

CITY OF DOVER
FINANCIAL STATEMENTS
SEPTEMBER 30, 2002
(with Independent Auditors' Report thereon)



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INDEPENDENT AUDITORS' REPORT

City Council
City of Dover
Dover, Idaho

We have audited the accompanying general-purpose financial statements of the City of Dover, Idaho, as of and for the year ended September 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City of Dover, Idaho, 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 auditing standards generally accepted in the United States of America 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 misstatement. 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, 2002, and the results of its operations and its cash flows of its proprietary fund types for the year then ended in conformity with principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 17, 2003, on our consideration of the City of Dover, Idaho'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 result of our audit.

Hutchens & Shropshire, LLP
January 17, 2003

CITY OF DOVER

Combined Balance Sheets

All Fund Types and Account Groups

September 30, 2002

	Governmental Fund Types		Enterprise Fund Types				Totals
	General	Special	Water	Sewer	Combined	General Fixed Assets Account Group (Memo Only)	
		Revenue (Street)					
ASSETS							
Cash	\$ 125,999	\$ -	\$ 41,555	\$ 20,348	\$ 61,903	\$ -	\$ 187,902
Accounts receivable, net of allowances of \$0	7,732	3,877	1,263	1,900	3,163	-	14,772
Due from other funds	11,287	27,247	-	-	-	-	38,534
Cash - restricted	2,456	-	10,584	33,838	44,422	-	46,878
Property, plant and equipment	-	-	772,596	2,807,881	3,580,477	32,542	3,613,019
Accumulated depreciation	-	-	(207,680)	(338,235)	(545,915)	-	(545,915)
	<u>\$ 147,474</u>	<u>\$ 31,124</u>	<u>\$ 618,318</u>	<u>\$ 2,525,732</u>	<u>\$ 3,144,050</u>	<u>\$ 32,542</u>	<u>\$ 3,355,190</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued expenses	\$ 6,038	\$ 1,213	\$ 1,005	\$ 3,674	\$ 4,679	\$ -	\$ 11,930
Accrued interest payable	-	-	227	16,141	16,368	-	16,368
Due to other funds	-	-	2,987	35,547	38,534	-	38,534
Current portion of long-term debt	-	-	3,222	13,951	17,173	-	17,173
Long-term debt, net of current portion	-	-	184,414	510,765	695,179	-	695,179
Total liabilities	<u>6,038</u>	<u>1,213</u>	<u>191,855</u>	<u>580,078</u>	<u>771,933</u>	<u>-</u>	<u>779,184</u>
Fund and Account Group equity:							
Investment in General Fixed Assets	-	-	-	-	-	32,542	32,542
Contributed capital	-	-	499,145	804,816	1,303,961	-	1,303,961
Retained earnings restricted for bond retiree	-	-	10,584	33,838	44,422	-	44,422
Retained earnings - unrestricted	-	-	(83,266)	1,107,000	1,023,734	-	1,023,734
Fund balance - reserved	2,456	-	-	-	-	-	2,456
Fund balance - unreserved	138,980	29,911	-	-	-	-	168,891
Total Fund and Account Group equity	<u>141,436</u>	<u>29,911</u>	<u>426,463</u>	<u>1,945,654</u>	<u>2,372,117</u>	<u>32,542</u>	<u>2,576,006</u>
	<u>\$ 147,474</u>	<u>\$ 31,124</u>	<u>\$ 618,318</u>	<u>\$ 2,525,732</u>	<u>\$ 3,144,050</u>	<u>\$ 32,542</u>	<u>\$ 3,355,190</u>

The notes are an integral part of these financial statements.

Black Bean, Brown Rice, Quinoa and Mango Salad

Salad:

2 cups Black Beans (rinsed)

1 cup brown rice (cooked)

½ cup chopped red onion

1 bell pepper (chopped)

1 clove garlic (chopped)

1 bunch cilantro (chopped) 

CITY OF DOVER

Combined Statements of Revenues, Expenditures and Changes in Fund Balances

All Governmental Fund Types

For the year ended September 30, 2002

	<u>General</u>	<u>Special Revenue (Street)</u>	<u>Totals (Memo Only)</u>
Revenues:			
Property taxes	\$ 32,510	\$ 27,312	\$ 59,822
Other taxes	27,727	16,902	44,629
Interest	900	-	900
Other	29,216	-	29,216
	<u>90,353</u>	<u>44,214</u>	<u>134,567</u>
Total revenues			
Expenditures:			
General government	64,333	-	64,333
Street and highways	-	41,538	41,538
	<u>64,333</u>	<u>41,538</u>	<u>105,871</u>
Total expenditures			
Excess (deficiency) of revenues over (under) expenditures	26,020	2,676	28,696
Fund balance:			
Beginning of year	<u>115,416</u>	<u>27,235</u>	<u>142,651</u>
End of year	<u>\$ 141,436</u>	<u>\$ 29,911</u>	<u>\$ 171,347</u>

The notes are an integral part of these financial statements.

CITY OF DOVER

Statement of Revenues, Expenses and Changes in Retained Earnings

All Proprietary Fund Types

For the year ended September 30, 2002

	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 28,508	\$ 82,854	\$ 111,362
Hook up fees	3,550	6,140	9,690
Interest income	844	2,484	3,328
Miscellaneous income	-	1,679	1,679
Total operating revenues	<u>32,902</u>	<u>93,157</u>	<u>126,059</u>
Operating expenses:			
Administration	10,444	47,125	57,569
Maintenance and repairs	16,431	21,535	37,966
Depreciation	19,175	35,119	54,294
Interest	9,020	23,758	32,778
Total operating expenses	<u>55,070</u>	<u>127,537</u>	<u>182,607</u>
Income (loss) from operations	(22,168)	(34,380)	(56,548)
Retained earnings, beginning of year	<u>(50,514)</u>	<u>1,175,218</u>	<u>1,124,704</u>
Retained earnings, end of year	<u>\$ (72,682)</u>	<u>\$ 1,140,838</u>	<u>\$ 1,068,156</u>

The 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, 2002

	General Fund		Special Revenue Fund		Variance Favorable (Unfavorable)
	Budget	Actual	Budget	Actual	
Revenues:					
Property taxes	\$ 34,719	\$ 32,510	\$ 18,000	\$ 27,312	\$ 9,312
Other taxes	25,239	27,727	17,082	16,902	(180)
Interest	808	900	-	-	-
Other	12,234	29,216	-	-	-
Total revenues	73,000	90,353	35,082	44,214	9,132
Expenditures:					
General government	73,000	64,333	-	-	-
Street and highways	-	-	35,082	41,538	(6,456)
Total expenditures	73,000	64,333	35,082	41,538	(6,456)
Excess (deficiency) of revenues over (under) expenditures		26,020		2,676	2,676
Fund balance:					
Beginning of year	5,258	115,416	-	27,235	(27,235)
End of year	\$ 5,258	\$ 141,436	\$ -	\$ 29,911	\$ (24,559)

The 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, 2002

	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>
Cash flows from operating activities:			
Net loss from operations	\$ (22,168)	\$ (34,380)	\$ (56,548)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	19,175	35,119	54,294
Decrease in accounts receivable	1,839	7,922	9,761
Increase in accounts payable and accrued expenses	515	344	859
Decrease in accrued interest payable	(560)	(380)	(940)
Total cash flows from operating activities	<u>(1,199)</u>	<u>8,625</u>	<u>7,426</u>
Cash flows from investing activities:			
Purchases of assets	-	(1,190)	
Repayments of long-term debt	(3,067)	(13,334)	(16,401)
Total cash flows from investing activities	<u>(3,067)</u>	<u>(14,524)</u>	<u>(17,591)</u>
Cash flows from financing activities:			
Decrease in amounts due from other funds	15,315	-	15,315
Increase in amounts due to other funds	2,987	13,437	16,424
Total cash flows from financing activities	<u>18,302</u>	<u>13,437</u>	<u>31,739</u>
Total cash flows	14,036	7,538	21,574
Cash and cash equivalents- October 1, 2001	<u>38,103</u>	<u>46,648</u>	<u>84,751</u>
Cash and cash equivalents - September 30, 2002	<u>\$ 52,139</u>	<u>\$ 54,186</u>	<u>\$ 106,325</u>
Supplemental Information:			
Interest paid	<u>\$ 9,581</u>	<u>\$ 24,138</u>	<u>\$ 33,719</u>

The notes are an integral part of these financial statements.

CITY OF DOVER
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

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.

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, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 chargers, 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, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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. Inter-fund 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.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

CITY OF DOVER

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The most significant area of estimates in these financial statements involves the issues of depreciation methods and depreciable lives for fixed assets.

Property and Equipment

Property and equipment and infrastructure type assets are carried at cost. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets:

Water system	40 years
Sewer plant	75 years
Equipment and vehicle	5 to 10 years

Major additions and betterments are capitalized. Cost of maintenance and repairs that do not improve or extend the life of the associated assets are expensed currently. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income. The City capitalizes interest costs associated with the construction of facilities.

Revenue and Expense Recognition

The City recognizes revenues and expenses from water and sewer operations on the accrual basis in accordance with generally accepted accounting principles. Revenues are recognized when customers are billed for their monthly fees. Expenses are recognized as costs are incurred.

Cash Equivalents

For the purposes of the statements of cash flows the City considers all highly liquid, non-restricted debt instruments with original maturities of three months or less to be cash equivalents.

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.

The City's cash in the 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.

CITY OF DOVER

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2002

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" includes revenues allocable to the fiscal year ended September 30, 2002, which were not remitted to the City until after September 30, 2002. "Accounts Receivable" represents taxes collected and held by the County at September 30, but not remitted to the City until after September 30, 2002.

NOTE 4 – PROPERTY AND EQUIPMENT

Changes in the General Fixed Assets Account Group for the year ended September 30, 2002 are:

Balance, September 30, 2001	\$31,322
Additions:	
General	1,220
Street	-
Sub-total	<u>32,542</u>
Deletions	-
Balance, September 30, 2002	<u>\$32,542</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, 2002 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.

NOTE 6 – INSURANCE

Insurance coverage is carried through Idaho Counties Risk Management Program (ICRMP). The effective coverage period is October 1, 2001 to September 30, 2002. 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.

CITY OF DOVER

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

NOTE 7 – INTERFUND ASSETS/LIABILITIES

Amounts due from and due to other funds at September 30, 2002 were:

	Due from other Funds	Due to other Funds
General fund	\$11,287	
Street fund	27,247	
Water fund		\$2,987
Sewer fund		35,547
	<u>\$38,534</u>	<u>\$38,534</u>

NOTE 8 – 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 – US Department of Agriculture – Rural Development (USDA)- payable in annual installments of \$11,289 at 5% interest.	\$169,878	
1995 Parity Lien Water Revenue Bond – USDA – payable in annual installments of \$1,359 at 5.25% interest.	17,758	
1984 Parity Lien Revenue Bond – GMAC Commercial Mortgage – payable in annual installments of \$10,247 at 5% interest.		\$90,233
2000 Sewer Revenue Bond – USDA – payable in annual installments of \$27,225 at 4.375% interest.		434,483
Totals	<u>\$187,636</u>	<u>\$524,716</u>

CITY OF DOVER
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

NOTE 8 – LONG -TERM DEBT - continued

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

	Water	Sewer	Total
2003	\$3,222	\$13,951	\$17,173
2004	3,384	14,598	17,982
2005	3,555	15,274	18,829
2006	3,733	15,982	19,715
2007	3,921	16,722	20,643
Thereafter	169,821	448,189	618,010
	<u>\$187,636</u>	<u>\$524,716</u>	<u>\$712,352</u>

NOTE 9 – FUND EQUITY

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

NOTE 10 – RELATED PARTY TRANSACTIONS

Some of the City of Dover board members are City customers. Each member account is charged for monthly water and sewer services. Board members were billed \$2,880 for the year ended September 30, 2002. As of September 30, 2002, \$269 was outstanding on board member accounts.

NOTE 11 – 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. Effective September 30, 2000, the annual service retirement allowance for each month of credited service is 2.0% of the average monthly salary for the highest consecutive 42 months.

For the years ended September 30, 2002 and 2001, the required contribution rate for general employees was 9.77% and 5.86% of covered payroll for the City of Dover and its employees, respectively. The City did not participate in PERSI during 2001. The City of Dover contributions required and paid were \$8,162 for the year ended September 30, 2002.



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 financial statements of City of Dover as of and for the year ended September 30, 2002 and have issued our report thereon dated January 17, 2003. 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 City of Dover's 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 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 City of Dover's control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 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 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 no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hutchens & Shropshire

Hutchens & Shropshire, LLP

Certified Public Accountants

January 17, 2003