

CITY OF SALMON - STATE OF IDAHO
SALMON, IDAHO
ANNUAL FINANCIAL REPORT
and
COMPLIANCE REPORTS
with
INDEPENDENT AUDITOR'S REPORT
For the Year Ended September 30, 2015

**CITY OF SALMON - STATE OF IDAHO
 FINANCIAL STATEMENTS
 For the Year Ended September 30, 2015**

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CITY OF SALMON - STATE OF IDAHO
FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Salmon - State of Idaho
Salmon, Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund balances of the City of Salmon, Idaho, as of and for the year ended September 30, 2015 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Salmon, Idaho, as of September 30, 2015, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 14 to the financial statements, the City adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of net position as of October 1, 2014.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require supplementary information, such as management's discussion and analysis, budgetary comparison information, the schedule of employer's share of net pension liability and the schedule of employer contributions, as stated in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Salmon's basic financial statements. The accompanying combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

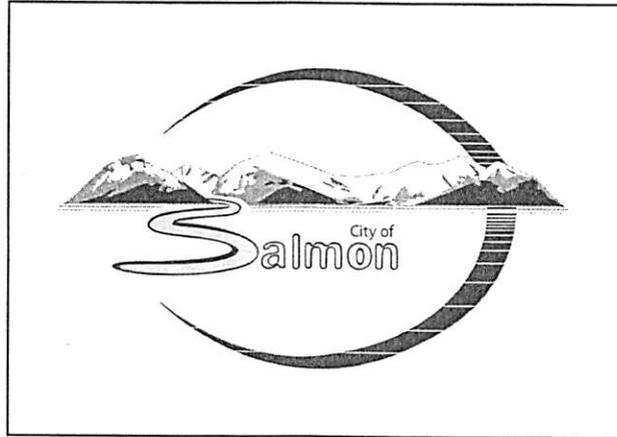
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 20, 2016, on our consideration of City of Salmon, Idaho's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Searle Hart & Associates, PLLC

Idaho Falls, Idaho
April 20, 2016

CITY OF SALMON
MANAGEMENT'S DISCUSSION AND ANALYSIS
April 1, 2016



Mayor
Leo Marshall

City Council

Jim Bockelman
Rob Jackson
Kenneth Hill

Russell Chinske
Neal James
Jim Baker

City Officers/Staff

City Clerk
Finance Director/Treasurer
Public Works Superintendent
Chief of Police
City Attorney
Sacajawea Center Director
Community Development

Mary Benton
Amy Fealko
Harry Shanafelt
KV Felker
Fred Snook
Lin Gray
Mary Cerise

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CITY OF SALMON
MANAGEMENT'S DISCUSSION AND ANALYSIS
April 1, 2016

I. Background.

The City of Salmon is in the twelfth year of the new accounting reporting requirement as a result of new standards adopted by the Governmental Accounting Standards Board (GASB) in June of 1999. As part of these standards, the City is required to provide an overview of its financial activities in a narrative form called the "Management's Discussion and Analysis". This report highlights the general fiscal health of the City, outlines key financial decisions that were initiated by the City's leadership and identifies future financial priorities and activities as determined by the Mayor, City Council and City Staff. In order to fully understand the financial statements included in the City's Audit, residents should first read the Management's Discussion and Analysis document. It is our goal that through its reading, our citizens will be better informed.

II. Understanding this Report.

This Management's Discussion and Analysis report is broken into three major components that include a Financial Statements Overview, a Debt Management and Administration overview and a glimpse into the Fiscal Year 2016 Priorities. This report covers the Fiscal Year 2015 that began on October 1, 2014 and ended on September 30, 2015. Fiscal Year 2016 priorities address those financial activities that the City leadership is currently addressing as of the date of this analysis. As this is the twelfth City of Salmon's Management's Discussion and Analysis Report, comparative information is included from the previous year.

The City's financial statements are broken into two categories: Government Wide Financial Statements and Fund Financial Statements.

- 1) Government-Wide Financial Statements. Government-wide financial statements, presented on pages 1-4 of the audit, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business. The statement of net assets presents information on all of the City of Salmon's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. In other words, it will help to show how solvent the City is.

The statement of activities presents information showing how the government's assets and liabilities changed during the most recent fiscal year. All changes in net assets are reported as they occur, regardless of the timing of related cash flows. This is accrual accounting and thus, revenues and expenses are reported in this statement for some items that might not reflect actual cash flows until future fiscal periods. (i.e., delinquent taxes and earned but unused compensated absences such as vacation time and sick leave)

The government-wide financial statements distinguish functions of the City of Salmon as either governmental activities, those activities that are supported primarily by taxes and intergovernmental activity and business-type activities, those activities that are intended to recover all or a significant portion of their costs through user fees and charges.

The governmental activities of the City of Salmon include general government administration, streets and alleys, cemetery operations, capital projects and asset depreciation. Business-type activities of the City of Salmon include water and sewer administration and operations.

2) Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been separated for specific activities or objectives. All of the funds of the City of Salmon are divided into two categories: government funds or proprietary funds.

a) Government Funds. Government funds are used to account for essentially the same activities as previously identified under governmental activities in the government-wide financial statement. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of City liquid resources as well as balances of liquid resources at the end of the fiscal year. Such information is helpful when determining the City's near-term financing requirements and health.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for both as readers may better understand the long-term impact of the government's near-term financing decisions.

The City of Salmon maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and the Streets and Alleys Fund, which are considered to be major funds. FY2011 was the first year that the Sacajawea Center was included in the General Fund. The two other funds, which are the Cemetery Fund and the Local Option Tax Fund, are considered basic governmental funds and the information related to these funds are combined into a single, aggregate presentation on pages 6-8 of the audit. FY2010 was the first year of the Local Option Tax Fund, due to a resolution passed by the City voters in November 2009.

b) Proprietary Funds. The City of Salmon maintains one type of proprietary funds called enterprise funds. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The City of Salmon uses enterprise funds to account for its water and sewer operations.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds of the City of Salmon. Data for these funds is found on pages 9-12 of the audit.

CITY OF SALMON
MANAGEMENT'S DISCUSSION AND ANALYSIS
April 1, 2016

If the reader comes upon either "Notes to the Financial Statements" or "Other Information", these sections are to provide additional narrative and required supplementary information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

III. Health of the City – Financial Statements Overview

- 1) Government-Wide Financial Analysis. One important question to ask about the City's finances is, "Is the City better or worse off as a result of the previous year's activities?" The information in the government-wide financial statement helps answer this question because it captures all city assets and liabilities using the accrual basis of accounting with the addition of reporting depreciation on capital assets. In this way, all of the City's financial transactions both in revenues and expenses are captured for both long-term and near-term to evaluate the true financial health of the City.

For the City of Salmon for the Fiscal Year 2015, changes in governmental and business-type assets and liabilities (rounded to the nearest \$1) were as follows:

Table 3.1 Net Assets

	Total 2014	Governmental Activities 2015	Business-Type Activities 2015	Total 2015
Current Assets	4,694,152	1,482,886	3,555,285	5,038,171
Capital Assets - Net	15,717,469	6,154,318	10,073,973	16,228,291
Total Assets	20,411,621	7,637,204	13,629,258	21,266,462
Current Liabilities	625,361	292,040	421,813	713,853
Non-Current Liabilities	6,889,532	346,980	6,645,421	6,992,401
Total Liabilities	7,514,893	639,020	7,067,234	7,706,254
Net Assets:				
Invested in Capital Assets	8,688,276	6,154,318	3,287,126	9,441,444
Restricted	1,049,790	35,597	656,198	691,795
Unrestricted	3,158,662	741,357	2,582,792	3,324,149
Total Net Assets	12,896,728	6,931,272	6,526,116	13,457,388

As indicated in Table 3.1, the large proportion of the City of Salmon's net assets (\$9,441,444) are reflected in capital assets (land, buildings, machinery, equipment, etc.) less any debt used to acquire those assets that is still outstanding. The City of Salmon uses these assets to provide services to its citizens and so consequently, these assets are not available for future spending.

When looking at the City's net assets, the other area to look at is the restricted and unrestricted totals. The \$691,795 in the restricted column represents amounts that are subject to external restrictions on how they may be used. The majority of these assets are related to debt service required for the issuance of revenue related debt in the water and sewer enterprises. The remaining \$3,324,149 in the unrestricted category represents assets that could be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF SALMON
MANAGEMENT'S DISCUSSION AND ANALYSIS
April 1, 2016

At the end of the fiscal year, the City of Salmon is able to report positive balances in its assets for both governmental and business-type activities.

Table 3.2 Change in Net Assets

	Total 2014	Governmental Activities 2015	Business-Type Activities 2015	Total 2015
Revenues:				
Program Revenues:				
Charges for Service	2,319,424	117,706	1,734,768	1,852,474
Operating Grants and Contributions	98,161	257,195	0	257,195
Capital Grants and Contributions	0	897,531	0	897,531
General Revenues:				
Property Taxes	1,164,884	1,159,235	0	1,159,235
Other Governmental	558,411	349,790	0	349,790
Gain (Loss) on Sale/Disposal of Capital Assets	0	(18,763)	(613)	(19,376)
Other Income & Fees	60,286	17,165	127	17,292
Investment Earnings	46,229	9,087	16,005	25,092
Grant Revenues	0	118,553	0	118,553
Total Revenues	4,247,395	2,907,499	1,750,287	4,657,786
Expenses:				
General Government	1,595,826	1,332,090	0	1,332,090
Streets and Alleys	301,049	393,783	0	393,783
Cemetery	67,850	72,489	0	72,489
Sacajawea Center	145,163	164,087	0	164,087
Depreciation (unallocated)	0	0	0	0
Water	932,683	0	868,983	868,983
Sewer	453,660	0	569,273	569,273
Interest	101,021	0	91,612	91,612
Total Expenses	3,597,252	1,962,449	1,529,868	3,492,317
Change in Net Assets	650,143	945,050	220,419	1,165,469
Net assets - beginning	12,327,159	6,379,813	6,516,915	12,896,728
Restatement of Net Assets	(80,574)	(393,591)	(211,218)	(604,809)
Net assets - ending	12,896,728	6,931,272	6,526,116	13,457,388

Table 3.2, Change in Net Assets, reflects the overall change in net assets for the City of Salmon. For the fiscal year, the City's total revenues and transfers were \$4,657,786 while total expenses were \$3,492,317. This indicates an overall increase in net assets of \$1,165,469. Part of this increase is a result of the work in progress

for the Island Park Bridge upgrades. A more detailed accounting of the water and sewer fund activities can be found on page 9-12 of the audit.

2) Fund Financial Analysis. As noted earlier, the City of Salmon uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

a) Government Funds. The focus of the City of Salmon governmental fund reporting is to provide information on near-term inflows, outflows, and balances of spendable resources. Perhaps the key area to look at in government fund balance sheets is the final unreserved fund balance as they indicate resources available for spending at the end of the fiscal year.

At the end of this fiscal year, the City of Salmon reported positive combined ending fund balances of \$1,111,309 which accounts for financial activities in the General Fund, the Streets and Alley Fund, the Cemetery Fund and the Local Option Tax Fund. The City of Salmon reports positive balances in all of the governmental funds.

b) Proprietary Funds. The City of Salmon's proprietary funds include the Water and Sewer Enterprise Funds. The City of Salmon reports a positive combined ending operating income of \$300,063 for the Water and Sewer Funds. When analyzing cash flows, the combined ending cash and cash equivalent balance at the end of the year was a positive \$3,407,462. This amount was an increase of \$296,293 from the previous year and can be attributed to strategic purchase of capital assets and investment in infrastructure. The Water and Sewer Enterprise Funds have a combined unrestricted fund balance of \$2,582,296.

The City of Salmon began to pay off the 2002 water loan in March 2009, which is \$6,460,500, interest-free, over the next 30 years. City leadership reviewed the Water Fund activity carefully and implemented an increase in the water base fee to \$37 per month for a residential unit, and corresponding increases for larger facilities and/or water lines. The City began paying the DEQ loan back and is in a healthy position for loan requirements necessary to pay the DEQ loan.

FY 2012, the City refinanced its 1990 Water Revenue Bonds, saving \$272,724.85, and shortening the repayment schedule by nine years. The City would like to pay off all interest-bearing debt as soon as possible.

In summary, the City of Salmon is financially healthy with a combined total of \$4,349,803 in restricted and unrestricted assets. The City leadership is aggressively watching financial activities in the Streets & Alleys Fund and Enterprise Funds to ensure for the fiscal health of the City. The City leadership will continue to open the budget annually to account for grant funds not received and approve transfers of unexpended balances in order to provide accurate financial reporting.

CITY OF SALMON
MANAGEMENT'S DISCUSSION AND ANALYSIS
April 1, 2016

IV. Capital Assets and Debt Management Administration

1) Capital Assets. The City of Salmon's net investment in capital assets for its governmental and business-type activities as of September 30, 2015, is \$16,228,291. This is an increase of \$510,822 from the previous year due mainly to the addition of the Salmon Urban Renewal Agency assets that were acquired by the City with the dissolution of the SURA. The asset additions are reflected in the following investments:

- SURA Land
- Bear Statue
- Town Square Park and Improvements
- City Park/Town Square Park Restrooms
- Police Vehicle

2) Debt Management and Administration. The City of Salmon currently maintains long-term debt in the amount of \$7,377,197. This is a decrease of \$38,176 in long-term debt from the prior year due to the start of repayment of the DEQ loan in the Wastewater Fund. This amount reflects revenue bond debt in the water fund and DEQ water and sewer loans for facility upgrades. The amount also includes net pension liability figures from PERSI and debt payable to employees for compensated absences (e.g., vacation and sick hours) as part of the GASB reporting requirements.

The table of long-term debt is as follows:

Table 4.1 Long-Term Debt

	Balance 2014	Additions (Decreases)	Payment Adjustments	Balance 2015
Government Activities:				
Compensated Absences	66,189	11,435		77,534
Net Pension Liability	180,012	132,078		312,090
Business Activities:				
Loan payable:				
Water System (DEQ)	4,088,845	0	(134,241)	3,954,604
Sewer System (DEQ)	2,525,348	0	(61,601)	2,463,747
2012 Refi Water Bonds	415,000		(55,000)	360,000
Compensated Absences	42,758	0	(9,514)	33,244
Accrued Interest	619	7,877		8,496
Net Pension Liability	96,602	70,880		167,482
Total	7,415,373	222,270	(260,356)	7,377,197

As discussed earlier, the net long-term debt decrease of \$38,176 is primarily a result of repayment of the water and wastewater treatment facility loans. The 2012 Refinance Water Revenue Bonds and the current DEQ Water and Wastewater Loans are the only considerable long-term debt. The DEQ Water Loan was finalized in FY08 and final project costs are \$6,460,500. The final project costs, loan amount, and imputed interest of 2% were determined in the fourth quarter of 2008 following the project closeout and payments began in the second quarter of 2009. FY2013 was the first year of billing toward the DEQ Wastewater Treatment Plant loan. The Wastewater Loan was finalized in FY2015 with an interest rate of .25% and total principal payments of \$2,525,348.

CITY OF SALMON
MANAGEMENT'S DISCUSSION AND ANALYSIS
April 1, 2016

V. Fiscal Year 2016 Fiscal Priorities

During the development of the Fiscal Year 2016 budget, the City Staff, Mayor and Council developed spending priorities in the current fiscal year that begins on October 1, 2015 and ends on September 30, 2016. Those priorities and their associated dollar amounts are as follows:

Table 5.1 2016 Fiscal Priorities

Item	Projected Cost	Explanation
Police Vehicle	\$34,000	Police Vehicle Upgrade
Island Park Bridge	\$450,000	Replace Bridge at Island Park
Total Projects Cost:	\$484,000	

The City council and staff will continue to review all processes and procedures to improve services, costs, and efficiencies.

Conclusion. This financial report is designed to provide a general overview of the City of Salmon's finances for all those with an interest in the government's finances and activities. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Amy Fealko, City Finance Director, 200 Main Street, Salmon, Idaho 83467.

Leo Marshall
Mayor
City of Salmon

FINANCIAL SECTION

CITY OF SALMON - STATE OF IDAHO
STATEMENT OF NET POSITION
September 30, 2015

	Primary Government			Component Unit Salmon River Development Agency
	Governmental Activities	Business- type Activities	Total	
ASSETS				
Cash and investments	\$ 1,219,969	\$ 2,761,840	\$ 3,981,809	\$ -
Taxes receivable	117,266	-	117,266	-
Receivables	18,456	137,247	155,703	-
Internal balances	-	-	-	-
Due from other governmental agencies	91,598	-	91,598	-
Inventories	4,761	-	4,761	-
Prepaid expenses	29,211	10,576	39,787	-
Restricted cash and investments	1,625	645,622	647,247	-
Capital Assets				
Land and capital assets not being depreciated	1,421,326	101,330	1,522,656	-
Construction in progress	81,705	-	81,705	-
Infrastructure	-	6,415,890	6,415,890	-
Buildings	6,370,990	12,494,790	18,865,780	-
Equipment and furniture	2,469,799	383,220	2,853,019	-
Less: accumulated depreciation	(4,189,502)	(9,321,257)	(13,510,759)	-
Total Capital Assets	6,154,318	10,073,973	16,228,291	-
TOTAL ASSETS	7,637,204	13,629,258	21,266,462	-
DEFERRED OUTFLOWS				
Pension related	\$ 134,390	\$ 72,120	\$ 206,510	\$ -

	Primary Government			Component Unit
	Governmental Activities	Business- type Activities	Total	Salmon River Development Agency
LIABILITIES				
Accounts payable and accrued expenses	\$ 249,396	\$ 79,661	\$ 329,057	\$ -
Due to other governmental agencies	-	-	-	-
Due to other funds	-	-	-	-
Long-term liabilities				
Due within one year				
Bonds, capital leases and contracts, net of unamortized bond costs	-	315,372	315,372	-
Accrued interest	-	8,496	8,496	-
Compensated absences	42,644	18,284	60,928	-
Claims and judgments	-	-	-	-
Due in more than one year				
Bonds, capital leases and contracts, net of unamortized bond costs	-	6,462,979	6,462,979	-
Accrued interest	-	-	-	-
Compensated absences	34,890	14,960	49,850	-
Net pension liability	312,090	167,482	479,572	-
TOTAL LIABILITIES	<u>639,020</u>	<u>7,067,234</u>	<u>7,706,254</u>	<u>-</u>
DEFERRED INFLOWS				
Pension related	201,302	108,028	309,330	-
Other deferred inflows	-	-	-	-
TOTAL DEFERRED INFLOWS	<u>201,302</u>	<u>108,028</u>	<u>309,330</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	6,154,318	3,287,126	9,441,444	-
Restricted for:				
Nonspendable				
Inventory	4,761	-	4,761	-
Prepaid expenses	29,211	10,576	39,787	-
Capital projects	-	365,974	365,974	-
Debt service	-	279,648	279,648	-
Other projects	1,625	-	1,625	-
Unrestricted	741,357	2,582,792	3,324,149	-
TOTAL NET POSITION	<u>\$ 6,931,272</u>	<u>\$ 6,526,116</u>	<u>\$ 13,457,388</u>	<u>\$ -</u>

CITY OF SALMON - STATE OF IDAHO
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

FUNCTIONS/PROGRAMS	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 460,358	\$ 11,795	\$ 35,267	\$ -
Public safety	616,544	635	111,004	-
Public works	393,783	-	105,885	-
Health, welfare and sanitation	-	-	-	-
Culture and recreation	229,496	36,988	-	897,531
Economic development	25,692	334	-	-
Cemetery	72,489	43,230	-	-
Sacajawea Center	164,087	24,724	5,039	-
Interest on long-term debt	-	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 1,962,449</u>	<u>\$ 117,706</u>	<u>\$ 257,195</u>	<u>\$ 897,531</u>
Business-type activities:				
Water	\$ 868,983	\$ 870,884	\$ -	\$ -
Sewer	569,273	863,884	-	-
Interest on long-term debt	91,612	-	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	<u>1,529,868</u>	<u>1,734,768</u>	<u>-</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 3,492,317</u>	<u>\$ 1,852,474</u>	<u>\$ 257,195</u>	<u>\$ 897,531</u>
Component Unit				
Salmon River Development Agency	\$ 59,810	\$ -	\$ -	\$ -
COMPONENT UNIT	<u>\$ 59,810</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

- Property taxes, levied for general purposes
- Assessments for debt service
- Franchise taxes
- Public service taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Miscellaneous
- Special item - gain (loss) on sale of asset
- Transfers

**TOTAL GENERAL REVENUES, SPECIAL ITEMS,
AND TRANSFERS**

Change in net position

Restated Net Position, October 1, 2014

NET POSITION, SEPTEMBER 30, 2015

CITY OF SALMON - STATE OF IDAHO
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 September 30, 2015

	General Fund	Streets & Alleys Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 906,032	\$ 133,988	\$ 179,949	\$ 1,219,969
Restricted cash and cash equivalents	1,625	-	-	1,625
Investments	-	-	-	-
Taxes receivable, net	84,161	29,383	3,722	117,266
Due from other funds	-	-	-	-
Receivable from other governments	62,942	28,656	-	91,598
Other receivables	14,266	15	4,175	18,456
Inventories	4,761	-	-	4,761
Prepaid expenses	22,601	5,288	1,322	29,211
TOTAL ASSETS	<u>1,096,388</u>	<u>197,330</u>	<u>189,168</u>	<u>1,482,886</u>
DEFERRED OUTFLOWS				
	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 1,096,388</u>	<u>\$ 197,330</u>	<u>\$ 189,168</u>	<u>\$ 1,482,886</u>
LIABILITIES				
Accounts payable	\$ 192,209	\$ 56,741	\$ 446	\$ 249,396
Due to other funds	-	-	-	-
Payable to other governments	-	-	-	-
Other accrued expenses	-	-	-	-
Other payables	-	-	-	-
TOTAL LIABILITIES	<u>192,209</u>	<u>56,741</u>	<u>446</u>	<u>249,396</u>
DEFERRED INFLOWS				
Revenue unavailable for use	92,535	26,319	3,327	122,181
FUND BALANCES				
Nonspendable	27,362	5,288	1,322	33,972
Restricted	1,625	-	-	1,625
Assigned	-	108,982	184,073	293,055
Unassigned	782,657	-	-	782,657
TOTAL FUND BALANCES	<u>811,644</u>	<u>114,270</u>	<u>185,395</u>	<u>1,111,309</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	<u>\$ 1,096,388</u>	<u>\$ 197,330</u>	<u>\$ 189,168</u>	<u>\$ 1,482,886</u>

CITY OF SALMON - STATE OF IDAHO
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 September 30, 2015

	Governmental Funds
Total fund balance, governmental funds:	\$ 1,111,309
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	6,154,318
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	-
Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for current period's expenditures, and therefore are reported as deferred inflows in the funds statements.	122,181
Some liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, and bonds payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.	(77,534)
A net pension liability for the measured portion of the present value of projected benefit payments is reported on the Statement of Net Position, but not in the fund financial statements.	
Deferred outflows associated with the net pension liability.	134,390
Deferred inflows associated with the net pension liability.	(201,302)
Net pension liability.	<u>(312,090)</u>
Net position of governmental activities in the Statement of Net Position:	<u>\$ 6,931,272</u>

CITY OF SALMON - STATE OF IDAHO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2015

	General Fund	Streets & Alleys Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 800,820	\$ 292,567	\$ 33,739	\$ 1,127,126
Fees and fines	9,395	-	-	9,395
Licenses and permits	11,795	-	-	11,795
Intergovernmental revenues	529,062	105,885	96,115	731,062
Charges for services	61,713	-	43,230	104,943
Investment earnings	7,531	679	877	9,087
Miscellaneous	29,912	5,343	10	35,265
TOTAL REVENUES	<u>1,450,228</u>	<u>404,474</u>	<u>173,971</u>	<u>2,028,673</u>
EXPENDITURES				
Current:				
General government	355,142	-	19,829	374,971
Public safety	602,360	-	-	602,360
Public works	-	354,217	-	354,217
Health and sanitation	-	-	-	-
Culture and recreation	166,944	-	-	166,944
Education	-	-	-	-
Economic development	18,693	-	6,999	25,692
Sacajawea Center	134,641	-	-	134,641
Cemetery	-	-	66,083	66,083
Capital outlay	1,037,901	86,727	12,930	1,137,558
TOTAL EXPENDITURES	<u>2,315,681</u>	<u>440,944</u>	<u>105,841</u>	<u>2,862,466</u>
Excess (deficiency) of revenues over expenditures	(865,453)	(36,470)	68,130	(833,793)
OTHER FINANCING SOURCES (USES)				
Other sources	846,488	-	-	846,488
Other uses	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>846,488</u>	<u>-</u>	<u>-</u>	<u>846,488</u>
SPECIAL ITEM				
Proceeds from sale of assets	-	-	-	-
Net change in fund balances	(18,965)	(36,470)	68,130	12,695
Fund Balances, October 1, 2014	830,609	150,740	117,265	1,098,614
FUND BALANCES, SEPTEMBER 30, 2015	<u>\$ 811,644</u>	<u>\$ 114,270</u>	<u>\$ 185,395</u>	<u>\$ 1,111,309</u>

**CITY OF SALMON - STATE OF IDAHO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015**

	<u>Governmental Funds</u>
Net change in fund balances - total governmental funds:	\$ 12,695
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.</p>	
<p>This is the amount by which capital outlays of \$1,137,558 were exceeded by depreciation of \$240,785 in the current period.</p>	896,773
<p>Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold.</p>	(18,763)
<p>Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. This is the net change in deferred inflows.</p>	51,101
<p>Governmental funds report long term debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability.</p>	
<p>Governmental funds report repayment of long term debt principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.</p>	-
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds:</p>	
<p>Net change in pension expense not reflected in the governmental funds</p>	14,589
<p>Net change in accrued interest not reflected on governmental funds</p>	-
<p>Governmental funds do not recognize compensated absences as expenditures until they are paid. In contrast, the Statement of Activities treats compensated absences as a long-term liability. This amount is the net change in the compensated absence liability.</p>	<u>(11,345)</u>
Change in net position of governmental activities:	<u>\$ 945,050</u>

CITY OF SALMON - STATE OF IDAHO
STATEMENT OF NET POSITION - PROPRIETARY FUND TYPES
September 30, 2015

	Water Fund	Sewer Fund	Total
ASSETS			
Cash and cash equivalents	\$ 603,209	\$ 2,158,631	\$ 2,761,840
Receivables	61,188	76,059	137,247
Prepaid expenses	5,288	5,288	10,576
Restricted cash and equivalents	279,648	365,974	645,622
Construction in progress	-	-	-
Land and improvements	81,530	19,800	101,330
Buildings	6,227,319	6,267,471	12,494,790
Enterprise system assets	4,498,705	1,917,185	6,415,890
Equipment	150,132	233,088	383,220
Accumulated depreciation	<u>(6,170,351)</u>	<u>(3,150,906)</u>	<u>(9,321,257)</u>
TOTAL ASSETS	<u>5,736,668</u>	<u>7,892,590</u>	<u>13,629,258</u>
DEFERRED OUTFLOWS - PENSION	<u>36,060</u>	<u>36,060</u>	<u>72,120</u>
LIABILITIES			
Accounts payable	56,732	22,929	79,661
Due to other funds	-	-	-
Long - term liabilities			
Due within one year			
Bonds, capital leases and contracts	191,939	123,433	315,372
Accrued interest	8,000	496	8,496
Accrued compensation	7,356	10,928	18,284
Due in more than one year			
Bonds, capital leases and contracts	4,122,665	2,340,314	6,462,979
Accrued interest	-	-	-
Accrued compensation	6,019	8,941	14,960
Net pension liability	<u>83,741</u>	<u>83,741</u>	<u>167,482</u>
TOTAL LIABILITIES	<u>4,476,452</u>	<u>2,590,782</u>	<u>7,067,234</u>
DEFERRED INFLOWS	<u>54,014</u>	<u>54,014</u>	<u>108,028</u>
NET POSITION			
Net investment in capital assets	464,731	2,822,891	3,287,622
Restricted for			
Nonspendable - Prepaid expenses	5,288	5,288	10,576
Capital projects	-	365,974	365,974
Debt service	279,648	-	279,648
Other projects	-	-	-
Unrestricted	<u>492,595</u>	<u>2,089,701</u>	<u>2,582,296</u>
TOTAL NET POSITION	<u>\$ 1,242,262</u>	<u>\$ 5,283,854</u>	<u>\$ 6,526,116</u>

CITY OF SALMON - STATE OF IDAHO
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUND TYPES
For the Year Ended September 30, 2015

	Water Fund	Sewer Fund	Total
OPERATING REVENUES			
Charges for services	\$ 857,994	\$ 863,884	\$ 1,721,878
Miscellaneous operating revenues	13,017	-	13,017
TOTAL OPERATING REVENUES	<u>871,011</u>	<u>863,884</u>	<u>1,721,878</u>
OPERATING EXPENSES			
Personal services	244,295	179,213	423,508
Contractual and professional services	2,755	11,138	13,893
Other purchased services	15,344	29,338	44,682
Other supplies and expense	93,886	42,298	136,184
Insurance expense	10,394	10,394	20,788
Repairs and maintenance	67,421	30,667	98,088
Travel and meetings	2,947	1,836	4,783
Utilities	51,433	66,281	117,714
Depreciation	364,067	198,108	562,175
TOTAL OPERATING EXPENSE	<u>852,542</u>	<u>569,273</u>	<u>1,421,815</u>
OPERATING INCOME (LOSS)	<u>18,469</u>	<u>294,611</u>	<u>300,063</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	4,296	11,709	16,005
Grants	-	-	-
Gain(loss) on sale of assets	(545)	(68)	(613)
Interest expense	(104,392)	(3,661)	(108,053)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(100,641)</u>	<u>7,980</u>	<u>(92,661)</u>
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFERS	<u>(82,172)</u>	<u>302,591</u>	<u>220,419</u>
OTHER REVENUE, EXPENSES, GAINS, LOSSES, AND TRANSFERS			
Capital contributions	-	-	-
Capital distributions	-	-	-
Operating transfers in	-	-	-
Operating transfers out	-	-	-
CHANGE IN NET POSITION	<u>(82,172)</u>	<u>302,591</u>	<u>220,419</u>
RESTATED NET POSITION - October 1, 2014	<u>1,324,434</u>	<u>4,981,263</u>	<u>6,305,697</u>
NET POSITION - September 30, 2015	<u>\$ 1,242,262</u>	<u>\$ 5,283,854</u>	<u>\$ 6,526,116</u>

CITY OF SALMON - STATE OF IDAHO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended September 30, 2015

	<u>Water Fund</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	
Cash received from customers	\$ 871,117
Cash payments for goods and services	(292,486)
Cash payments to employees	<u>(254,937)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>323,694</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfer in	-
Transfer out	<u>-</u>
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases and construction of capital assets	(29,225)
Principal payments on bond /leases payable	(189,214)
Interest paid on capital debt	<u>(97,011)</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(315,450)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>4,296</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>12,540</u>
BEGINNING CASH AND CASH EQUIVALENTS	<u>870,317</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 882,857</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH	
Operating income (loss)	\$ 18,469
Adjustments to reconcile operating income to net cash provided (used)	
by operating activities:	
Depreciation	364,067
(Increase) decrease in:	
Utility receivables	106
Prepaid expenses	(91)
Increase (decrease) in:	
Accounts payable/customer deposits	(48,215)
Net pension liability	(3,914)
Accrued compensation	<u>(6,728)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 323,694</u>

Sewer Fund	Total
\$ 872,571	\$ 1,743,688
(183,501)	(475,987)
<u>(185,886)</u>	<u>(440,823)</u>
503,184	826,878
-	-
-	-
-	-
(166,374)	(195,599)
(61,601)	(250,815)
<u>(3,165)</u>	<u>(100,176)</u>
(231,140)	(546,590)
11,709	16,005
283,753	296,293
2,240,852	3,111,169
<u>\$ 2,524,605</u>	<u>\$ 3,407,462</u>
\$ 294,611	\$ 313,080
198,108	562,175
8,687	8,793
(91)	(182)
8,542	(39,673)
(3,914)	(7,828)
<u>(2,759)</u>	<u>(9,487)</u>
<u>\$ 503,184</u>	<u>\$ 826,878</u>

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NOTES TO THE FINANCIAL STATEMENTS

CITY OF SALMON - STATE OF IDAHO
INDEX TO NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

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CITY OF SALMON - STATE OF IDAHO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Salmon is organized and operates under the provisions of the Idaho Constitution and the accounting policies and practices of the City conform to accounting principles generally accepted in the United States of America as applied to governments, except for the exceptions noted hereafter: the City budgets and operates on a cash basis, but the financial statements are presented in accordance with generally accepted accounting principles.

A. GENERAL

The financial statements listed in the table of contents have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In June 1999, the GASB issued and approved Statements No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* and GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*. These statements establish new financial reporting requirements for state and local governments, public colleges, and universities throughout the United States. They require new information and restructure much of the information that governments have presented in the past. Certain significant changes in the statement include the following:

- Financial statements prepared using the full accrual accounting method for all City activities.

The City's basic financial statements consist of government-wide financial statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial position.

B. REPORTING ENTITY

The reporting entity does not include those funds under the direct jurisdiction of other governing boards, elected or appointed, that exercise substantial or total administrative and supervisory authority in their own name and are considered to be autonomous from City of Salmon's government. One component unit is reported for the City of Salmon.

Discretely Presented Component Unit

In conformity with generally accepted accounting principles, the basic financial statements of the Salmon River Development Agency have been included in the financial reporting entity as a discretely presented component unit, emphasizing its nature as a legally separate entity from the City. It is presented as a separate column within the basic financial statements.

Salmon River Development Agency: This component unit has a board, which is appointed by the Mayor of the City with the advice and consent of the City Council. The Salmon River Development Agency purchased properties totaling \$320,000 and \$215,000 during the 2003 fiscal year with tax exempt revenue notes. The Agency retired the last of the debt for these properties during the 2013 fiscal year. During the 2015 fiscal year, the Agency was dissolved, the remaining cash was transferred back to Lemhi County and the remaining capital assets were transferred to the City and the Steele Memorial Hospital.

Complete financial statements for Salmon River Development Agency can be obtained from their administrative office at 200 Main St., Salmon, Idaho, 83274.

CITY OF SALMON - STATE OF IDAHO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The City's basic financial statements consist of both government-wide statements and fund statements. The government-wide statements focus on the City as a whole, while the fund statements focus on individual funds.

Government-wide Financial Statements

The government-wide statements present information on all non-fiduciary activities of the government and its component unit. The City's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The effects of interfund activity have been eliminated from the government-wide statements unless there are residual amounts due between governmental and business-type activities.

The *Statement of Net Position* presents the City's non-fiduciary assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Net position is restricted when constraints placed upon it are either externally imposed or are imposed by constitutional provisions or enabling legislation.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The City does not allocate general government (indirect) expenses to other functions. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Separate statements are provided for *governmental and proprietary funds*. For governmental and proprietary funds, the emphasis is on *major funds*, with each displayed in a separate column.

The City reports the following major governmental funds:

- **General Fund** - The general fund is the principal operating fund of the City. It is used to account for all financial resources not required to be accounted for in another fund.
- **Streets & Alleys Fund** – The street & alleys fund accounts for the operation and maintenance of the City's highways and streets and is primarily funded by highway user funds from the State of Idaho.

CITY OF SALMON - STATE OF IDAHO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

The City reports the following major enterprise funds:

- **Water Fund** – The water fund accounts for the operation and maintenance of the water system and is primarily financed by fees charged to residents and businesses.
- **Sewer Fund** – The sewer fund accounts for the operation and maintenance of the waste disposal system of the City and is primarily financed by fees charged to residents and businesses.

Governmental Fund Types

Governmental funds account for the City's general activities including current expendable financial resources (except for those accounted for in proprietary funds), and are those through which most governmental functions of the City are financed. The following are the City's governmental fund types:

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 another fund.

Special Revenue Funds – Special Revenue Funds account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Fund Types – Enterprise Funds

Enterprise Funds – Enterprise Funds account for operations that meet one of two criteria: 1) the activity runs in a manner similar to private business enterprises. Moreover, the intent of the governing body is that the ongoing operating costs (including depreciation) of providing goods or services to the public are financed or recovered primarily through user charges, or 2) 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.

Fiduciary Fund Types

Fiduciary Funds – Fiduciary Funds account for assets held in a trustee capacity or as an agent for individuals, private organizations, or other governments. The City currently does not have any fiduciary fund types.

Trust and Agency Funds – Private Purpose Trust Funds account for funds held in a trustee capacity. Agency funds are purely custodial in nature. The City currently does not have any trust or agency funds.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Other revenues are recognized in the year in which the related sales or other activity has occurred. Grants and similar items are recognized as revenue when all eligibility requirements have been met.

CITY OF SALMON - STATE OF IDAHO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The proprietary and fiduciary fund statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating items, such as interest expense and investment earnings, result from non-exchange transactions or ancillary activities.

The governmental fund financial statements are prepared and reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Expenditures are generally recorded when the related liability is incurred.

E. ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES/
NET POSITION

The following are the City's significant policies regarding recognition and reporting of certain assets, deferred outflows, liabilities, deferred inflows, and equity:

Cash and Investments

Cash and cash equivalents consist primarily of demand deposits with financial institutions and short-term investments with original maturities of three months or less from the purchase date. Investments include pooled investments and certificates of deposit with original maturities greater than three months.

Receivables

Receivables from other governments include amounts from state revenues. Receivables from other governments are reasonably assured; no allowance for uncollectible accounts has been established.

Receivables in the proprietary funds include utility accounts receivable. The receivables for the proprietary funds are reported net of allowance for uncollectible accounts.

Taxes Receivable

Property taxes are levied in September of each year and become payable on December 20 of the current year and June 20 of the following year.

Property taxes attach as an enforceable lien as of December 20 following levy in September. Therefore, no amount has been set aside for an allowance of doubtful accounts. Property taxes not collected within 60 days after year end are classified as revenue unavailable for use.

E. ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES/
NET POSITION (Continued)

Capital Assets

The City defines a capital asset as an asset with an initial cost of \$10,000 or more for equipment, land, buildings, and infrastructure and an estimated useful life or more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value on the date of donation.

**CITY OF SALMON - STATE OF IDAHO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets purchased by governmental funds are recorded as expenditures in the governmental fund statements. Interest expense for capital asset construction related to governmental activities is not capitalized. Interest expense incurred during construction of capital assets related to business-type activities is capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Equipment, buildings and infrastructure, and other depreciable assets are depreciated using the straight line method over the estimated useful lives of the assets from 5 to 40 years.

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Deferred Outflows

In addition to assets, the Statement of Net Position and the fund-based Balance Sheet will display a separate section for deferred outflows of resources. This financial statement element represents a consumption of net position or fund balance that applies to a future period, or periods, so it will not be recognized as an outflow of resources until that time. The City has deferred outflows related to the net pension liability.

Long-term Obligations

In the government-wide statements and proprietary fund statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Issuance costs are expensed in the year they are incurred. Bonds payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, bond premiums, discounts, and issuance costs are recognized as expenditures in the current period. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The face amount of debt issued is reported as other financing sources.

Deferred Inflows

In addition to liabilities, the Statement of Net Position and the fund-based Balance Sheet will display a separate section for deferred inflows of resources. This financial statement element represents an acquisition of net position or fund balance that applies to a future period, or periods, so it will not be recognized as an inflow of resources until that time. This amount is deferred and recognized as an inflow of resources in the period that amounts become available. The City currently reports revenue unavailable for use and amounts related to net pension liability as deferred inflows.

Net Position/Fund Balances

The difference between assets, deferred outflows, liabilities, and deferred inflows is net position on the government-wide, proprietary fund, and fiduciary fund statements, and fund balance on the governmental fund statements.

CITY OF SALMON - STATE OF IDAHO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonspendable and Spendable Fund Balances

Fund balance is separated into nonspendable and spendable fund balances. Nonspendable fund balance includes amounts that cannot be spent because they are either: (1) not in spendable form; or (2) legally or contractually required to be maintained intact. Spendable amounts are classified into restricted, committed, assigned, and unassigned. The following is a list of nonspendable and spendable fund balance designations for the City of Salmon:

Nonspendable: Fund balances associated with inventories, prepaid expenditures, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

Restricted: Fund balances that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed: Fund balances that can be used only for the specific purposes determined by a formal action of the city council (the City's highest level of decision-making authority). Additional action is essential to either remove or revise the commitment.

Assigned: Fund balances that are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. The City Council has by resolution authorized management to assign fund balance. Assignments generally only exist temporarily and do not require additional action for the removal of the assignment.

Unassigned: Fund balances that include all spendable amounts not contained in the other classifications.

F. BUDGETS AND BUDGETARY ACCOUNTING

The Idaho Constitution and the Idaho Department of Revenue and Taxation prescribe the budget process and procedures for governmental subdivisions. The City of Salmon has satisfied the basic requirements outlined in the following particulars:

- 1) Formulation of subsequent year budget requirements by internal City officers and personnel.
- 2) Perusal of formulated budgets by the City Council and its clerk.
- 3) Presentation of preliminary and final budget requirements in formal news media of the City.
- 4) Open hearings to permit taxpayer input before such budgets are formally adopted.

Subsequent control budgets following adoption are accomplished through a budget-expenditures control system with interim status accounting and reporting made available to officers and employees for management purposes. Budgets are adopted on a cash basis of accounting. The City does not maintain a formal encumbrance accounting system.

CITY OF SALMON - STATE OF IDAHO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. COMPENSATED ABSENCES AND POST-EMPLOYMENT BENEFITS

Accumulated unpaid vacation and other employee benefits are accrued when incurred in proprietary funds on the accrual basis of accounting. Such amounts are not accrued in governmental funds on the modified accrual basis of accounting. At September 30, 2015, unrecorded fund liabilities included approximately \$77,534 of total leave time and employee benefit accumulations and are considered normal to the City operation.

Vacation and other employee benefits are recorded as an expenditure when used in governmental funds and as an expense when earned in proprietary funds and in the government-wide statements. A liability for unused leave and other accumulated employee benefits is recorded in the government-wide Statement of Net Position.

H. REVENUES AND EXPENDITURES/EXPENSES

Under the modified accrual basis of accounting, revenues are recognized in governmental funds when "measurable and available." Revenues are considered to be available when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. City of Salmon considers property tax revenues to be available if they are collected within 60 days after year-end. Grants and similar items are recognized as revenue when all eligibility requirements have been met. All other revenues, including sales taxes, are considered to be available if they are collected within 30 days after year-end. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

In proprietary funds and government-wide statements, revenues are recognized when earned. Operating revenue consists of income derived from charges from services and other miscellaneous fees. All revenues not meeting this definition are reported as non-operating revenues.

I. EXPENDITURE/EXPENSE RECOGNITION

In governmental funds, expenditures are generally recorded when the related liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Capital asset acquisition and construction are reported as expenditures in the period they are acquired.

In proprietary funds and government-wide statements, expenses are recorded when the related liability is incurred.

Operating expenses for the enterprise fund, if applicable, include the cost of services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as non-operating revenues and expenses.

When an expenditure or expense is incurred for purposes for which there are restricted, committed, assigned and/or unassigned resources available, the City generally uses restricted resources first, then committed, next assigned and then unassigned resources.

J. INVENTORY VALUATION

Inventory is valued at cost using the FIFO method.

CITY OF SALMON - STATE OF IDAHO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

K. INTERFUND ACTIVITY AND BALANCES

Government-wide Statements

See notes 10 and 11 for interfund activity.

Governmental Fund Statements

Interfund transactions for goods and services provided and used are reported as revenues and expenditures/expenses in the funds involved. Cash transfers between funds of the City are reported as other financing sources and uses in the governmental fund statements. See note 11 for interfund activity.

L. USE OF ESTIMATES

The preparation of financial statements in conformity 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. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

Cash deposits and investments by the City as of September 30, 2015, totaled \$4,629,056, of which \$553,932 represented demand deposits (including cash on hand) and \$4,075,124 represented investments. Of the total deposits of the City, \$1,221,594 was allocated to governmental funds and \$3,407,462 to the proprietary funds.

Deposits

At year end, the carrying amount of the City's deposits in financial institutions and cash on hand was \$553,932 and the bank balance was \$610,712. The amount not covered by FDIC insurance was \$352,504.

Investments

The fair value of the City's investments at year end was \$4,075,124. Of the investments, \$3,075,124 was not covered by FDIC, MBIA, or SIPC insurance.

Investment Type	Fair Value	Investment Maturities (in Years)			Rating	Percent
		< 1	1 – 5	> 5		
Certificates of Deposit	1,239,997	652,897	587,100	-	N/A	30.42%
State Investment Pool	<u>2,835,127</u>	<u>2,835,127</u>	-	-	N/A	<u>69.58%</u>
Total Investments	\$ <u>4,075,124</u>	\$ <u>3,488,024</u>	\$ <u>587,100</u>	\$ -		<u>100.00%</u>

Restricted Cash

Restricted cash includes \$1,625 restricted by donors for Sacajawea Scholarships, amounts collected for debt but not remitted in the amount of \$279,648, as well as \$365,974 that has been restricted by outside sources for capital projects.

Interest Rate Risk

The City of Salmon does not have a formal investment policy that limits investment maturities so it has exposure to fair value losses arising from increasing interest rates.

**CITY OF SALMON - STATE OF IDAHO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015**

2. CASH AND INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. It is the City's policy to limit investments to the safest types of securities and to diversify the City's investment portfolio so that potential losses on securities will be minimized. The City follows Idaho Statutes that outline qualifying investment options. Idaho Code authorizes the City to invest any available funds in obligations issued or guaranteed by the United States Treasury, the State of Idaho, local Idaho municipalities and taxing districts, the Farm Credit System, or Idaho public corporations, as well as time deposit accounts and repurchase agreements.

Custodial Credit Risk

As of September 30, 2015, some of the City's demand deposits totaling \$352,504 were not covered by the federal deposit insurance or by collateral held by the City's agent or pledging financial institution's trust department or agent in the name of the City, and thus was exposed to custodial credit risk. This amount includes \$800 petty cash on hand for their change drawers and miscellaneous minor expenses that is not insured.

Of the \$1,239,997 invested in certificates of deposits, \$239,997 was not covered by the federal deposit insurance or by collateral held by the City's agent or pledging financial institution's trust department or agent in the name of the City, and thus was exposed to custodial credit risk.

The City voluntarily invests funds in the Local Governmental Investment Pool administered by the State Treasurer. Collateral for the funds invested in the Pool are available for immediate use by the City. The Pool is not externally rated. As of September 30, 2015, the City had deposits with the Pool collateralized by securities held by the Pool, but not in the City's name, of \$2,835,127.

Concentration of Credit Risk

The City does not have a formal investment policy limiting the amount of each type of investment in relation to the total investments.

CITY OF SALMON - STATE OF IDAHO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2015 was as follows:

	Balance 10-01-2014	Additions	Deletions	Balance 09-30-2015
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 998,995	\$ 422,331	\$ -	\$ 1,421,326
Construction in process	-	81,705	-	81,705
Total capital assets, not being depreciated	998,995	504,036	-	1,503,031
Capital assets, being depreciated				
Buildings and improvements	5,805,574	575,416	(10,000)	6,370,990
Machinery and equipment	2,463,362	160,196	(153,759)	2,469,799
Total capital assets, being depreciated	\$ 8,268,936	\$ 735,612	\$ (163,759)	\$ 8,840,789
Less accumulated depreciation for				
Buildings and improvements	\$ (2,182,542)	\$ (164,281)	\$ 10,000	\$ (2,336,823)
Machinery and equipment	(1,809,082)	(76,503)	32,906	(1,852,679)
Total accumulated depreciation	(3,991,624)	(240,784)	42,906	(4,189,502)
Total capital assets, being depreciated, net	4,277,312	494,828	(120,853)	4,651,287
Governmental activity, capital assets, net	\$ 5,276,307	\$ 998,864	\$ (120,853)	\$ 6,154,318

Depreciation expense was charged to the current functions of the primary government as follows:

<u>Governmental activities</u>	
General government	\$ 84,652
Public safety	15,896
Parks and recreation	63,255
Sacajawea	28,196
Cemetery	6,130
Public works	42,655
Current depreciation expense	\$ 240,784

During the current fiscal year, the Salmon River Development Agency, a component unit of the City, was closed out. Capital assets were transferred at book value to the City as follows:

Land	\$ 422,331
Improvements	423,665
Equipment	492
Total	\$ 846,488

CITY OF SALMON - STATE OF IDAHO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

3. CAPITAL ASSETS (Continued)

<u>Business-type Activities</u>	Balance 10-01-2014	Additions	Deletions	Balance 09-30-2015
Water:				
Capital assets, not being depreciated				
Land and non-depreciable assets	82,075	-	(545)	81,530
Total capital assets, not being depreciated	82,075	-	(545)	81,530
Capital assets, being depreciated				
Plant and buildings	6,227,319	-	-	6,227,319
Equipment	186,532	10,772	(47,172)	150,132
Transmission and distribution	4,480,252	18,453	-	4,498,705
Total water capital assets, being depreciated	10,894,103	29,225	(47,172)	10,876,156
Less accumulated depreciation for				
Plant and buildings	(2,335,818)	(264,242)	-	(2,600,060)
Equipment	(157,555)	(6,848)	47,172	(117,231)
Transmission and distribution	(3,360,083)	(92,977)	-	(3,453,060)
Total water accumulated depreciation	(5,853,456)	(364,067)	47,172	(6,170,351)
Total depreciated water capital assets, net	5,040,647	(334,842)	-	4,705,805
Total water capital assets, net	5,122,722	(334,842)	(545)	4,787,335
Sewer:				
Capital assets, not being depreciated				
Land and non-depreciable assets	19,800	-	-	19,800
Total capital assets, not being depreciated	19,800	-	-	19,800
Capital assets, being depreciated				
Plant and buildings	6,446,868	155,603	(335,000)	6,267,471
Equipment	286,764	10,772	(64,448)	233,088
Transmission and distribution	1,917,185	-	-	1,917,185
Total sewer capital assets, being depreciated	\$ 8,650,817	\$ 166,375	\$ (399,448)	\$ 8,417,744

CITY OF SALMON - STATE OF IDAHO
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended September 30, 2015

3. CAPITAL ASSETS (Continued)

	Balance 10-01-2014	Additions	Deletions	Balance 09-30-2015
Less accumulated depreciation for				
Plant and buildings	\$ (1,650,467)	\$ (140,157)	\$ 335,000	\$ (1,455,624)
Equipment	(255,749)	(8,735)	64,380	(200,104)
Transmission and distribution	(1,445,962)	(49,216)	-	(1,495,178)
Total sewer accumulated depreciation	<u>(3,352,178)</u>	<u>(198,108)</u>	<u>399,380</u>	<u>(3,150,906)</u>
Total sewer capital assets being depreciated, net	<u>5,298,639</u>	<u>(31,733)</u>	<u>(68)</u>	<u>5,266,838</u>
Total sewer capital assets, net	<u>5,318,439</u>	<u>(31,733)</u>	<u>(68)</u>	<u>5,286,638</u>
Total business-type capital assets, net	\$ <u>10,441,161</u>	\$ <u>(366,575)</u>	\$ <u>(613)</u>	\$ <u>10,073,973</u>

Depreciation expense was charged to current function of the proprietary funds as follows:

Business-type activities

Water	\$ 364,067
Sewer	<u>198,108</u>
Total proprietary activities	<u>\$ 562,175</u>

4. PENSION PLAN

Plan Description

The City contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

**CITY OF SALMON - STATE OF IDAHO
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended September 30, 2015**

4. PENSION PLAN (Continued)

Employee membership data related to the PERSI Base Plan, as of June 30, 2015 was as follows:

	<u>2015</u>
Members:	
Active plan members	67,008
Terminated employees entitled to but not yet receiving benefits	11,859
Retirees and beneficiaries currently receiving benefits	<u>42,657</u>
 Total system members	 <u><u>121,524</u></u>

Pension Benefits

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% for police/firefighters) of the average monthly salary for the highest consecutive 42 months. Amounts in parenthesis represent police/firefighters.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

Member and Employer Contributions

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation and earnings from investments. Contribution rates are determined by the PERSI Board within limits, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) if current rates are actuarially determined to be inadequate, or in excess, to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% of the employer rate for general employees and 72% for police and fire fighters. As of June 30, 2015 it was 6.79% for general employees and 8.36% for police and fire fighters. The employer contribution rate as a percentage of covered payroll is set by the Retirement Board and was 11.32% for general employees and 11.66% for police and firefighters. The City's contributions were \$115,472 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At July 1, 2015, the City's proportion was .0364184 percent.

CITY OF SALMON - STATE OF IDAHO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

4. PENSION PLAN (Continued)

For the year ended June 30, 2015, the City recognized pension expense/(revenue) of \$95,566. At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 57,490
Changes in assumptions or other inputs	17,465	-
Net difference between projected and actual earnings on pension plan investments	176,495	251,840
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	(16,046)	-
City contributions subsequent to the measurement date	<u>28,596</u>	<u>-</u>
Total	\$ <u>206,510</u>	\$ <u>309,330</u>

A portion of deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date, 28,596, will be recognized as a reduction of the net pension liability in subsequent years.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2014, the beginning of the measurement period ended June 30, 2015 is 5.6 years.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses/(revenue) as follows:

Year ended June 30:

2016	\$ (45,706)
2017	(45,706)
2018	(45,706)
2019	39,194
2020	<u>(1,400)</u>
Total	\$ <u>(99,324)</u>

Actuarial Assumptions

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

CITY OF SALMON - STATE OF IDAHO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

4. PENSION PLAN (Continued)

The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.5 – 10.00%
Salary inflation	3.75%
Investment rate of return (net of investment expenses)	7.1%
Cost-of-living adjustments	1%

Mortality rates were based on the RP – 2000 combined table for healthy males or females as appropriate with the following offsets:

- Set back 3 years for teachers
- No offset for male fire and police
- Forward one year for female fire and police
- Set back one year for all general employees and all beneficiaries

An experience study was performed in 2012 for the period July 1, 2007 through June 30, 2011 which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2013. The Total Pension Liability as of June 30, 2015 is based on the results of an actuarial valuation date of July 1, 2015.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on the approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are show below. The formal asset allocation policy is somewhat more conservative than the current allocation of the System's assets.

CITY OF SALMON - STATE OF IDAHO
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended September 30, 2015

4. PENSION PLAN (Continued)

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2014.

Asset Class	Index	Target Allocation	Long-Term Expected Real Rate of Return
Core Fixed Income	Barclays Aggregate	30.00%	0.80%
Broad US Equities	Wilshire 5000/Russell 3000	55.00%	6.90%
Developed Foreign Equities	MSCI EAFE	15.00%	7.55%

Actuarial Assumptions

Assumed Inflation – Mean	3.25%
Assumed Inflation – Standard Deviation	2.00%
Portfolio Arithmetic Mean Return	8.42%
Portfolio Long-Term Expected Rate of Return	7.50%
Assumed Investment Expenses	0.40%
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses	<u>7.10%</u>

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.10%, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.10%) or 1 percentage point higher (8.10%) than the current rate.

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Employer's proportionate share of the net pension liability (asset)	1,168,061	479,571	(92,817)

CITY OF SALMON - STATE OF IDAHO
 NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended September 30, 2015

4. PENSION PLAN (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Payables to the Pension Plan

At September 30, 2015, the City reported payables to the defined benefit pension plan of \$16,865 for legally required employer contributions and legally required employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

5. LITIGATION AND CONTINGENT LIABILITIES

No claims or lawsuits are pending against the City.

6. LONG-TERM DEBT

Long-term Obligation Activity:

General long-term obligations of the City include two bonds payable to the Department of Environmental Quality (DEQ) and a revenue refunding bond. Long-term liabilities also include net pension liability as required by GASB 68. During the year ending September 30, 2015, the following changes occurred in long-term debt:

	Restated Balance			Balance	Amounts due
	10-01-2014	Additions	Reductions	09-30-2015	within one year
<u>Governmental Activities</u>					
Accrued compensation	\$ 66,189	\$ 11,345	\$ -	\$ 77,534	\$ 42,644
Net pension liability	180,012	132,078	-	312,090	-
Total governmental activities	<u>246,201</u>	<u>143,423</u>	<u>-</u>	<u>389,624</u>	<u>42,644</u>
<u>Business-type Activities</u>					
Accrued interest	619	7,877	-	8,496	8,496
Accrued compensation	42,758	-	(9,514)	33,244	18,284
Water system (DEQ)	4,088,845	-	(134,241)	3,954,604	136,939
Sewer system (DEQ)	2,525,348	-	(61,601)	2,463,747	123,433
2012 Revenue refunding bond	415,000	-	(55,000)	360,000	55,000
Net pension liability	96,602	70,880	-	167,482	-
Total business-type activities	<u>7,169,172</u>	<u>78,757</u>	<u>(260,356)</u>	<u>6,987,573</u>	<u>342,152</u>
Total long-term activities	\$ <u>7,415,373</u>	\$ <u>222,180</u>	\$ <u>(260,356)</u>	\$ <u>7,377,197</u>	\$ <u>384,796</u>

**CITY OF SALMON - STATE OF IDAHO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015**

6. LONG-TERM DEBT (Continued)

Debt Service Requirements:

Debt service requirements on long-term debt at September 30, 2015, are as follows:

Business-type Activities Year	Water DEQ Loan 2%		Revenue Refunding Bond 2.5% – 5.0%	
	Principal	Interest	Principal	Interest
2016	\$ 136,939	\$ 78,411	\$ 55,000	\$ 14,225
2017	139,692	75,658	55,000	12,850
2018	142,499	72,851	60,000	10,650
2019	145,364	69,986	60,000	7,650
2020	148,286	67,064	65,000	5,850
2021 – 2025	787,352	289,398	65,000	3,250
2026 – 2030	869,726	207,024	-	-
2031 – 2035	960,719	116,031	-	-
2036 - 2038	624,027	22,022	-	-
	<u>\$ 3,954,604</u>	<u>\$ 998,445</u>	<u>\$ 360,000</u>	<u>\$ 54,475</u>

Year	Sewer DEQ Loan .25%	
	Principal	Interest
2016	\$ 123,433	\$ 6,099
2017	123,759	5,773
2018	124,068	5,464
2019	124,379	5,153
2020	124,676	4,856
2021 – 2025	628,134	19,527
2026 – 2030	636,033	11,627
2031 – 2035	579,265	3,628
	<u>\$ 2,463,747</u>	<u>\$ 62,127</u>

Compensated absences typically have been liquidated in the funds where they are accrued.

7. RELATED PARTY TRANSACTIONS

The City has not been directly involved in related party transactions that would violate the Idaho Code or Federal Regulations.

8. MATERIAL VIOLATION OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

There are no known violations of direct finance-related legal and contractual provisions.

**CITY OF SALMON - STATE OF IDAHO
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2015**

9. RISK MANAGEMENT

The City is exposed to various risks related to torts; theft of, damage to, and destruction of assets, errors and omission, and natural disasters. The City's risk management program encompasses various means of protecting the City against loss by obtaining property, casualty, and liability coverage through commercial insurance carriers.

10. DEFICITS AND INTERFUND TRANSACTIONS

There were no fund deficits as of September 30, 2015.

There were no interfund receivables or payables as of September 30, 2015.

11. INTERFUND TRANSFERS

There were no interfund transfers during the 2015 fiscal year.

12. SUBSEQUENT EVENTS

Subsequent events have been considered through the report date of April 20, 2016. There are no known subsequent events that will have a material impact on the operation of the City.

13. EXPENDITURE BUDGET VIOLATIONS

During the current fiscal year, the General Fund expenditures exceeded budgeted expenditures by \$1,048 and Streets & Alleys Fund expenditures exceeded budgeted expenditures by \$19,870.

14. RESTATEMENT OF BEGINNING NET POSITION

As of October 1, 2014, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments to calculate and report the costs and obligations associated with pensions in their financial statements, including additional note disclosures and supplementary information. The beginning net position was decreased by \$604,809 (\$393,591 in governmental funds and \$211,218 in proprietary funds) to reflect the implementation of GASB Statement No. 68 (GASB 68) and GASB Statement No. 71 (GASB 71).

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SALMON
BUDGET AND ACTUAL (WITH BUDGET TO GAAP DIFFERENCES)
GENERAL FUND
For the year ended September 30, 2015

	Budgeted Amount		Budgetary Basis
	Original	Final	
REVENUES			
Property taxes	\$ 784,666	\$ 784,666	\$ 800,820
Fees and fines	8,500	8,500	9,395
Licenses and permits	7,000	7,000	11,795
Intergovernmental	480,068	520,068	529,062
Charges for services	63,100	63,100	61,713
Investment earnings	3,000	3,000	8,023
Miscellaneous	14,500	61,330	28,157
TOTAL REVENUES	<u>1,360,834</u>	<u>1,447,664</u>	<u>1,448,965</u>
EXPENDITURES			
Current:			
General government	323,260	323,260	337,723
Public safety	626,800	626,800	595,573
Public works	-	-	-
Health and sanitation	-	-	-
Culture and recreation	155,075	155,075	157,607
Education	-	-	-
Economic development	62,486	62,486	18,692
Sacajawea Center	150,213	150,213	142,018
Debt Service:			
Principal	-	-	-
Interest and other charges	-	-	-
Capital outlay	43,000	129,830	197,099
TOTAL EXPENDITURES	<u>1,360,834</u>	<u>1,447,664</u>	<u>1,448,712</u>
Excess (deficiency) of revenues over expenditures	-	-	253
OTHER FINANCING SOURCES (USES)			
Other sources	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES AND USES	<u>-</u>	<u>-</u>	<u>-</u>
SPECIAL ITEM			
Proceeds from sale of capital assets	-	-	-
Net change in fund balances	-	-	253
Fund Balances, October 1, 2014	830,609	830,609	830,609
FUND BALANCES, SEPTEMBER 30, 2015	<u>\$ 830,609</u>	<u>\$ 830,609</u>	<u>\$ 830,862</u>

GAAP	Differences	GAAP	Basis
800,820	\$ -	800,820	
9,395	-	9,395	
11,795	-	11,795	
529,062	-	529,062	
61,713	-	61,713	
(492)	1,755	7,531	29,912
1,263	1,263	1,450,228	1,450,228
17,419	6,787	355,142	602,360
-	-	-	-
9,337	-	166,944	-
1	-	18,693	-
(7,377)	134,641	-	-
-	-	-	-
840,802	1,037,901	-	-
866,969	2,315,681	-	-
(865,706)	(865,453)	-	-
846,488	846,488	-	-
-	-	-	-
846,488	846,488	-	-
-	-	-	-
(19,218)	(18,965)	-	-
-	-	-	-
-	-	830,609	811,644
(19,218)	\$ (19,218)	811,644	\$ (19,218)

CITY OF SALMON
BUDGET AND ACTUAL (WITH BUDGET TO GAAP DIFFERENCES)
STREETS & ALLEYS
For the year ended September 30, 2015

	Budgeted Amount		Budgetary Basis
	Original	Final	
REVENUES			
Property taxes	\$ 289,744	\$ 289,744	\$ 292,567
Fees and fines	-	-	-
Licenses and permits	-	-	-
Intergovernmental	101,280	101,280	105,885
Charges for services	-	-	-
Investment earnings	50	50	679
Miscellaneous	-	30,000	5,343
TOTAL REVENUES	<u>391,074</u>	<u>421,074</u>	<u>404,474</u>
EXPENDITURES			
Current:			
General government	-	-	-
Public safety	-	-	-
Public works	359,074	359,074	387,600
Health, welfare and sanitation	-	-	-
Culture and recreation	-	-	-
Education	-	-	-
Debt Service:			
Principal	-	-	-
Interest and other charges	-	-	-
Capital outlay	32,000	62,000	53,344
TOTAL EXPENDITURES	<u>391,074</u>	<u>421,074</u>	<u>440,944</u>
Excess (deficiency) of revenues over expenditures	-	-	(36,470)
OTHER FINANCING SOURCES (USES)			
Proceeds from capital leases	-	-	-
Other sources	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES AND USES	<u>-</u>	<u>-</u>	<u>-</u>
SPECIAL ITEM			
Proceeds from sale of capital assets	-	-	-
Net change in fund balances	-	-	(36,470)
Fund Balances, October 1, 2014	145,452	145,452	145,452
FUND BALANCES, SEPTEMBER 30, 2015	<u>\$ 145,452</u>	<u>\$ 145,452</u>	<u>\$ 108,982</u>

	GAAP Differences		GAAP Basis
\$	-	\$	292,567
	-		-
	-		-
	-		105,885
	-		-
	-		679
	-		5,343
	-		404,474
	-		-
	-		-
	(33,383)		354,217
	-		-
	-		-
	-		-
	33,383		86,727
	-		440,944
	-		(36,470)
	-		-
	-		-
	-		-
	-		-
	-		-
	-		(36,470)
	-		145,452
\$	-	\$	108,982

CITY OF SALMON - STATE OF IDAHO
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended September 30, 2015

1. The legally adopted budget for City of Salmon – State of Idaho is based on the cash basis of accounting. Adjustments to the modified accrual basis of accounting are listed as GAAP differences.
2. Higher operating expenses may be reflected on the GAAP basis if equipment was purchased at year-end with a partial payment budgeted in the current year and an account payable booked to reflect the final payment in the subsequent year’s budget.
3. The General Fund expenditures exceeded the budgeted expenditures by \$1,048 and the Street & Alleys Fund expenditures exceeded the budgeted expenditures by \$19,870.

CITY OF SALMON - STATE OF IDAHO
 SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
 PERSI - BASE PLAN
 Last 10 Fiscal Years*

	<u>2015</u>
Employer's portion of net pension liability	0.0364184%
Employer's proportionate share of the net pension liability	\$ 479,571
Employer's covered employee payroll	\$ 1,086,757
Employer's proportional share of the net pension liability as a percentage of its covered payroll	44.13%
Plan fiduciary net position as a percentage of the total pension liability	91.38%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full trend is compiled, the City will present information for those years for which information is available.

Data reported is measured as of June 30, 2015.

CITY OF SALMON - STATE OF IDAHO
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 PERSI - BASE PLAN
 Last 10 Fiscal Years*

<u>PERSI BASE PLAN</u>					
<u>Fiscal Year</u>	<u>Statutorily Required Contribution</u>	<u>Contribution in Relation to the Statutorily Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contribution as a % of Covered Payroll</u>
2015	119,125	116,991	2,135	1,086,757	10.77%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full trend is compiled, the City will present information for those years for which information is available.

Data reported is measured as of June 30, 2015.

SUPPLEMENTARY INFORMATION

CITY OF SALMON - STATE OF IDAHO
 COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS - NONMAJOR
 September 30, 2015

	Cemetery Fund	Local Option Tax Fund	Totals
ASSETS			
Cash	\$ 85,371	\$ 94,578	\$ 179,949
Receivables (net)			-
Property taxes	3,722	-	3,722
Accounts receivable	4,175	-	4,175
Prepaid insurance	1,322	-	1,322
	<u>94,590</u>	<u>94,578</u>	<u>189,168</u>
DEFERRED OUTFLOWS			
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 94,590</u>	<u>\$ 94,578</u>	<u>\$ 189,168</u>
LIABILITIES			
Accounts payable	\$ 407	\$ 39	\$ 446
Accrued compensation	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>407</u>	<u>39</u>	<u>446</u>
DEFERRED INFLOWS			
Revenue unavailable for use	<u>3,327</u>	<u>-</u>	<u>3,327</u>
FUND BALANCES			
Nonspendable - Prepaid expenditures	1,322	-	1,322
Assigned	<u>89,534</u>	<u>94,539</u>	<u>184,073</u>
TOTAL FUND BALANCES	<u>90,856</u>	<u>94,539</u>	<u>185,395</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	<u>\$ 94,590</u>	<u>\$ 94,578</u>	<u>\$ 189,168</u>

**CITY OF SALMON - STATE OF IDAHO
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 SPECIAL REVENUE FUNDS - NONMAJOR
 For the Year Ended September 30, 2015**

	Cemetery Fund	Local Option Tax Fund	Totals
REVENUES			
Taxes	\$ 33,739	\$ -	\$ 33,739
Other taxes	-	96,115	96,115
Fees and fines	-	-	-
Licenses and permits	-	-	-
Intergovernmental revenues	-	-	-
Entitlement	-	-	-
Charges for services	43,230	-	43,230
Investment earnings	390	487	877
Miscellaneous	10	-	10
	<u>77,369</u>	<u>96,602</u>	<u>173,971</u>
TOTAL REVENUES			
	<u>77,369</u>	<u>96,602</u>	<u>173,971</u>
EXPENDITURES			
General government	-	19,829	19,829
Public safety	-	-	-
Public works	-	-	-
Health and sanitation	-	-	-
Culture and recreation	-	-	-
Education	-	-	-
Economic development	-	6,999	6,999
Sacajawea Center	-	-	-
Cemetery	66,083	-	66,083
Capital outlay	-	12,930	12,930
	<u>66,083</u>	<u>39,758</u>	<u>105,841</u>
TOTAL EXPENDITURES			
	<u>66,083</u>	<u>39,758</u>	<u>105,841</u>
Excess of revenues over (under) expenditures	11,286	56,844	68,130
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)			
	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	11,286	56,844	68,130
FUND BALANCES - October 1, 2014	<u>79,570</u>	<u>37,695</u>	<u>117,265</u>
FUND BALANCES - September 30, 2015	<u>\$ 90,856</u>	<u>\$ 94,539</u>	<u>\$ 185,395</u>

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OTHER SUPPLEMENTARY INFORMATION

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

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Salmon – State of Idaho
Salmon, Idaho

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salmon, State of Idaho, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents, and have issued our report thereon dated April 20, 2016.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Salmon, Idaho's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Salmon's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Salmon's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control, as defined above, that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Salmon, Idaho's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions

was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Searle Hart + Associates, PLLC

Idaho Falls, Idaho
April 20, 2016