were \$4,773 for the year ended September 30, 2000.

NOTE 8 – INTERFUND ASSETS/LIABILITIES

Amounts due from and due to other funds at September 30, 2000 were:

<u>FUND</u>	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
General Fund	\$ 0	\$ 25,999
Special Revenue Fund	8,248	0
Water Fund	21,137	0
Sewer Fund	<u>0</u>	<u>3,386</u>
Totals	<u>\$ 29,385</u>	<u>\$ 29,385</u>

**CITY OF DOVER
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000**

NOTE 9 – LONG -TERM DEBT

Long-term debt is included in the Water and Sewer Fund. Long-term debt consisted of:

	<u>Water</u>	<u>Sewer</u>
1991 Water Revenue Bonds – original principal of \$193,700. Principal and interest (at 5% annually) of \$11,289 due September 1, annually, over 40 years, to the US Department of Agriculture – Rural Development	\$ 175,075	
1995 Parity Lien Water Revenue Bonds – original principal of \$20,300. Principal and interest (at 5.25% annually) of \$1,359 due September 1, annually, over 30 years, to the US Department of Agriculture – Rural Development	18,549	
1984 Parity Lien Revenue Bond – original principal of \$157,500. Principal and interest (at 5% annually) of \$10,247 due May 1, annually, over 30 years to General Electric Credit Corporation		\$ 104,961
2000 Sewer Revenue Bonds, original principal of \$450,000. Principal and interest (at 4.375% annually) of \$27,225 due in December annually over 30 years, payable to the US Department of Agriculture – Rural Development		<u>450,000</u>
Totals	<u>\$ 193,624</u>	<u>\$ 554,961</u>

Scheduled maturities of notes payable for the years ending September 30 are:

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
2001	\$ 2,920	\$ 12,537	\$ 15,457
2002	3,067	13,116	16,183
2003	3,222	13,722	16,944
2004	3,384	14,358	17,742
2005	3,555	15,022	18,577
Thereafter	<u>177,476</u>	<u>486,206</u>	<u>663,682</u>
Total	<u>\$193,624</u>	<u>\$554,961</u>	<u>\$748,585</u>

**CITY OF DOVER
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2000**

NOTE 9 – LONG-TERM DEBT, cont.

This is a summary of bond transactions for the City for the year:

	Water	Sewer	Total
Bonds payable at October 1, 2000	\$196,405	\$434,237	\$630,642
Additional borrowing through 1999 Sewer Bonds		116,870	116,870
Retirement of 1999 Sewer Bonds		(450,000)	(450,000)
New financing through US Department of Agriculture		450,000	450,000
Bond Payments	<u>(2,781)</u>	<u>3,854</u>	<u>1,073</u>
Bonds Payable at September 30, 2000	<u>\$193,624</u>	<u>\$554,961</u>	<u>\$748,585</u>

NOTE 10 – FUND EQUITY

Contributed capital is recorded for receipt of capital grants or contribution from developers, customers or other funds. Reserves represent those portion of fund equity not appropriate for expenditure or legally segregated for specific future use.

NOTE 11 – SYSTEM UPGRADE

The City has been required to construct a new sewage treatment plant/disposal system by Idaho Department of Health and Welfare, Division of Environment Quality (DEQ). The new system went on-line in November, 1999. The City has expended approximately \$1,077,000 on construction and engineering costs related to the new treatment facility. Most of the construction costs have been financed through an Idaho Community Development Block Grant for \$500,000 and Rural Development Revenue Bonds for \$450,000.

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Mayor and City Council
City of Dover
Dover, Idaho

We have audited the general purpose financial statements of the City of Dover, Idaho, as of and for the year ended September 30, 2000 and have issued our report thereon dated June 12, 2001. We conducted our audit in accordance with *Government Auditing Standards* and the standards applicable to financial audits issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Dover general purpose financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Report

In planning and performing our audit, we considered the City of Dover's control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. 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 relatively low level the risk that misstatements in amount that would be material in relation to the general purpose 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. We noted one matter involving the internal control over financial reporting and its operation that we consider to be material weakness, as described below.

During the year, the City changed computerized accounting systems. City personnel did not receive adequate support in setting up the system and establishing posting routines. Consequently, there were numerous posting errors. These errors affected the recording of opening balances in the system as well as recording transactions during the year. As a result, it will be necessary to adjust the opening balances established in the system as well as make further adjusting entries for the posting of transaction during the year.

Specifically, many transactions were posted to a Quickbooks system account called "Opening Balance Equity" as well as "Suspense". The only reason that anything should ever be posted to either of these accounts is in instances when the person posting the transaction does not know what account to post to. In these instances, the person should determine the correct posting as soon as possible and make certain that the posting is corrected. These accounts should be completely cleared no less frequently than monthly.

Also, posting of cash transfers between bank accounts was unduly complicated. Since the City has many cash accounts, it is important to record transfers cleanly and concisely. This should be done by simply charging one account and crediting the other. Such transactions should not go through accounts payable, "opening balance equity," or any accounts other than the two cash accounts affected.

This report is intended solely for the information and use of the management, Mayor and City Council and others within the organization or the City of Dover.

Merrell & Hutchens, P.A.

MERRELL & HUTCHENS, P.A.
June 12, 2001

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and City Council
City of Dover
Dover, Idaho

We have audited the compliance of the City of Dover (the City) with the types of compliance requirements described in the "US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended September 30, 2000. The City's major federal programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States and OMB Circular A-133, "Audit of States, Local Governments, and Nonprofit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2000.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Merrell & Hutchens, P.A.

Merrell & Hutchens, P.A.
June 12, 2001

CITY OF DOVER
 Schedule of Federal Awards
 For the Year Ended September 30, 2000

<u>Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Cash Received</u>	<u>Federal Expenditures</u>
DIRECT:			
U.S. Department of Agriculture, Rural Development Water System Project, Waste and Water Systems for Rural Communities:			
Bond Proceeds	10.760	\$ 450,000	\$ 450,000
Grant Proceeds	10.760	150,984	150,984
INDIRECT:			
U.S. Department of Housing and Urban Development Pass-Through: Idaho Community Development Block Grant Program			
	14.228	31,956	31,956
Totals		<u>\$ 632,940</u>	<u>\$ 632,940</u>

Note 1 - Basis of Presentation

The accompanying Schedule of Federal Awards includes the federal grant activity of City of Dover, Idaho presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments and Local Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

The accompanying notes are an integral part of these financial statements.

**CITY OF DOVER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2000**

FINDINGS:

There were no findings of noncompliance with requirements applicable to federal programs.

QUESTIONED COSTS:

No questioned costs were noted.