

CITY OF SALEM, ARKANSAS
Independent Auditor's Report and
Financial Statements
December 31, 2021

CITY OF SALEM, ARKANSAS

December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Salem, Arkansas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Arkansas, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Salem, Arkansas's basic financial statements as listed in the table of contents.

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, each major fund, and the aggregate remaining fund information of the City of Salem, Arkansas, as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Salem, Arkansas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Salem, Arkansas's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing

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standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Salem, Arkansas's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Salem, Arkansas's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, required pension schedules and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 responses 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Salem, Arkansas's basic financial statements. The accompanying water and sewer schedules as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 water and sewer supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2023, on our consideration of the City of Salem, Arkansas'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 solely 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 effectiveness of the City of Salem, Arkansas's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Salem, Arkansas's internal control over financial reporting and compliance.

Welch, Couch & Company, PA
Welch, Couch & Company, PA
Certified Public Accountants

Batesville, Arkansas
January 25, 2023



CITY OF SALEM

MAYOR DANIEL D. BUSCH

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CITY OF SALEM, ARKANSAS MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the City of Salem's financial performance provides an overview of the City's financial activities for the fiscal years ended December 31, 2021 and 2020. Readers should consider the information presented here in conjunction with the City's financial statements which begin on page 16.

Financial Highlights

- As of December 31, 2021 and 2020, total assets of the City exceeded total liabilities by \$3,687,323 and \$3,321,001, respectively. Of this amount, \$608,295 and \$192,313, respectively, is considered unrestricted. As of December 31, 2021 and 2020, the unrestricted net position of the City's governmental activities are \$254,421 and \$(20,647), respectively, and may be used to meet the government's on-going obligations. The unrestricted net position of the City's business-type activities are \$353,874 and \$212,960, respectively, and may be used to meet the on-going obligations of the City's business-type activities.
- The City's total net position increased by \$366,322 and \$187,379 in 2021 and 2020, respectively. Net position of the governmental activities increased by \$266,078 and \$73,865 in 2021 and 2020, respectively. Net position of the business-type activities increased by \$100,244 and \$113,514 in 2021 and 2020, respectively.
- As of December 31, 2021 and 2020, the City's governmental funds reported combined ending fund balances of \$1,355,780 and \$1,089,477, respectively. The combined governmental fund balances increased by \$266,303 and \$171,135 in 2021 and 2020, respectively. At December 31, 2021 and 2020, fund balance of \$831,702 and \$584,901, respectively, is considered unrestricted.
- The general fund reported fund balances of \$803,222 and \$621,906 at the end of 2021 and 2020, respectively. Unreserved fund balance for the general fund was \$283,831 or 35% of total general fund expenditures in 2021 and \$119,992 or 24% of total general fund expenditures in 2020. There was a \$181,316 and \$94,683 increase in the total fund balance for the general fund for the years ended December 31, 2021 and 2020, respectively.
- The City's total debt at December 31, 2021 and 2020 was \$328,743 and \$363,737, respectively.
- As of December 31, 2021 and 2020, net position of fiduciary funds were \$-0- and \$-0-, respectively. The total fiduciary net position (decreased) by \$-0- and \$-0- in 2021 and 2020, respectively.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Salem's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves that will enhance the reader's understanding of the financial condition of the City of Salem.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The statement of net position presents information on all of the City's assets and deferred outflows of resources minus liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, recreation and culture, streets and highways, and industrial development. The business-type activities of the City include the airport, water and sewer, and softball and baseball.

The government-wide financial statements can be found on pages 16 through 18 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources which have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better

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

understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two 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 street fund.

The City adopts an annual budget for its general fund and street fund. A budgetary comparison statement has been provided for the funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 19 through 22 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, airport, and softball and baseball.

Proprietary funds 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 each fund.

The basic proprietary fund financial statements can be found on pages 23 through 27 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City does not have a fiduciary fund for year ended December 31, 2021.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 28 through 58 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's Firemen's Pension, City's APERS Plan, and City's LOPFI Plan and the general fund, major special revenue, and water and sewer funds budget. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The required supplementary information can be found on pages 59 through 69 of this report.

The water and sewer fund schedules are presented immediately following the required supplemental information.

The schedules can be found on pages 70 through 72 of this report.

Government-Wide Financial Analysis

Net Position			
<u>December 31, 2021</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current assets	\$ 763,469	\$ 663,269	\$ 1,426,738
Restricted assets	507,838	482,908	990,746
Capital assets	1,202,883	1,219,863	2,422,746
Deferred outflows of resources	<u>113,203</u>	<u>25,701</u>	<u>138,904</u>
Total assets and deferred outflows of resources	<u>2,587,393</u>	<u>2,391,741</u>	<u>4,979,134</u>
Long-term liabilities	<u>422,447</u>	<u>326,860</u>	<u>749,307</u>
Other liabilities	<u>(77,828)</u>	<u>256,339</u>	<u>178,511</u>
Deferred inflows of resources	<u>296,446</u>	<u>67,547</u>	<u>363,993</u>
Total liabilities and deferred inflows of resources	<u>641,065</u>	<u>650,746</u>	<u>1,291,811</u>
Net investment in capital assets	1,189,790	904,213	2,094,003
Restricted	502,117	482,908	985,025
Unrestricted	<u>254,421</u>	<u>353,874</u>	<u>608,295</u>
Total net position	<u>\$ 1,946,328</u>	<u>\$ 1,740,995</u>	<u>\$ 3,687,323</u>

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

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Net Position			
<u>December 31, 2020</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current assets	\$ 557,697	\$ 493,674	\$ 1,051,371
Restricted assets	495,651	470,507	966,158
Capital assets	1,252,229	1,295,344	2,547,573
Deferred outflows of resources	105,425	25,479	130,904
Total assets and deferred outflows of resources	<u>2,411,002</u>	<u>2,285,004</u>	<u>4,696,006</u>
Long-term liabilities	<u>616,537</u>	<u>419,189</u>	<u>1,035,726</u>
Other liabilities	<u>(23,522)</u>	<u>215,717</u>	<u>192,195</u>
Deferred inflows of resources	<u>137,737</u>	<u>9,347</u>	<u>147,084</u>
Total liabilities and deferred inflows of resources	<u>730,752</u>	<u>644,253</u>	<u>1,375,005</u>
Net investment in capital assets	1,226,552	957,284	2,183,836
Restricted	474,345	470,507	944,852
Unrestricted	<u>(20,647)</u>	<u>212,960</u>	<u>192,313</u>
Total net position	<u>\$ 1,680,250</u>	<u>\$ 1,640,751</u>	<u>\$ 3,321,001</u>

Net assets may serve, over time, as an indicator of a government's financial position. The City's assets exceeded liabilities by \$3,687,323 and \$3,321,001 as of December 31, 2021 and 2020, respectively. The largest portion of the City's net position is its investment in capital assets (e.g., land, buildings, improvements other than buildings, machinery and equipment) less any debt to acquire the asset. Even though these assets are reported net of related debt, the liability to repay the debt must be provided from other sources since the assets themselves cannot be used to liquidate debt.

Net position is also subject to external restrictions on how they may be used. In 2021 and 2020, the City has \$985,025 and \$944,852, respectively, of restricted net position which are limited by state or municipal laws or grant or contractual agreements as to the use of these funds. Unrestricted net position (deficit) which may be used to meet ongoing obligations of the City totaled \$608,295 and \$192,313 in 2021 and 2020, respectively.

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

Schedules of changes in net position for December 31, 2021 and 2020 follow:

Changes in Net Assets			
<u>December 31, 2021</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 35,262	\$ 671,001	\$ 706,263
Operating grants and contributions	194,872	-	194,872
General revenues:			
Property taxes	79,827	-	79,827
Sales taxes	444,765	-	444,765
County fire tax	49,184	-	49,184
Franchise fees	71,345	-	71,345
Intergovernmental - state	176,004	-	176,004
Act 833 income	12,486	-	12,486
Investment earnings	1,591	1,904	3,495
Miscellaneous	1,157	-	1,157
Total revenues	<u>1,066,493</u>	<u>672,905</u>	<u>1,739,398</u>
Expenses:			
General government	114,611	-	114,611
Public safety	368,131	-	368,131
Recreation and culture	57,096	-	57,096
Streets and highways	244,465	-	244,465
Industrial development	15,600	-	15,600
Interest on long-term debt	512	-	512
Water and sewer	-	526,005	526,005
Airport	-	31,923	31,923
Softball and baseball	-	14,733	14,733
Total expenses	<u>800,415</u>	<u>572,661</u>	<u>1,373,076</u>
Increase in net position	266,078	100,244	366,322
Net position - beginning	<u>1,680,250</u>	<u>1,640,751</u>	<u>3,321,001</u>
Net position - ending	<u>\$ 1,680,250</u>	<u>\$ 1,640,751</u>	<u>\$ 3,321,001</u>

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

Changes in Net Assets
December 31, 2020

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 27,943	\$ 669,166	\$ 697,109
Operating grants and contributions	77,465	-	77,465
General revenues:			
Property taxes	80,409	-	80,409
Sales taxes	399,265	-	399,265
County fire tax	40,953	-	40,953
Franchise fees	60,889	-	60,889
Intergovernmental - state	163,102	-	163,102
Act 833 income	11,855	-	11,855
Investment earnings	1,862	1,639	3,501
Loss on sale of capital assets	(7,138)	-	(7,138)
Miscellaneous	10,533	-	10,533
Total revenues	<u>867,138</u>	<u>670,805</u>	<u>1,537,943</u>
Expenses:			
General government	107,003	-	107,003
Public safety	383,313	-	383,313
Recreation and culture	53,566	-	53,566
Streets and highways	230,880	-	230,880
Industrial development	15,600	-	15,600
Interest on long-term debt	911	-	911
Water and sewer	-	530,087	530,087
Airport	-	25,367	25,367
Softball and baseball	-	3,837	3,837
Total expenses	<u>791,273</u>	<u>559,291</u>	<u>1,350,564</u>
Increase in net position before transfers	<u>75,865</u>	<u>111,514</u>	<u>187,379</u>
Transfers	<u>(2,000)</u>	<u>2,000</u>	<u>-</u>
Change in net position	73,865	113,514	187,379
Net position - beginning	<u>1,606,385</u>	<u>1,527,237</u>	<u>3,133,622</u>
Net position - ending	<u>\$ 1,680,250</u>	<u>\$ 1,640,751</u>	<u>\$ 3,321,001</u>

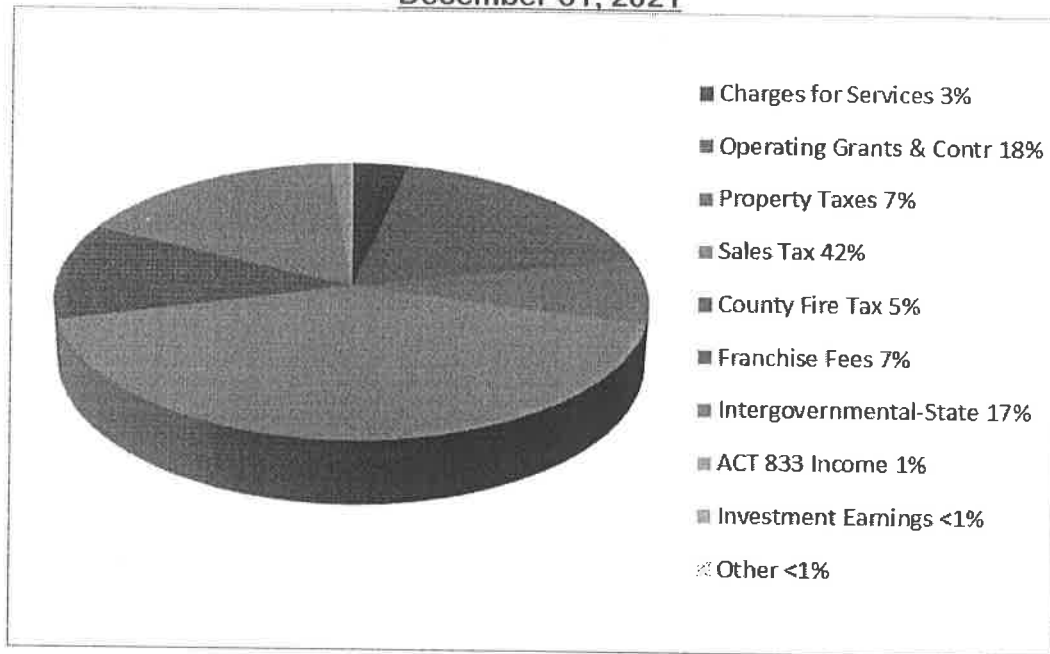
The notes to financial statements are an integral part of this statement.

Governmental Activities

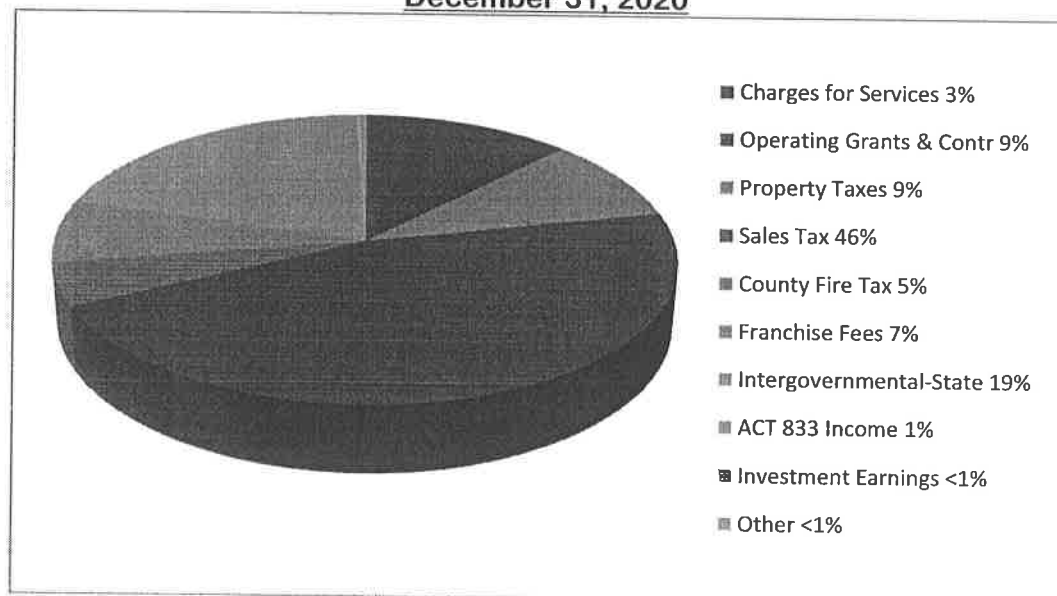
Governmental activities increased net position by \$226,078 and \$73,865 in 2021 and 2020, respectively. A chart of revenues by source for governmental activities follows.

Revenues by Source – Governmental Activities

December 31, 2021



December 31, 2020



As graphically portrayed above, the City is heavily reliant on sales and property taxes to support governmental operations. Sales and property taxes provided 49% and 55% of the City's total governmental revenues in fiscal years 2021 and 2020, respectively.

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

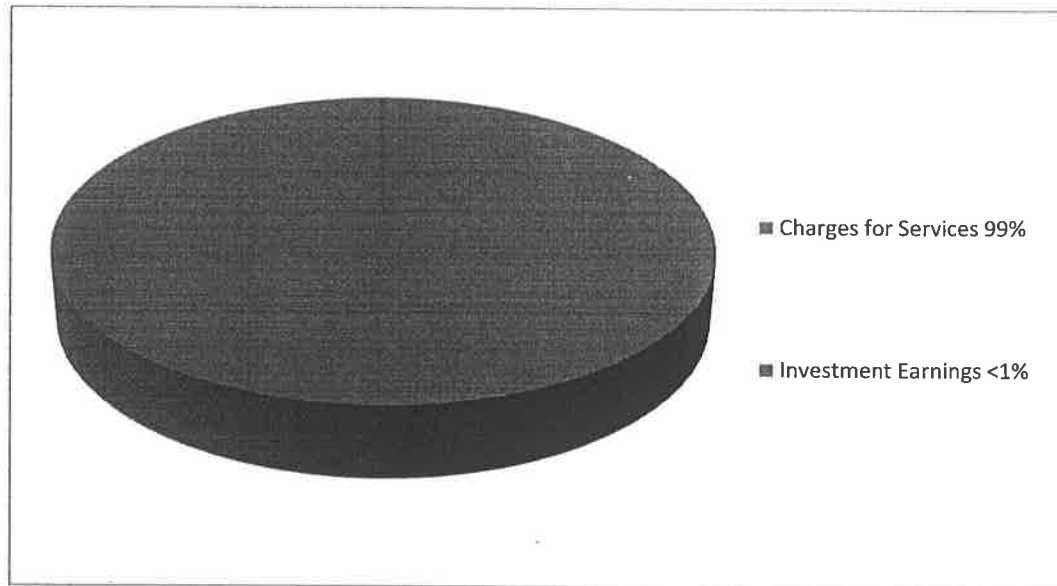
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Business-Type Activities

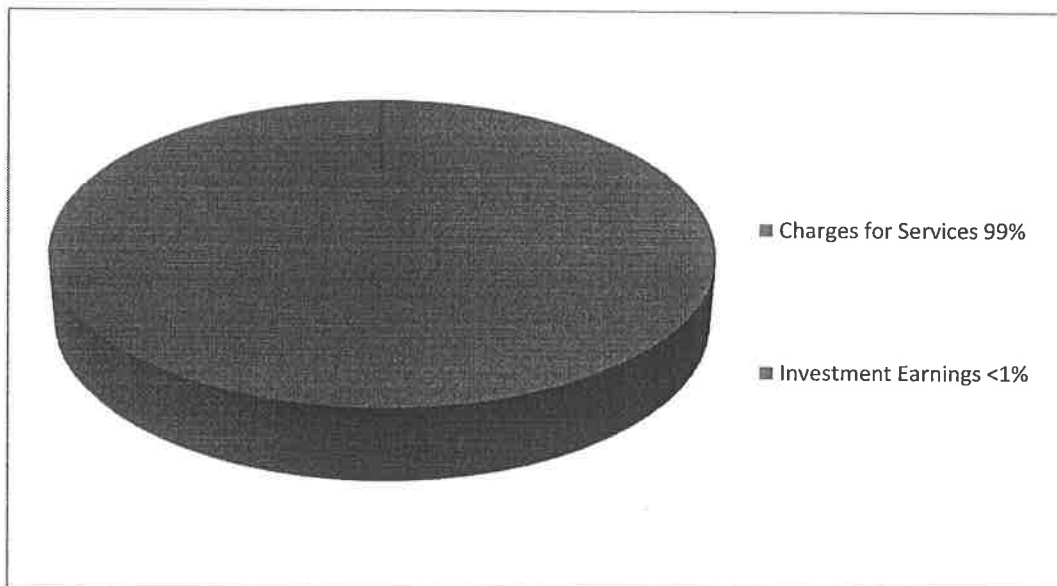
Business-type activities increased net position by \$100,244 and \$113,514 in 2021 and 2020, respectively. A chart of revenues by source for business-type activities is presented below:

Revenues by Source – Business-Type Activities

December 31, 2021



December 31, 2020



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

Financial Analysis of the Government's Funds

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's near term financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of December 31, 2021 and 2020, the City's governmental funds reported combined ending fund balances of \$1,335,780 and \$1,089,477, respectively. Of this total amount \$831,702 and \$584,901, respectively, constitutes unrestricted fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City. At the end of 2021 and 2020, total fund balance of the general fund was \$803,222 and \$621,906, respectively. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. In 2021 and 2020, total fund balance represents 104% and 80%, respectively, of total general fund expenditures. The total general fund balance increased by \$181,316 and \$94,683 during 2021 and 2020, respectively.

As of December 31, 2021 and 2020, the special revenue fund had a total fund balance of \$552,558 and \$467,571, respectively. The net increase in fund balance in 2021 and 2020 for this fund was \$84,987 and \$76,442, respectively.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net position at the end of 2021 amounted to \$1,474,448, \$266,106, and \$441 for water and sewer, airport, and softball and baseball, respectively. Unrestricted net assets (deficit) of the water and sewer, airport, and softball and baseball were \$349,790, \$3,643, and \$441 respectively.

Net position at the end of 2020 amounted to \$1,344,689, \$288,424, and \$7,638 for water and sewer, airport, and softball and baseball, respectively. Unrestricted net assets (deficit) of the water and sewer, airport, and softball and baseball were \$202,884, \$2,438, and \$7,638 respectively.

General Fund Budget Highlights

Actual revenues and transfers-in exceeded budgetary estimates by \$142,532 and actual expenditures and transfers-out were less than budgetary estimates by \$67,731 resulting in an increase in existing fund balance of \$181,136 as compared to the budgeted (decrease) of \$(7,134).

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets (net of accumulated depreciation) for governmental and business-type activities as of December 31, 2021 and 2020 amounts to \$2,422,746 and \$2,547,573, respectively.

This investment in capital assets includes land, buildings, systems, improvements, machinery and equipment, park facilities, streets and highways, and water and sewer systems. The total additions for 2021 and 2020 was \$60,975 and \$70,160, respectively.

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

**Capital Assets, Net of Accumulated Depreciation
December 31, 2021**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land and construction in progress	\$ 15,000	\$ 140,824	\$ 155,824
Buildings, systems and improvements	2,400,376	3,160,983	5,561,359
Equipment	639,499	287,964	927,463
Infrastructure	1,233,000	-	1,233,000
Accumulated depreciation	<u>(3,084,992)</u>	<u>(2,369,908)</u>	<u>(5,454,900)</u>
Total	<u>\$ 1,202,883</u>	<u>\$ 1,219,863</u>	<u>\$ 2,422,746</u>

**Capital Assets, Net of Accumulated Depreciation
December 31, 2020**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land and construction in progress	\$ 15,000	\$ 140,824	\$ 155,824
Buildings, systems and improvements	2,400,376	3,160,983	5,561,359
Equipment	680,268	287,964	968,232
Infrastructure	1,233,000	-	1,233,000
Accumulated depreciation	<u>(3,076,415)</u>	<u>(2,294,427)</u>	<u>(5,370,842)</u>
Total	<u>\$ 1,252,229</u>	<u>\$ 1,295,344</u>	<u>\$ 2,547,573</u>

Additional information on the City's capital assets can be found in Note 4 on pages 37 through 39 of this report.

Long-Term Debt

At December 31, 2021 and 2020, the City had \$328,743 and \$363,737, respectively, of long-term debt outstanding.

Long-Term Debt <u>December 31, 2021</u>			
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Note payable	\$ 13,093	\$ 7,512	\$ 20,605
Revenue bonds payable	-	308,138	308,138
Total	<u>\$ 13,093</u>	<u>\$ 315,650</u>	<u>\$ 328,743</u>

Long-Term Debt <u>December 31, 2020</u>			
	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Note payable	\$ 25,677	\$ 8,564	\$ 34,241
Revenue bonds payable	-	329,496	329,496
Total	<u>\$ 25,677</u>	<u>\$ 338,060</u>	<u>\$ 363,737</u>

Total long-term debt outstanding at December 31, 2021 and 2020, (decreased) by \$(34,994) and \$(14,350), respectively. The City issued \$-0- and \$17,651 in new debt during the fiscal years ending December 31, 2021 and 2020, respectively.

Additional information regarding the City's long-term debt can be found in Note 5 on pages 39 through 42 of this report.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2021 budget. The City considered its two primary revenue sources: sales tax and property tax. The Mayor and City Council decided that it was important to: 1) put the highest premium on safety for the people of Salem and City employees, and 2) adopt a budget designed to promote long-term fiscal stability by creating additional budget reserves. In order to meet the objectives of the 2021 budget, the City recognized the need to continue its pattern of cost containment. The total 2022 general fund budget is \$652,326.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Salem, P.O. Box 619, Salem, Arkansas 72576.

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

CITY OF SALEM, ARKANSAS

Statement of Net Position

December 31, 2021

Assets and Deferred Outflows of Resources

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents - Notes 1 & 2	\$ 528,533	\$ 600,841	\$ 1,129,374
Certificate of deposits - Notes 1 & 2	102,829	-	102,829
Receivables: - Note 3			
Intergovernmental	90,842	-	90,842
Franchise fees	7,239	-	7,239
Other	17,786	-	17,786
Customers, net of allowance for bad debts	-	52,707	52,707
Prepaid expenses	16,240	9,721	25,961
Total current assets	<u>763,469</u>	<u>663,269</u>	<u>1,426,738</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents - Notes 1 & 2	507,838	366,957	874,795
Certificate of deposits - Notes 1 & 2	-	115,951	115,951
Total restricted assets	<u>507,838</u>	<u>482,908</u>	<u>990,746</u>
Capital assets, net of accumulated depreciation - Notes 1 & 4	1,202,883	1,219,863	2,422,746
Total noncurrent assets	<u>1,710,721</u>	<u>1,702,771</u>	<u>3,413,492</u>
Deferred outflows of resources:			
Deferred pension outflows - APERS - Note 7	32,028	25,701	57,729
Deferred pension outflows - LOPFI - Note 7	81,175	-	81,175
Total deferred outflows of resources	<u>113,203</u>	<u>25,701</u>	<u>138,904</u>
Total assets and deferred outflows of resources	<u>\$ 2,587,393</u>	<u>\$ 2,391,741</u>	<u>\$ 4,979,134</u>

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

CITY OF SALEM, ARKANSAS
Statement of Net Position (Cont.)
December 31, 2021

Liabilities, Deferred Inflows of Resources and Net Position

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current liabilities:			
Accounts payable - trade	\$ 17,268	\$ 16,772	\$ 34,040
Accrued expenses	53,566	3,836	57,402
Internal balances	(155,307)	155,307	-
Total current liabilities	<u>(84,473)</u>	<u>175,915</u>	<u>91,442</u>
Current liabilities payable from restricted assets:			
Customer meter deposits - Note 5	-	56,940	56,940
Notes payable - Note 5	6,645	1,066	7,711
Revenue bonds payable - Note 5	-	22,418	22,418
Total current liabilities payable from restricted assets	<u>6,645</u>	<u>80,424</u>	<u>87,069</u>
Noncurrent liabilities:			
Net pension liability - APERS - Note 7	43,235	34,694	77,929
Net pension liability - FPRF - Note 7	64,421	-	64,421
Net pension liability - LOPFI - Note 7	308,343	-	308,343
Notes payable - Note 5	6,448	6,446	12,894
Revenue bonds payable - Note 5	-	285,720	285,720
Total noncurrent liabilities	<u>422,447</u>	<u>326,860</u>	<u>749,307</u>
Total liabilities	<u>344,619</u>	<u>583,199</u>	<u>927,818</u>
Deferred inflows of resources:			
Deferred pension inflows - APERS - Note 7	84,176	67,547	151,723
Deferred pension liability - FPRF - Note 7	10,733	-	10,733
Deferred pension liability - LOPFI - Note 7	201,537	-	201,537
Total deferred inflows of resources	<u>296,446</u>	<u>67,547</u>	<u>363,993</u>
Net position:			
Net investment in capital assets	1,189,790	904,213	2,094,003
Restricted:			
Expendable - Administration of Justice	70,544	-	70,544
Expendable - Act 833	15,771	-	15,771
Expendable - debt service	-	34,536	34,536
Expendable - capital expenditures	415,802	371,389	787,191
Expendable - meter fund	-	76,983	76,983
Unrestricted	254,421	353,874	608,295
Total net position	<u>1,946,328</u>	<u>1,740,995</u>	<u>3,687,323</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,587,393</u>	<u>\$ 2,391,741</u>	<u>\$ 4,979,134</u>

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

CITY OF SALEM, ARKANSAS
Statement of Activities
Year Ended December 31, 2021

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants & Contributions	Operating Grants & Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental activities:							
General government	\$ 114,611	\$ -	\$ -	\$ -	\$ (114,611)	\$ -	\$ (114,611)
Public safety	368,131	29,902	-	182,872	(155,357)	-	(155,357)
Recreation and culture	57,096	5,360	-	12,000	(39,736)	-	(39,736)
Streets and highways	244,465	-	-	-	(244,465)	-	(244,465)
Industrial development	15,600	-	-	-	(15,600)	-	(15,600)
Interest charges	512	-	-	-	(512)	-	(512)
Total governmental activities	800,415	35,262	-	194,872	(570,281)	-	(570,281)
Business-type activities:							
Water and sewer	526,005	653,861	-	-	-	127,856	127,856
Airport	31,923	9,605	-	-	-	(22,318)	(22,318)
Softball and baseball	14,733	7,535	-	-	-	(7,198)	(7,198)
Total business-type activities	572,661	671,001	-	-	-	98,340	98,340
Total government	\$ 1,373,076	\$ 706,263	\$ -	\$ 194,872	(570,281)	98,340	(471,941)
General revenues:							
Taxes:							
Property taxes					79,827	-	79,827
Sales taxes					444,765	-	444,765
County fire tax					49,184	-	49,184
Franchise fees					71,345	-	71,345
Intergovernmental - state					176,004	-	176,004
Act 833 income					12,486	-	12,486
Investment earnings					1,591	1,904	3,495
Miscellaneous					1,157	-	1,157
Total general revenues					836,359	1,904	838,263
Change in net position					266,078	100,244	366,322
Net position - beginning of year					1,680,250	1,640,751	3,321,001
Net position - ending					\$ 1,946,328	\$ 1,740,995	\$ 3,687,323

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

CITY OF SALEM, ARKANSAS
Balance Sheet – Governmental Funds
December 31, 2021

	General Fund	Special Revenue Street Fund	Total Governmental Funds
<u>Assets</u>			
Assets:			
Cash and cash equivalents	\$ 481,068	\$ 47,465	\$ 528,533
Certificate of deposits	-	102,829	102,829
Receivables - intergovernmental	48,737	42,105	90,842
Receivables - franchise fees	7,239	-	7,239
Receivables - other	17,786	-	17,786
Prepaid expenses	11,553	4,687	16,240
Due from other funds	(209,196)	364,503	155,307
Total assets	<u>357,187</u>	<u>561,589</u>	<u>918,776</u>
Restricted assets:			
Cash and cash equivalents	507,838	-	507,838
Total restricted assets	<u>507,838</u>	<u>-</u>	<u>507,838</u>
Total assets	<u>\$ 865,025</u>	<u>\$ 561,589</u>	<u>\$ 1,426,614</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 10,955	\$ 6,313	\$ 17,268
Accrued expenses	50,848	2,718	53,566
Total liabilities	<u>61,803</u>	<u>9,031</u>	<u>70,834</u>
Fund balances:			
Nonspendable:			
Prepaid items	11,553	4,687	16,240
Committed for:			
Industrial development	3,570	-	3,570
Municipal court	2,151	-	2,151
Act 833	15,771	-	15,771
Administration of Justice	70,544	-	70,544
Assigned to:			
Capital expenditures	415,802	-	415,802
Unrestricted	283,831	547,871	831,702
Total fund balances	<u>803,222</u>	<u>552,558</u>	<u>1,355,780</u>
Total liabilities and fund balances	<u>\$ 865,025</u>	<u>\$ 561,589</u>	<u>\$ 1,426,614</u>

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

CITY OF SALEM, ARKANSAS
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2021

Total fund balance - total governmental funds	\$ 1,355,780
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets of \$4,287,875, net of accumulated depreciation of \$3,084,992, are not financial resources and, therefore, are not reported in the funds. See Note 4 for additional detail.	1,202,883
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Deferred outflows of resources are not reported in the governmental funds but are presented on the government-wide financial statements	113,203
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:

Net pension liability - Firemen's Pension and Relief Fund	(64,421)
Net pension liability - APERS	(43,235)
Net pension liability - LOPFI	(308,343)
Note payable	(13,093)

Deferred inflows of resources are not reported in the governmental funds but are presented on the government-wide financial statements	<u>(296,446)</u>
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Net position of governmental activities	<u>\$ 1,946,328</u>
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The notes to financial statements are an integral part of this statement.

CITY OF SALEM, ARKANSAS
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2021

	<u>General Fund</u>	<u>Special Revenue Street Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Intergovernmental revenues - state	\$ 26,282	\$ 133,729	\$ 160,011
Property taxes	79,827	15,993	95,820
Sales tax	267,255	177,510	444,765
County fire tax	49,184	-	49,184
Act 833 income	12,486	-	12,486
Franchise fees	71,345	-	71,345
Parks and civic center activities	5,360	-	5,360
Fines, forfeitures and costs	29,902	-	29,902
Interest income	1,293	298	1,591
Other income	918	1,157	2,075
Total revenues	<u>543,852</u>	<u>328,687</u>	<u>872,539</u>
Expenditures:			
Current:			
General government	87,901	-	87,901
Public safety - police	249,150	-	249,150
Public safety - fire	65,100	-	65,100
Recreation and culture	25,527	-	25,527
Streets and highways	-	230,314	230,314
Industrial development	15,600	-	15,600
Capital outlay	60,975	-	60,975
Debt service: principal payments	12,058	526	12,584
Pension obligation: contributions	39,727	12,860	52,587
Total expenditures	<u>556,038</u>	<u>243,700</u>	<u>799,738</u>
Excess (deficit) of revenues over expenditures	<u>(12,186)</u>	<u>84,987</u>	<u>72,801</u>
Other financing sources (uses):			
Grants	176,065	-	176,065
Donation income (expense)	17,890	-	17,890
Interest expense	(453)	-	(453)
Total other financing sources (uses)	<u>193,502</u>	<u>-</u>	<u>193,502</u>
Increase in fund balance	181,316	84,987	266,303
Fund balances - beginning of the year	<u>621,906</u>	<u>467,571</u>	<u>1,089,477</u>
Fund balances - ending	<u><u>\$ 803,222</u></u>	<u><u>\$ 552,558</u></u>	<u><u>\$ 1,355,780</u></u>

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

CITY OF SALEM, ARKANSAS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended December 31, 2021

Net change in fund balance - total governmental funds	\$	266,303
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of \$(110,321) exceeded capital outlay of \$60,975 in the current period.		(49,346)
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Long-term net pension obligations, deferred outflows of resources, and deferred inflows of resources are reported in the statement of activities, but they do not require the use of current financial resources. Therefore, the net pension obligation contractually required contributions are reported as expenditures in governmental funds. This is the amount by which change in net pension obligation, deferred outflow of resources, and deferred inflows of resources \$(16,048) exceeded contractually required contributions \$52,585 in the current period		36,537
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Repayment of long-term debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		12,584
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Change in net position of governmental activities	\$	266,078
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The notes to financial statements are an integral part of this statement.

CITY OF SALEM, ARKANSAS
Statement of Net Position – Proprietary Funds
December 31, 2021

	<u>Water and Sewer</u>	<u>Airport</u>	<u>Softball and Baseball</u>	<u>Total Enterprise Funds</u>
<u>Assets and Deferred Outflows of Resources</u>				
Current assets:				
Cash and cash equivalents	\$ 587,367	\$ 13,033	\$ 441	600,841
Accounts receivable - net of allowance for uncollectibles	52,707	-	-	52,707
Prepaid expenses	9,721	-	-	9,721
Total current assets	<u>649,795</u>	<u>13,033</u>	<u>441</u>	<u>663,269</u>
Restricted assets:				
Cash and cash equivalents	366,957	-	-	366,957
Certificate of deposits	115,951	-	-	115,951
Total restricted assets	<u>482,908</u>	<u>-</u>	<u>-</u>	<u>482,908</u>
Capital assets - net of accumulated depreciation	<u>957,400</u>	<u>262,463</u>	<u>-</u>	<u>1,219,863</u>
Deferred outflows of resources:				
Deferred pension outflows	<u>25,701</u>	<u>-</u>	<u>-</u>	<u>25,701</u>
Total assets and deferred outflows of resources	<u>\$ 2,115,804</u>	<u>\$ 275,496</u>	<u>\$ 441</u>	<u>\$ 2,391,741</u>

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

CITY OF SALEM, ARKANSAS
Statement of Net Position – Proprietary Funds (Cont.)
December 31, 2021

	<u>Water and Sewer</u>	<u>Airport</u>	<u>Softball and Baseball</u>	<u>Total Enterprise Funds</u>
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>				
Current liabilities:				
Accounts payable - trade	\$ 16,772	\$ -	\$ -	\$ 16,772
Accrued expenses	3,836	-	-	3,836
Due to other funds	145,917	9,390	-	155,307
Total current liabilities	<u>166,525</u>	<u>9,390</u>	<u>-</u>	<u>175,915</u>
Current liabilities payable from restricted assets:				
Customer meter deposits	56,940	-	-	56,940
Note payable	1,066	-	-	1,066
Revenue bonds payable	22,418	-	-	22,418
Total current liabilities payable from restricted assets	<u>80,424</u>	<u>-</u>	<u>-</u>	<u>80,424</u>
Non-current liabilities:				
Net pension liability - APERS	34,694	-	-	34,694
Note payable	6,446	-	-	6,446
Revenue bonds payable	285,720	-	-	285,720
Total non-current liabilities	<u>326,860</u>	<u>-</u>	<u>-</u>	<u>326,860</u>
Total liabilities	<u>573,809</u>	<u>9,390</u>	<u>-</u>	<u>583,199</u>
Deferred inflows of resources:				
Deferred pension inflows	67,547	-	-	67,547
Net position:				
Net investment in capital assets	641,750	262,463	-	904,213
Restricted expendable	482,908	-	-	482,908
Unrestricted	349,790	3,643	441	353,874
Total net position	<u>1,474,448</u>	<u>266,106</u>	<u>441</u>	<u>1,740,995</u>
Total liabilities , deferred inflows of resources and net position	<u>\$ 2,115,804</u>	<u>\$ 275,496</u>	<u>\$ 441</u>	<u>\$ 2,391,741</u>

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

CITY OF SALEM, ARKANSAS
Statement of Revenues, Expenses and
Changes in Fund Net Position – Proprietary Funds
Year Ended December 31, 2021

	<u>Water and Sewer</u>	<u>Airport</u>	<u>Softball and Baseball</u>	<u>Total Enterprise Funds</u>
Operating revenues:				
Water sales	\$ 352,943	\$ -	\$ -	\$ 352,943
Sewer charges	193,729	-	-	193,729
Sanitation charges	104,455	-	-	104,455
Connection fees	1,350	-	-	1,350
Promotional fees	-	-	7,532	7,532
Other miscellaneous income	1,384	9,605	-	10,989
Total operating revenues	<u>653,861</u>	<u>9,605</u>	<u>7,532</u>	<u>670,998</u>
Operating expenses:				
Salaries and wages	172,525	-	-	172,525
Employee benefits	32,372	-	-	32,372
Contract labor	-	-	5,245	5,245
Taxes, licenses and fees	38,924	-	-	38,924
Utilities	47,596	1,230	367	49,193
Sanitation contract	106,623	-	-	106,623
Uniforms and equipment	-	-	-	-
Supplies and maintenance	30,830	7,171	6,956	44,957
Office expense and postage	10,542	-	-	10,542
Insurance and league fees	9,239	-	2,125	11,364
Depreciation	51,959	23,522	-	75,481
Miscellaneous	10,044	-	37	10,081
Total operating expenses	<u>510,654</u>	<u>31,923</u>	<u>14,730</u>	<u>557,307</u>
Operating income (loss)	<u>143,207</u>	<u>(22,318)</u>	<u>(7,198)</u>	<u>113,691</u>
Nonoperating revenues (expenses):				
Interest income	1,903	-	1	1,904
Interest expense	(15,351)	-	-	(15,351)
Total nonoperating revenues (expenses)	<u>(13,448)</u>	<u>-</u>	<u>1</u>	<u>(13,447)</u>
Increase (decrease) in net position	<u>129,759</u>	<u>(22,318)</u>	<u>(7,197)</u>	<u>100,244</u>
Net position - beginning of year	<u>1,344,689</u>	<u>288,424</u>	<u>7,638</u>	<u>1,640,751</u>
Net position - ending	<u>\$ 1,474,448</u>	<u>\$ 266,106</u>	<u>\$ 441</u>	<u>\$ 1,740,995</u>

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

CITY OF SALEM, ARKANSAS
Statement of Cash Flows – Proprietary Funds
Year Ended December 31, 2021

	Water and Sewer	Airport	Softball and Baseball	Total Enterprise Funds
Cash flows from operating activities:				
Receipts from customers	\$ 657,264	\$ 9,605	\$ 7,532	\$ 674,401
Payments to suppliers	(157,941)	(8,400)	(14,730)	(181,071)
Payments to employees	(204,272)	-	-	(204,272)
Other operating revenue (expenses)	(71,767)	-	-	(71,767)
Net cash provided by (used in) operating activities	<u>223,284</u>	<u>1,205</u>	<u>(7,198)</u>	<u>217,291</u>
Cash flows from capital and related financing activities:				
Principal payment on debt	(22,410)	-	-	(22,410)
Interest payments on debt	(15,351)	-	-	(15,351)
Net cash (used in) capital and related financing activities	<u>(37,761)</u>	<u>-</u>	<u>-</u>	<u>(37,761)</u>
Cash flows from investing activities:				
Interest earned	1,903	-	1	1,904
Net cash provided by investing activities	<u>1,903</u>	<u>-</u>	<u>1</u>	<u>1,904</u>
Net increase (decrease) in cash and cash equivalents	<u>187,426</u>	<u>1,205</u>	<u>(7,197)</u>	<u>181,434</u>
Cash and cash equivalents - beginning	<u>882,849</u>	<u>11,828</u>	<u>7,638</u>	<u>902,315</u>
Cash and cash equivalents - ending	<u><u>\$ 1,070,275</u></u>	<u><u>\$ 13,033</u></u>	<u><u>\$ 441</u></u>	<u><u>\$ 1,083,749</u></u>
Supplemental disclosures of cash flow information:				
Cash paid for interest	<u>\$ 15,386</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,386</u>
Reconciliation of cash to the balance sheet:				
Cash in current assets	\$ 587,367	\$ 13,033	\$ 441	\$ 600,841
Cash in restricted assets	482,908	-	-	482,908
Total cash	<u><u>\$ 1,070,275</u></u>	<u><u>\$ 13,033</u></u>	<u><u>\$ 441</u></u>	<u><u>\$ 1,083,749</u></u>

(Continued)

CITY OF SALEM, ARKANSAS
Statement of Cash Flows – Proprietary Funds (Cont.)
Year Ended December 31, 2021

	<u>Water and Sewer</u>	<u>Airport</u>	<u>Softball and Baseball</u>	<u>Total Enterprise Funds</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 143,207	\$ (22,318)	\$ (7,198)	\$ 113,691
Non cash items included in operating income (loss):				
Depreciation expense	51,959	23,522	-	75,481
Net changes in:				
Receivables	3,403	-	-	3,403
Prepaid expenses	(3,966)	-	-	(3,966)
Accounts payable	(9,946)	-	-	(9,946)
Accrued expenses	625	-	-	625
Customer meter deposits	1,970	-	-	1,970
Net pension liability	(68,842)	-	-	(68,842)
Deferred outflows of resources	(222)	-	-	(222)
Deferred inflows of resources	58,200	-	-	58,200
Other liabilities	46,896	1	-	46,897
Net cash provided by (used in) operating activities	<u>\$ 223,284</u>	<u>\$ 1,205</u>	<u>\$ (7,198)</u>	<u>\$ 217,291</u>

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 1 – Summary of Significant Accounting Policies

A) Reporting Entity

The City of Salem, Arkansas is a municipal corporation organized July 21, 1900 and governed by an elected mayor and a four-member council. On January 24, 2003, the City, having a population of 1,500 or more, passed an ordinance to become a city of the first class in accordance with Act 269 of 1971 of the Arkansas General Assembly.

B) Basic Financial Statements

The basic financial statements include both government-wide financial statements (based on the City as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected on a full accrual economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide 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 or segment. 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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures and expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 1 – Summary of Significant Accounting Policies (Cont.)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation (cont.)

Property, franchise, sales taxes, and investment income (including unrealized gains and losses) are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measured and available only when the government receives cash.

- Governmental funds include the following fund types:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects). The special revenue fund reported on the governmental fund statements is the street fund.

- Proprietary funds include the following fund types:

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The proprietary fund statements report the water and sewer fund (a major fund) and two other individual funds.

- Fiduciary funds include the following fund types:

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the City holds for others in an agency capacity. The City does not have a fiduciary fund during year ended December 31, 2021.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund are charges to customers for sales and services. Operating expenses for water and sewer fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 1 – Summary of Significant Accounting Policies (Cont.)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation (cont.)

When fund balance resources are available for a specific purpose in more than one classification, it is the City of Salem's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

D) 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.

E) Assets, Liabilities and Equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term certificate of deposits with original maturities of three months or less.

Legal or contractual provisions for deposits and investments:

a. Governmental fund types

State law generally requires that municipal funds be deposited in federally insured banks located in the State of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts, and/or time deposits. Public funds may also be invested in direct obligations of the United States of America and obligations the principal and interest on which are fully guaranteed by the United States of America.

b. Pension trust funds

(i) *Firemen's pension*

State law provides that if the total assets of the Firemen's Pension Trust Fund are less than one hundred thousand dollars (\$100,000), the funds may be deposited or invested as noted below. If the total assets of the fund exceed one hundred thousand dollars (\$100,000), the fund may employ a professional investment advisor to invest the assets subject to the prudent investor rule and/or in no-load mutual funds.

(ii) *Investments*

The funds may include deposits in federally insured savings and loans located in the State of Arkansas and notes secured by mortgages on real estate guaranteed either by the United States government or by a corporation approved by the State Commissioner of Insurance. Investments of other types are allowed by state law, but it has not been a common practice of the City to utilize them.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 1 – Summary of Significant Accounting Policies (Cont.)

E) Assets, Liabilities and Equity (cont.)

1. Deposits and investments (cont.)

b. Pension trust funds (cont.)

(iii) Municipal judge's and clerk's retirement

Municipal judge's and clerk's retirement funds are allowed the same type of deposits and investments as listed above. Additionally, they may be used to purchase interest-bearing securities in the State of Arkansas, or certificates of the United States, or any or all of such securities. They may also be deposited in federally insured savings and loans located in the State of Arkansas. If the total assets of the fund exceed one hundred thousand dollars (\$100,000), assets may be invested subject to the prudent investor rule.

2. Receivables and payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Accounts payable consists of various trade accounts which are generally payable within thirty (30) days.

At December 31, 2021, meter deposits are liabilities payable to water and sewer customers as a requirement to obtain services.

Property taxes are levied as of January 1 on property values assessed on the same date. The bills are considered past due after October of each year at which time the applicable property is subject to lien and penalties and interest are assessed. All trade receivables are shown net of an allowance for uncollectibles.

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

5. Capital assets, depreciation and amortization

Capital assets, which include infrastructure, are reported in the government-wide financial statements and the fund financial statements for proprietary funds.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 1 – Summary of Significant Accounting Policies (Cont.)

E) Assets, Liabilities and Equity (cont.)

5. Capital assets, depreciation and amortization (cont.)

The City's property, plant, equipment and infrastructure costing \$500 or more and that have useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated.

The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	10-50
Infrastructure	25-50
System infrastructure	50-60
Vehicles	5
Office equipment	5
Computer equipment	5

Depreciation expense is charged directly to the department/function based on the department that utilizes the related asset.

6. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources applicable to future periods.

7. Restricted resources

When the City has both restricted and unrestricted resources available to finance a particular program, it is the City's policy to use restricted resources before unrestricted resources.

8. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave. Vacation pay, when material, is accrued when incurred in proprietary funds and reported as a fund liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 1 – Summary of Significant Accounting Policies (Cont.)

E) Assets, Liabilities and Equity (cont.)

8. Compensated absences (cont.)

and a fund liability of the governmental fund that will pay it. There was no accrued vacation pay considered to be material.

9. Long-term obligations

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using the effective interest method.

Bond issuance costs are to be expensed under GASB 65. Bond discounts and premiums are recognized as an adjustment of interest expense under GASB 65.

10. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources applicable to future periods.

11. Net position / fund balance

Government-wide statements

Net position of the City is classified in four components. *Net position invested in capital assets, net of related debt*, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* is noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the City, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. *Restricted nonexpendable net position* is noncapital assets that are required to be maintained in perpetuity as specified by parties external to the City, such as permanent endowments. *Unrestricted net position* is remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt, restricted expendable, or restricted nonexpendable.

Fund statements

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance* – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 1 – Summary of Significant Accounting Policies (Cont.)

E) Assets, Liabilities and Equity (cont.)

11. Net position / fund balance (cont.)

Fund statements (cont.)

- *Committed fund balance* – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint;
- *Assigned fund balance* – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- *Unassigned fund balance* – amounts that are available for any purpose; positive amounts are reported only in the general fund.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

F) New Accounting Pronouncements

No new accounting pronouncements were applicable or adopted by the City in 2021.

Note 2 – Significant Concentration of Credit Risk

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Arkansas; bonds of any city, county, school district or special district of the State of Arkansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

Custodial credit risk is the risk that in the event of a bank failure, an entity's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provision of state law. At year end, the City's carrying amount of deposits was \$2,222,949 and the bank balance was \$2,231,765. The entire bank balance was covered by federal depository insurance or by collateral held by the City's agent or by the bank's investment custodian.

Due to higher cash flows at certain times during the year, the City's risks for uninsured and uncollateralized deposits and investments could be higher or lower than at year end.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 2 – Significant Concentration of Credit Risk (Cont.)

Investment income for cash equivalents and certificate of deposits are comprised of the following for the year ended December 31, 2021:

	<u>2021</u>
Income	
Governmental	
Interest income - General Fund	\$ 1,293
Interest income - Street Fund	298
Proprietary	
Interest income - Water and Sewer Fund	1,903
Interest income - Baseball/Softball Fund	<u>1</u>
 Total interest income	 <u><u>\$ 3,495</u></u>

Interest rate risk investments – the City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – the City does not currently maintain a written investment policy regarding credit risk limits.

Concentration of credit risk investments – the City currently does not have a stated investment policy that outlines the limit on the amount the City may invest in any one issuer.

The carrying amounts of deposits and investments are included in the City's balance sheet as follows:

	<u>2021</u>
Carrying amount:	
Deposits	\$ 2,222,949
	<u><u>\$ 2,222,949</u></u>

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 2 – Significant Concentration of Credit Risk (Cont.)

2021

Included in the following balance sheet captions:

Current assets:

Cash and cash equivalents \$ 1,129,374

Certificate of deposits 102,829

Noncurrent assets:

Cash and cash equivalents 874,795

Certificate of deposits 115,951

\$ 2,222,949

Note 3 – Receivables

Receivables as of December 31, 2021, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Funds</u>		<u>Proprietary Funds</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Total</u>
Franchise fees	\$ 7,239	\$ -	\$ -	\$ 7,239
Sales tax	45,664	30,727	-	76,391
Water and sewer billings	-	-	55,382	55,382
Intergovernmental revenue - state	3,073	11,378	-	14,451
Other	17,786	-	-	17,786
Less: allowance for uncollectibles	-	-	(2,675)	(2,675)
Net receivables	<u>\$ 73,762</u>	<u>\$ 42,105</u>	<u>\$ 52,707</u>	<u>\$ 168,574</u>

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 4 – Capital Assets and Depreciation

The following is a summary of changes in capital assets and the related accumulated depreciation for governmental activities of the City for the year ended December 31, 2021:

	Balance Dec. 31, 2020	Additions	Retirements	Balance Dec. 31, 2021
Capital assets not being depreciated:				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Total capital assets not being depreciated	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>15,000</u>
Capital assets being depreciated:				
Buildings:				
Administration	683,101	-	-	683,101
Ballpark & recreation center	1,120,342	-	-	1,120,342
Police department	204,382	-	-	204,382
Fire department	343,422	-	-	343,422
Street department	49,129	-	-	49,129
	<u>2,400,376</u>	<u>-</u>	<u>-</u>	<u>2,400,376</u>
Equipment:				
Administration	32,292	-	-	32,292
Police department	262,708	47,194	(101,744)	208,158
Fire department	52,192	8,921	-	61,113
Street department	288,728	-	-	288,728
Park equipment	44,348	4,860	-	49,208
	<u>680,268</u>	<u>60,975</u>	<u>(101,744)</u>	<u>639,499</u>
Infrastructure:				
Street department	1,233,000	-	-	1,233,000
Total capital assets being depreciated	<u>4,313,644</u>	<u>60,975</u>	<u>(101,744)</u>	<u>4,272,875</u>
Less accumulated depreciation for:				
Buildings:				
Administration	(423,417)	(20,871)	-	(444,288)
Ballpark & recreation center	(350,588)	(29,461)	-	(380,049)
Police department	(181,022)	(5,839)	-	(186,861)
Fire department	(304,607)	(9,703)	-	(314,310)
Street department	(37,772)	(1,879)	-	(39,651)
	<u>(1,297,406)</u>	<u>(67,753)</u>	<u>-</u>	<u>(1,365,159)</u>
Equipment:				
Administration	(11,440)	(3,535)	-	(14,975)
Police department	(181,260)	(25,192)	101,744	(104,708)
Fire department	(51,678)	(1,260)	-	(52,938)
Street department	(261,520)	(10,473)	-	(271,993)
Park equipment	(40,111)	(2,108)	-	(42,219)
	<u>(546,009)</u>	<u>(42,568)</u>	<u>101,744</u>	<u>(486,833)</u>
Infrastructure:				
Street department	(1,233,000)	-	-	(1,233,000)
Total accumulated depreciation	<u>(3,076,415)</u>	<u>(110,321)</u>	<u>101,744</u>	<u>(3,084,992)</u>
Total capital assets being depreciated, net	<u>1,237,229</u>	<u>(49,346)</u>	<u>-</u>	<u>1,187,883</u>
Capital assets, net	<u><u>\$ 1,252,229</u></u>	<u><u>\$ (49,346)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,202,883</u></u>

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 4 – Capital Assets and Depreciation (Cont.)

The following is a summary of changes in capital assets and the related accumulated depreciation for business-type activities of the City for the year ended December 31, 2021:

	<u>Balance</u> <u>Dec. 31, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>Dec. 31, 2021</u>
Capital assets not being depreciated:				
Land:				
Water & sewer department	\$ 45,624	\$ -	\$ -	\$ 45,624
Airport	95,200	-	-	95,200
Total capital assets not being depreciated	<u>140,824</u>	<u>-</u>	<u>-</u>	<u>140,824</u>
Capital assets being depreciated:				
Buildings, systems & improvements:				
Water department	6,072	-	-	6,072
Water plant	1,237,714	-	-	1,237,714
Sewer plant	1,437,443	-	-	1,437,443
Airport	479,754	-	-	479,754
	<u>3,160,983</u>	<u>-</u>	<u>-</u>	<u>3,160,983</u>
Equipment:				
Office equipment	70,154	-	-	70,154
Service equipment	217,810	-	-	217,810
	<u>287,964</u>	<u>-</u>	<u>-</u>	<u>287,964</u>
Total capital assets being depreciated	<u>3,448,947</u>	<u>-</u>	<u>-</u>	<u>3,448,947</u>
Less accumulated depreciation for:				
Buildings, systems & improvements:				
Water department	(1,415)	(494)	-	(1,909)
Water plant	(905,259)	(22,037)	-	(927,296)
Sewer plant	(838,618)	(20,051)	-	(858,669)
Airport	(288,969)	(23,522)	-	(312,491)
	<u>(2,034,261)</u>	<u>(66,104)</u>	<u>-</u>	<u>(2,100,365)</u>
Equipment:				
Office equipment	(58,694)	(2,375)	-	(61,069)
Service equipment	(201,472)	(7,002)	-	(208,474)
	<u>(260,166)</u>	<u>(9,377)</u>	<u>-</u>	<u>(269,543)</u>
Total accumulated depreciation	<u>(2,294,427)</u>	<u>(75,481)</u>	<u>-</u>	<u>(2,369,908)</u>
Total capital assets being depreciated, net	<u>1,154,520</u>	<u>(75,481)</u>	<u>-</u>	<u>1,079,039</u>
Capital assets, net	<u>\$ 1,295,344</u>	<u>\$ (75,481)</u>	<u>\$ -</u>	<u>\$ 1,219,863</u>

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 4 – Capital Assets and Depreciation (Cont.)

Depreciation expense was charged as direct expense to activities of the City as follows:

Governmental activities:

General government	\$ 24,406
Public safety	41,994
Recreation and culture	31,569
Streets and highways	12,352

Total depreciation expense - governmental activities	\$ 110,321
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Business-type activities:

Water and sewer	\$ 51,959
Airport	23,522

Total depreciation expense - business-type activities	\$ 75,481
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Note 5 – Long-Term Debt and Other Noncurrent Liabilities

Governmental Activities

A schedule of changes in long-term debt and other noncurrent liabilities for governmental activities of the City for December 31, 2021 follow:

	Balance at December 31, <u>2020</u>	<u>Additions</u>	<u>Reductions</u>	Balance at December 31, <u>2021</u>	Amount Due Within <u>One Year</u>
Notes Payable					
Bank of Salem (A)	\$ 17,111	\$ -	\$ (11,532)	\$ 5,579	\$ 5,579
NAEC (B)	8,566	-	(1,052)	7,514	1,066
Total revenue bonds payable	\$ 25,677	\$ -	\$ (12,584)	\$ 13,093	\$ 6,645

The terms and due dates of long-term debt for governmental activities of the City at December 31, 2021 follow:

(A) Note payable – Bank of Salem

Date of original loan: October 12, 2016, renewed October 12, 2017
Original amount: \$230,050
Terms: Principal and interest of \$1,000 due monthly with interest at 3.75%, maturing on June 1, 2023, secured by real property.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 5 – Long-Term Debt and Other Noncurrent Liabilities (Cont.)

(B) Note Payable – North Arkansas Electric Cooperative

Date of original loan: September 14, 2021
Original amount: \$8,826 governmental fund; \$8,825 business-type fund
Terms: Principal and interest of \$195.22 due monthly with interest at 1.50%, maturing September 2028, secured by equipment.

A summary of principal and interest repayments for the City's governmental activities is as follows:

<u>Due in</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 6,645	\$ 144	\$ 6,789
2023	1,082	89	1,171
2024	1,098	73	1,171
2025	1,115	56	1,171
2026	1,132	40	1,172
2027 - 2031	2,021	28	2,049
	<u>\$ 13,093</u>	<u>\$ 430</u>	<u>\$ 13,523</u>

Business-Type Activities

A schedule of changes in long-term debt and other noncurrent liabilities for business-type activities of the City for December 31, 2021 follows:

	<u>Balance at December 31, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2021</u>	<u>Amount Due Within One Year</u>
<u>Revenue bonds payable</u>					
Water and Sewer Revenue Bonds, Series 1990 (A)	\$ 182,223	\$ -	\$ (15,383)	\$ 166,840	\$ 16,169
Water and Sewer Revenue Bonds, Series 1999 (B)	147,273	-	(5,975)	141,298	6,249
Total revenue bonds payable	<u>329,496</u>	<u>-</u>	<u>(21,358)</u>	<u>308,138</u>	<u>22,418</u>
<u>Notes payable</u>					
NAEC (C)	8,564	-	(1,052)	7,512	1,066
Total notes payable	<u>8,564</u>	<u>-</u>	<u>(1,052)</u>	<u>7,512</u>	<u>1,066</u>
<u>Other liabilities</u>					
Meter deposits	\$ 54,970	\$ 9,905	\$ (7,935)	\$ 56,940	\$ -
Total other liabilities	<u>54,970</u>	<u>9,905</u>	<u>(7,935)</u>	<u>56,940</u>	<u>-</u>
Total noncurrent liabilities	<u>\$ 393,030</u>	<u>\$ 9,905</u>	<u>\$ (30,345)</u>	<u>\$ 372,590</u>	<u>\$ 23,484</u>

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 5 – Long-Term Debt and Other Noncurrent Liabilities (Cont.)

Business-Type Activities (cont.)

The terms and due dates of long-term debt for business-type activities of the City at December 31, 2021 follow:

(A) *Water and Sewer Revenue Bonds, Series 1990*

Bond issue date:	May 17, 1991
Original issue amount:	\$413,000
Terms:	Monthly payments of \$2,012 payable to USDA Rural Development with interest at 5%, secured with water and sewer system assets and revenues.
Purpose of issue:	Construction of betterments and improvements to the water and sewer system.
Paying agent:	USDA, Rural Development
Debt service reserve:	\$24,144 (fully funded)

(B) *Water and Sewer Revenue Bonds, Series 1999*

Bond issue date:	September 26, 2000
Original issue amount:	\$229,000
Terms:	Monthly payments of \$1,040 payable to USDA Rural Development with interest at 4.5%, secured with water and sewer system assets and revenues. The bonds will be subject to redemption prior to maturity.
Purpose of issue:	Water system improvements
Paying agent:	USDA, Rural Development
Debt service reserve:	\$10,392 (fully funded)

(C) *Note Payable – North Arkansas Electric Cooperative*

Date of original loan:	September 14, 2021
Original amount:	\$8,826 governmental fund; \$8,825 business-type fund
Terms:	Principal and interest of \$195.22 due monthly with interest at 1.50%, maturing September 2028, secured by equipment.

As of December 31, 2021, the City has \$34,536 in cash and cash equivalents reserved for debt service for the City's water and sewer revenue bonds.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 5 – Long-Term Debt and Other Noncurrent Liabilities (Cont.)

Business-Type Activities (cont.)

A summary of principal and interest repayments for the City's proprietary funds, is as follows:

<u>Due in</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 23,484	\$ 14,312	\$ 37,796
2023	24,614	13,181	37,795
2024	25,800	11,995	37,795
2025	27,044	10,750	37,794
2026	28,351	9,444	37,795
2027 - 2031	122,187	26,658	148,845
2032 - 2036	53,672	8,728	62,400
2037 - 2041	10,498	223	10,721
	<u>\$ 315,650</u>	<u>\$ 95,291</u>	<u>\$ 410,941</u>

Note 6 – Other Information

A) Budgetary Information

Annual budgets are adopted for the general, street, and water and sewer funds.

On or before the last Thursday in October of each year, all agencies of the City submit requests for appropriations to the City's mayor so that a budget may be prepared. Before November 30, the proposed budget is presented to the City's council for review. The council holds public hearings and a final budget must be prepared and adopted no later than January 31.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the line-item level.

B) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from an independent third party and participation in public entity risk pools. The amount of claim settlements has not exceeded the insurance coverage for the past three years. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 6 – Other Information (Cont.)

B) Risk Management (cont.)

The City participates in the Arkansas Municipal League program (public entity risk pool) for coverage in the following area:

Workers' compensation — This program provides statutory benefits for losses incurred by municipal officials, employees and volunteer fire fighters while performing work for the municipality. Rates for municipalities participating in this program are revised annually based on the cost experience of the particular municipality or group as determined by the workers' compensation commission.

The City participates in the Arkansas Public Entities Risk Management Association (APERMA) public entity risk pool for coverage in the following areas:

Building and contents program — this program is a blanket policy with varying coverage on each separate property with a \$5,000 deductible. The City pays into the program each year a charge established annually by the risk management fund board for covered City property.

Vehicle program — this program consists of the following:

- *Liability* — This program may pay all sums the City legally must pay as damages because of bodily injury, death or property damage to which this agreement applies involving a covered City vehicle and for which the City is liable. The limit of payment for in-state claims is \$25,000 for bodily injury per person, \$50,000 for bodily injury per accident and \$25,000 for property damage per accident (\$100,000 respectively for out-of-state claims). The City shall pay into the program each year a charge established annually by the risk management fund board for covered City vehicles owned or leased by the City.
- *Physical damage* — This program covers vehicles and mobile equipment which are the property of the participating city. Property is valued at the cost to repair or replace the property after deduction for depreciation. Loss amounts will be reduced by the deductible amount of \$1,000 for police department vehicles and \$500 for all other covered vehicles and mobile equipment. The City agrees to pay into the program each year a service charge established annually by the risk management fund board for covered property.
- *General liability program* — The program shall provide legal defense in civil rights suits against the city government of a participating city and pay judgments imposed on city officials and employees and the city government and city-formed boards and commissions. Coverage is limited to \$250,000 per case with an annual aggregate of \$350,000. The City shall pay into the program each year a charge established annually by the risk management fund board for this coverage.

Self-insured fidelity bond program — the City also participates in the self-insured fidelity bond program administered by the governmental bonding board. This program covers actual losses sustained by the participating entity through any fraudulent or dishonest act or acts committed by any of the officials or employees, acting alone or in collusion with others, during the bond period to an amount not exceeding the lesser of \$250,000 or the amount of the bond. Premiums for coverage are determined by the state risk manager and approved by the board. These premiums are paid by the state treasurer from funds withheld from the municipal aid fund. There is a \$1,000 deductible per occurrence.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 7 – Retirement Plans

A) City of Salem, Arkansas Firemen's Pension and Relief Fund

Plan Description

The Fireman's Pension and Relief Fund is an agent multiple-employer defined benefit for the volunteer and part-time firefighters hired prior to 1983. The City entered into an agreement with the Arkansas Local Police and Fire Retirement System (LOPFI) on June 26, 2020. Per the agreement LOPFI assumed administration and a portion of the obligation of the plan pursuant to Act 364 of 1981, as amended, and Act 655 of 1983 of the General Assembly of the State of Arkansas. In addition, the City agreed to contribute an actuarially determine rate to the plan to fund the plan's net pension liability over a 20-year period with cost-of-living adjustments annually, if applicable. As agreed to with LOPFI the structure of benefits is unchanged. The plan issues separate stand-alone financial statements and can be obtained from the City.

Membership Information

There are presently seven inactive firefighters receiving benefits, and no active firefighters participating in the plan. All firefighters hired after January 1, 1983 participate in a separate LOFI retirement system as described in paragraph (c) below. As such FPRF is closed to new members.

Benefits

The plan provides retirement, death and disability benefits. Retirement benefits are paid to participants after twenty years of service. Surviving spouses and dependent children are provided benefits of deceased firefighters. Disability benefits are paid to firefighters who become permanently disabled, unless disability resulted from other employment.

Basis of Accounting

The City of Salem's financial statements for its defined benefit and defined contribution plans are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. City contributions to each plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Determine Fair Value of Investments

The fair value of investments other than mutual funds is determinable using quoted market prices. The fair value of investments in mutual funds is determined using the funds' current per share price.

Net Pension Liability

At the date of the last actuarial valuation, December 31, 2021, the unfunded accrued liability for the pension plan was \$64,421. The annual required contribution (ARC) provided in the December 31, 2021 actuarial valuation calculates the amount sufficient to pay off the unfunded actuarial liability over a twenty-year period plus the payment of the 2021 normal cost for benefits to be \$7,597.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 7 – Retirement Plans (Cont.)

A) City of Salem, Arkansas Firemen's Pension and Relief Fund (cont.)

Actuarial Methods and Assumptions (cont.)

The State of Arkansas Fire and Police Pension Review Board is responsible for the coordination of the actuarial valuations performed on the Policemen's and Firemen's Pension and Relief Funds. Actuarial valuations were last evaluated as of December 31, 2021. Actuarial assumptions used in evaluating the fund include entry age cost method, book value is used for valuing assets, and amortization period, and a 7.5% investment rate of return. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected benefit on a closed basis. The amortization period at December 31, 2021 was twenty years.

Valuation Date: December 31, 2019

Notes Actuarially determined contribution rates are calculated as of December 31st of each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions used to Determine Contribution Rates for Fiscal Year 2021:

Actuarial Cost Method	Individual Entry-Age Normal
Amortization Method	Closed Amortization Period based on projected benefit factors
Remaining Amortization Period	20 years beginning January 1, 2021
Asset Valuation Method	5-year smoothed market; 20% corridor (for funding purposes)
Price Inflation	2.50%
Salary Increases	N/A
Investment Rate of Return	7.50%
Retirement Age	Experience-based table of rates that are specific to the type of Eligibility condition. Last updated for the 2017 valuation pursuant to an experience study of the period 2012-2016.
Mortality	RP-2014 Healthy Annuitant, Disabled Retiree and Employee mortality tables for males and females. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2016.

Other information:

Notes There were no benefit changes during the year.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 7 – Retirement Plans (Cont.)

A) City of Salem, Arkansas Firemen's Pension and Relief Fund (cont.)

Long-Term Expected Return on Plan Assets

The Long-Term Expected Rate of Return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return. The rates were built on a target allocation for all local police and fire pension funds, and the target for an individual fund will vary within the guidelines of Arkansas law and regulation.

The target allocation and the long-term expected rates of return are shown in the table below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Fixed income	25%	0.66%
Domestic equity	42%	5.12%
Foreign equity	18%	7.15%
Alternative Investments	15%	6.70%
Total	<u>100%</u>	
Expected Inflation		<u>2.50%</u>

Single Discount Rate

A single discount rate of 7.00% was used to measure the Total Pension Liability. This single discount rate was based on the expected rate of return on pension plan investments, the projection of cash flows based on the assumptions, and the pension plan's net position as of the valuation date. The resulting single discount rate was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Components of the Net Pension Liability

The components of the net pension liability at December 31, 2021 were as follows:

Total pension liability	\$ 144,840
Minus: Plan's fiduciary net position	<u>80,419</u>
Net pension liability	<u>\$ 64,421</u>
 Plan's fiduciary net position as a percentage of total pension liability	 55.52%

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 7 – Retirement Plans (Cont.)

A) City of Salem, Arkansas Firemen's Pension and Relief Fund (cont.)

Regarding the sensitivity of the Net Pension Liability to changes in the single discount rate, the following presents the plan's Net Pension Liability calculated using a single discount rate of 7.00%, as well as what the plan's Net Pension Liability would be if it were calculated using a single discount rate one percent point lower and one percentage point higher:

	1% Decrease 6.00%	Current Single Rate Assumed 7.00%	1% Increase 8.00%
Total Pension Liability	\$ 156,373	\$ 144,840	\$ 134,599
Plan Fiduciary Net Position	80,419	80,419	8,419
Net Pension Liability	<u>75,954</u>	<u>64,421</u>	<u>126,180</u>

Changes in the Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2020	\$ 147,889	\$ 77,298	\$ 70,591
Changes for the year			
a. Service cost	-	-	-
b. Interest on TPL	9,777	-	9,777
*c. Differences between expected and actual experience	3,611	-	3,611
d. Employee contributions	-	-	-
e. Employer contributions	-	7,597	(7,597)
f. Net investment income	-	12,050	(12,050)
g. Benefits and refunds	(16,426)	(16,426)	-
h. Administrative expenses	-	(100)	100
i. Benefit changes	-	-	-
j. Assumption changes	(11)	-	(11)
k. Local plan administrative mergers	-	-	-
l. Other/reconciliation	-	-	-
Net changes	<u>(3,049)</u>	<u>3,121</u>	<u>(6,170)</u>
Balances at December 31, 2021	<u>\$ 144,840</u>	<u>\$ 80,419</u>	<u>\$ 64,421</u>

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 7 – Retirement Plans (Cont.)

A) City of Salem, Arkansas Firemen's Pension and Relief Fund (cont.)

GASB 68 Pension Expense and Deferred Outflow/Inflows

For the year ending December 31, 2021, the City of Salem recognized pension benefit of \$2,744. At December 31, 2021, the City of Salem 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>
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>10,733</u>
Total	<u>\$ -</u>	<u>\$ 10,733</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Net Deferred Outflow of Resources</u>
2022	\$ (3,526)
2023	(3,527)
2024	(2,288)
2025	<u>(1,392)</u>
Total	<u>\$ (10,733)</u>

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 7 – Retirement Plans (Cont.)

B) Mayor Retirement Benefits

Mayors of cities of the first class are eligible for retirement pay as authorized by Ark. Code Ann. 24-12-123. Any person who shall serve as mayor of the City for a period of not less than ten (10) years, upon reaching age sixty (60) years, or any person who shall serve as mayor of the City for a period of not less than twenty (20) years, without regard to age, shall be entitled to retire at an annual retirement benefit during the remainder of his or her natural life, payable at the rate of one-half (½) of the salary payable to the mayor at the time of his or her retirement payable from the general fund.

No accrual is made for the retirement liability as monthly payments are expensed when paid. Mayor retirement benefits were \$4,207 for period ending December 31, 2021.

C) Local Police and Fire Retirement System (LOPFI)

Plan Description: The Arkansas Local Police and Fire Retirement System (LOPFI) is a statewide cost-sharing multiple-employer defined benefit plan administered by the LOPFI Board of Trustees. LOPFI provides retirement, disability and survivor benefits to police and fire employees of political subdivisions of the State of Arkansas. LOPFI was created by Act 364 of the 1981 General Assembly. Employees hired after January 1, 1983, whose political subdivision had a retirement system in effect July 1, 1981, are eligible to participate in the plan. The City allows paid police and volunteer firefighters to participate in LOPFI. LOPFI issues a publicly available report, which may be obtained by writing to LOPFI, P.O. Drawer 34164, Little Rock, Arkansas 72203, or by calling 501.682.1745.

Benefits: LOPFI provides for a retirement benefit paid to the member on a monthly basis. The monthly benefit is based on a formula provided by law for the member's lifetime. The member has several options in calculating the benefit, which is normally the result of these factors: age at retirement, retirement multiplier, amount of credit services (years and months), and final average pay (FAP). Each option available to the member provides for a different calculation based on these factors.

Contributions: Contributions to LOPFI are made by both the member and employers. Member contribution rates are established by the LOPFI Board of Trustees. The employer contributions are actuarially determined on an annual basis. The current employee contribution rate is 23.50% of covered payroll for police officers. The City contributed 23.50% of covered employees' salaries to the plan for police officers and \$5.90 per month per member for volunteer firefighters for the year ended December 31, 2021. Contributions by the City to the plan for the year ended December 31, 2021, were \$41,775 for paid police, and \$15,564 for volunteer firefighters.

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

At December 31, 2021, the City reported liability of \$308,343 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2021, 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 ratio of the City's actual contributions to the plan during the measurement period to the total employer contributions to the plan of the group for the measurement period.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 7 – Retirement Plans (Cont.)

C) Local Police and Fire Retirement System (LOPFI) (Cont.)

For the year ended December 31, 2021, the City recognized pension expense of \$14,631 related to this plan. At December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	37,228	386
Net difference between projected and actual investment earnings on pension plan investments	-	182,854
Changes of assumptions	8,950	6,173
Changes in proportion and differences between employer contributions and share of contributions	34,997	12,124
Total	81,175	201,537

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Net Deferred Inflow of Resources
2022	\$ (17,661)
2023	(39,649)
2024	(35,809)
2025	(27,243)
Total	\$ (120,362)

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 7 – Retirement Plans (Cont.)

C) Local Police and Fire Retirement System (LOPFI) (Cont.)

Actuarial Assumptions

The total pension liability as of December 31, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Paid Service

Valuation Date:	December 31, 2019
Notes	Actuarially determined contribution rates are calculated as of December 31 st , which is one year prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions used to Determine Contribution Rates for Fiscal Year 2021:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	16 years beginning January 1, 2021
Asset Valuation Method	5-year smoothed market; 20% corridor
Wage Inflation	3.25%
Price Inflation	2.50%
Salary Increases	3.75% to 18.25%, including inflation
Investment Rate of Return	7.50%, as adopted by the Board
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2017 valuation pursuant to an experience study of the period 2012-2016.
Mortality	RP-2014 Healthy Annuitant, Disabled Retiree and Employee mortality tables for males and females. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2016.

Other Information:

Notes	There were no changes in benefit provisions or methods in the December 31, 2019 actuarial valuation.
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CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 7 – Retirement Plans (Cont.)

C) Local Police and Fire Retirement System (LOPFI) (Cont.)

Volunteer Service

Valuation Date: December 31, 2019

Notes Actuarially determined contribution rates are calculated as of December 31st, which is one year prior to beginning of the fiscal year in which contributions are reported.

Methods and Assumptions used to Determine Contribution Rates for Fiscal Year 2021:

Actuarial Cost Method Entry Age Normal

Amortization Method Increasing Dollar, Closed

Remaining Amortization Period 17 years beginning January 1, 2021

Asset Valuation Method 5-year smoothed market; 20% corridor

Price Inflation 2.50%

Investment Rate of Return 7.50%, as adopted by the Board

Retirement Age Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2017 valuation pursuant to an experience study of the period 2012-2016.

Mortality RP-2014 Healthy Annuitant, Disabled Retiree and Employee mortality tables for males and females. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2016.

Other Information:

Notes There were no changes in benefit provisions or methods in the December 31, 2019 actuarial valuation.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 7 – Retirement Plans (Cont.)

C) Local Police and Fire Retirement System (LOPFI) (Cont.)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return. The rates were built on a target allocation for all pension funds; the target for an individual fund will vary within the guidelines of Arkansas law and regulation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Fixed income	25%	0.66%
Domestic equity	42%	5.12%
Foreign equity	18%	7.15%
Alternative Investments	15%	6.70%
Total	100%	

Discount Rate

In the year ended December 31, 2021, actuarial valuation, a single discount rate of 7.00% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.00%. The projection of cash flows, based on the assumption made, found that the pension plan's net position was 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.

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

The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	<u>1% Lower 6.00%</u>	<u>Discount Rate 7.00%</u>	<u>1% Higher 8.00%</u>
Net pension liability	\$ 617,010	\$ 308,343	\$ 59,882

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 7 – Retirement Plans (Cont.)

C) Local Police and Fire Retirement System (LOPFI) (Cont.)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued LOPFI financial report, which can be found at <http://lopfi-prb.com/lopfi/reports/>.

D) Arkansas Public Employees Retirement System

The City contributes to the Arkansas Public Employees Retirement System (PERS), a cost-sharing, multiple-employer, defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this System. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service.

Members are eligible to retire with a full benefit under the following conditions:

- at age 65 with 5 years of service,
- at any age with 28 years actual service,
- at age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005),
or
- at age 55 with 35 years of credited service for elected or public safety officials.

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service or at any age with 25 years of service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 7 – Retirement Plans (Cont.)

D) Arkansas Public Employees Retirement System (Cont.)

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701)(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 14.50% of compensation for the fiscal year ended June 30, 2020. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

The City's contributions to APERS for the years ending December 31, 2021 and 2020, was \$31,008 and \$24,586, respectively, equal to the required contribution for the year.

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At December 31, 2021, the City reported a liability of \$77,929 for its proportionate share of the net pension liability.

The collective net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Each employer's proportion of the net pension liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers. As of June 30, 2021, the City's proportion was .0010%.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 7 – Retirement Plans (Cont.)

D) Arkansas Public Employees Retirement System (Cont.)

For the year ended December 31, 2021, the City recognized pension expense of \$9,857. At December 31, 2021, the City's 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>
Difference between expected and actual experience	1,784	(4,998)
Net difference between projected and actual investment earnings on pension plan investments	-	(136,790)
Changes of assumptions	-	(546)
Changes in proportion and differences between employer contributions and share of contributions	36,278	(9,389)
Contribution subsequent to the measurement date	19,667	-
Total	<u>57,729</u>	<u>(151,723)</u>

\$19,867 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Net Deferred Outflow of Resources</u>
2022	\$ (27,900)
2023	(21,887)
2024	(22,362)
2025	<u>(41,512)</u>
Total	\$ <u>(113,661)</u>

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 7 – Retirement Plans (Cont.)

D) Arkansas Public Employees Retirement System (cont.)

Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method Entry Age Normal

Actuarial Assumptions:

Investment Rate of Return	7.15%
Salary Increases	3.25% – 9.85%
Inflation Rate	3.25%
Discount Rate	7.15%

Mortality Table RP-2006 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2017.

Investment Rate of Return – The long-term expected rate of return on pension plan investments was determined using a building-block method 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 weighting the expected future real rates of return by the current asset allocation percentage and by adding expected price inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2021 – 2030 were based upon capital market assumptions provided by the plan's investment consultant. For each major asset class included in the plan's current asset allocation as of June 30, 2021, these best estimates are summarized in the following table:

<u>Asset Allocation</u>	<u>Target</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad domestic equity	37%	6.20%
International equity	24%	6.69%
Real assets	16%	4.81%
Absolute return	5%	3.05%
Domestic fixed	18%	.57%
Total	100%	

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2021

Note 7 – Retirement Plans (Cont.)

D) Arkansas Public Employees Retirement System (cont.)

Discount Rate – A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary 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.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the participating employers' net pension liability, calculated using the current discount rate, as well as what the participating employers' net pension liability would be if it were calculated using a single discount rate that is 1% lower and 1% higher than the current rate.

	<u>1% Lower</u> <u>6.15%</u>	<u>Discount Rate</u> <u>7.15%</u>	<u>1% Higher</u> <u>8.15%</u>
Net pension liability	\$ 233,133	\$ 77,928	\$ (50,233)

Note 8 – Related Party

On June 27, 2020 ordinance 2020-216 was enacted by passage of the city council to allow Ted York to continue to serve on the city council while also participating in ownership of a local waste disposal business (Ozark Waste Disposal, Inc.). The City entered into a sanitation agreement on June 27, 2020 with Ozark Waste Disposal, Inc. in which the city will collect sanitation fees on behalf of Ozark Waste Disposal, Inc. which will be included in each resident's water bill and Ozark Waste Disposal, Inc. will provide waste disposal services to residents of the city.

Sanitation revenue and expense were \$104,455 and \$104,714, respectively, for the year ended December 31, 2021. Sanitation billings and payments are reported with the water and sewer department.

Note 9 – Subsequent Event

Management has evaluated subsequent events through January 25, 2023, the date on which the financial statements were available to be issued. No events were noted which should require recognition or disclosure in the financial statements.

CITY OF SALEM, ARKANSAS
Schedule of City's Proportionate Share
of the Net Pension Liability – APERS Plan

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Department's proportion of the net pension liability (asset)	0.0010%	0.0082%	0.0087%	0.0092%	0.0097%	0.0090%	0.0090%	0.0081%
Department's proportionate share of the net pension liability (asset)	\$ 77,929	\$ 235,524	\$ 211,432	\$ 203,680	\$ 249,764	\$ 216,213	\$ 165,087	\$ 115,549
Department's covered-employee payroll	\$ 202,402	\$ 160,483	\$ 167,709	\$ 172,949	\$ 174,200	\$ 163,814	\$ 159,038	\$ 143,978
Department's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	38.50%	146.76%	126.07%	117.77%	143.38%	131.99%	103.80%	80.25%
Plan fiduciary net position as a percentage of the total pension liability	93.57%	75.38%	78.55%	75.65%	75.65%	75.50%	80.39%	84.15%

Ten years' worth of data will be presented as it is available.

CITY OF SALEM, ARKANSAS
Schedule of City's Contributions – APERS Plan

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Contractually required contributions	\$ 31,008	\$ 24,586	\$ 25,693	\$ 25,510	\$ 25,259	\$ 23,753	\$ 23,474	\$ 21,424
Contributions in relation to the contractually required contribution	<u>(31,008)</u>	<u>(24,586)</u>	<u>(25,693)</u>	<u>(25,510)</u>	<u>(25,259)</u>	<u>(23,753)</u>	<u>(23,474)</u>	<u>(21,424)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Department's covered-employee payroll	\$ 202,402	\$ 160,483	\$ 167,709	\$ 172,949	\$ 174,200	\$ 163,814	\$ 159,038	\$ 143,978
Contributions as a percentage of covered- employee payroll	15.32%	15.32%	15.32%	14.75%	14.50%	14.50%	14.76%	14.88%

Ten years' worth of data will be presented as it is available.

CITY OF SALEM, ARKANSAS
Schedule of City's Proportionate Share
of the Net Pension Liability – LOPFI Police

	December 31, <u>2021</u>	December 31, <u>2020</u>	December 31, <u>2019</u>	December 31, <u>2018</u>	December 31, <u>2017</u>
Department's proportion of the net pension liability (asset)	0.0046%	0.0043%	0.0041%	0.0042%	0.0410%
Department's proportionate share of the net pension liability (asset)	\$ 231,780	\$ 294,433	\$ 289,718	\$ 380,818	\$ 294,093
Department's covered-employee payroll	\$ 177,766	\$ 161,187	\$ 133,140	\$ 140,221	\$ 125,983
Department's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	130.38%	182.67%	217.60%	271.58%	233.44%
Plan fiduciary net position as a percentage of the total pension liability	84.75%	77.79%	73.21%	66.09%	71.48%

Ten years' worth of data will be presented as it is available.

CITY OF SALEM, ARKANSAS
Schedule of City's Contributions – LOPFI Police

	December 31, <u>2021</u>	December 31, <u>2020</u>	December 31, <u>2019</u>	December 31, <u>2018</u>	December 31, <u>2017</u>
Contractually required contributions	\$ 41,775	\$ 37,879	\$ 31,288	\$ 32,952	\$ 29,606
Contributions in relation to the contractually required contribution	<u>(41,775)</u>	<u>(37,879)</u>	<u>(31,288)</u>	<u>(32,952)</u>	<u>(29,606)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Department's covered-employee payroll	\$ 177,766	\$ 161,187	\$ 133,140	\$ 140,221	\$ 125,983
Contributions as a percentage of covered- employee payroll	23.50%	23.50%	23.50%	23.50%	23.50%

Ten years' worth of data will be presented as it is available.

CITY OF SALEM, ARKANSAS
Schedule of City's Proportionate Share
of the Net Pension Liability – LOPFI Firefighters

	December 31, <u>2021</u>	December 31, <u>2020</u>	December 31, <u>2019</u>	December 31, <u>2018</u>	December 31, <u>2017</u>
Department's proportion of the net pension liability (asset)	0.0029%	0.0030%	0.0030%	0.0031%	0.0030%
Department's proportionate share of the net pension liability (asset)	\$ 76,563	\$ 106,455	\$ 128,413	\$ 156,799	127148
Department's covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Department's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	82.87%	75.30%	69.21%	60.56%	64.71%

Ten years' worth of data will be presented as it is available.

CITY OF SALEM, ARKANSAS
Schedule of City's Contributions – LOPFI Firefighters

	December 31, <u>2021</u>	December 31, <u>2020</u>	December 31, <u>2019</u>	December 31, <u>2018</u>	December 31, <u>2017</u>
Contractually required contributions	\$ 15,564	\$ 3,190	\$ 2,024	\$ 1,558	1558
Contributions in relation to the contractually required contribution	<u>(15,564)</u>	<u>(3,190)</u>	<u>(2,024)</u>	<u>(1,558)</u>	<u>(1,558)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Department's covered-employee payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered- employee payroll	N/A	N/A	N/A	N/A	N/A

Ten years' worth of data will be presented as it is available.

CITY OF SALEM, ARKANSAS
Schedule of Changes in Employer's Net Pension Liability and
Related Ratios – Firemen's Pension and Relief Fund
December 31, 2021

<u>Fiscal year ending December 31,</u>	<u>2021</u>	<u>2020</u>	<u>*</u>	<u>2019</u>	<u>#</u>	<u>2018</u>	<u>#</u>	<u>2017</u>	<u>#</u>	<u>2016</u>	<u>#</u>	<u>2015</u>	<u>#</u>	<u>2014</u>
Total pension liability														
Service cost	\$ -	\$ -		\$ -		\$ -		\$ -		\$ -		\$ -		\$ -
Interest	9,777	9,985		10,418		7,195		8,175		8,344		10,716		11,445
Benefit changes	-	-		-		-		-		-		-		-
Difference between actual and expected experience	3,611	3,449		2,887		1,504		(2,267)		1,004		(36,528)		2,157
Assumption changes	(11)	-		5,723		(6,676)		10,897		(465)		10,020		12,901
Benefit payments	(16,426)	(16,373)		(14,220)		(14,220)		(14,220)		(14,220)		(16,370)		(16,800)
Net change in total pension liability	(3,049)	(2,939)		4,808		(12,197)		2,585		(5,337)		(32,162)		9,703
Total pension liability - beginning	147,889	150,828		146,020		212,085		209,500		214,837		246,999		237,296
Total pension liability - ending	<u>\$ 144,840</u>	<u>\$ 147,889</u>		<u>\$ 150,828</u>		<u>\$ 199,888</u>		<u>\$ 212,085</u>		<u>\$ 209,500</u>		<u>\$ 214,837</u>		<u>\$ 246,999</u>
Plan Fiduciary Net Position														
Contributions - Employee	\$ -	\$ -		\$ -		\$ -		\$ -		\$ -		\$ -		\$ -
Contributions - Employer	7,597	3,912		1,188		30		-		-		-		-
Net investment income	12,050	9,657		6,843		374		319		334		297		433
Benefit payments	(16,426)	(16,373)		(3,555)		(14,220)		(14,220)		(14,220)		(16,370)		(16,800)
Administrative expense	(100)	(119)		(60)		(600)		(600)		-		(44)		(571)
Local plan administrative merger	-	-		75,805		-		-		-		-		-
Reconciliation	-	-		-		-		-		-		-		-
Net change in plan net position	3,121	(2,923)		80,221		(14,416)		(14,501)		(13,886)		(16,117)		(16,938)
Plan fiduciary net position - beginning	77,298	80,221		-		101,815		116,316		130,202		146,319		163,257
Plan fiduciary net position - end	<u>\$ 80,419</u>	<u>\$ 77,298</u>		<u>\$ 80,221</u>		<u>\$ 87,399</u>		<u>\$ 101,815</u>		<u>\$ 116,316</u>		<u>\$ 130,202</u>		<u>\$ 146,319</u>
Plan fiduciary net position as a percentage of total pension liability	55.52%	52.27%		53.19%		43.72%		48.01%		55.52%		60.61%		59.24%
Covered employee payroll	N/A	N/A		N/A		N/A		N/A		N/A		N/A		N/A
Net pension liability as a percentage of covered employee payroll	N/A	N/A		N/A		N/A		N/A		N/A		N/A		N/A

Note: The full 10 year schedules will be completed as information is available.

* Plan consolidation into LOPFI effective October 1, 2019

Prior to consolidation

CITY OF SALEM, ARKANSAS
Schedule of Components Net Pension Liability Along With Related Ratios –
Firemen's Pension and Relief Fund
December 31, 2021

FY Ending December 31,		Discount Rate	(TPL) Total Pension Liability	Plan Net Position	(NPL) Net Pension Liability	Net Position as Percentage of TPL	Covered Payroll	NPL as Percentage of Payroll
12/31/2011	#	3.00%	309,862	195,314	114,548	63.03%	-	N/A
12/31/2012	#	3.00%	303,503	179,466	124,037	59.13%	-	N/A
12/31/2013	#	5.00%	237,296	163,257	74,039	68.80%	-	N/A
12/31/2014	#	4.49%	246,999	146,319	100,680	59.24%	-	N/A
12/31/2015	#	4.02%	214,837	130,202	84,635	60.61%	-	N/A
12/31/2016	#	4.04%	209,500	116,316	93,184	55.52%	-	N/A
12/31/2017	#	3.51%	212,085	101,815	110,270	48.01%	-	N/A
12/31/2018	#	3.85%	199,888	87,399	112,489	43.72%	-	N/A
12/31/2019	*	7.00%	150,828	80,221	70,607	53.19%	-	N/A
12/31/2020	*	7.00%	147,889	77,298	70,591	52.27%	-	N/A
12/31/2021	*	7.00%	144,840	80,419	64,421	55.52%	-	N/A

* Plan consolidation into LOPFI effective October 1, 2019

Prior to consolidation

CITY OF SALEM, ARKANSAS
Schedule of Contributions – Firemen’s Pension and Relief Fund
December 31, 2021

FY Ending December 31,		Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as Percentage of Payroll
12/31/2012	#	\$ 24,648	\$ 1,480	\$ 23,168	\$ -	N/A
12/31/2013	#	26,690	1,976	24,714	-	N/A
12/31/2014	#	16,694	-	16,694	-	N/A
12/31/2015	#	19,555	-	19,555	-	N/A
12/31/2016	#	14,556	-	14,556	-	N/A
12/31/2017	#	16,792	-	16,792	-	N/A
12/31/2018	#	18,459	30	18,429	-	N/A
12/31/2019	*	1,188	1,188	-	N/A	N/A
12/31/2020	*	4,752	4,752	-	N/A	N/A
12/31/2021	*	5,304	5,304	-	N/A	N/A

Valuation Date: December 31, 2019

Notes Actuarially determined contribution rates are calculated as of December 31st of each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions used to Determine Contribution Rates for Fiscal Year 2021:

Actuarial Cost Method	Individual Entry-Age Normal
Amortization Method	Closed Amortization Period based on projected benefit factors
Remaining Amortization Period	20 years beginning January 1, 2021
Asset Valuation Method	5-year smoothed market; 20% corridor (for funding purposes)
Price Inflation	2.50%
Salary Increases	N/A
Investment Rate of Return	7.50%
Retirement Age	Experience-based table of rates that are specific to the type of Eligibility condition. Last updated for the 2017 valuation pursuant to an experience study of the period 2012-2016.
Mortality	RP-2014 Healthy Annuitant, Disabled Retiree and Employee mortality tables for males and females. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2016.

Other information:

Notes There were no benefit changes during the year.

CITY OF SALEM, ARKANSAS
Statement of Revenues and Expenditures Budget and Actual –
General and Special Revenue Funds
Year Ended December 31, 2021

	General Fund					Street Fund				
	Budget*	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance Favorable (Unfavorable)	Budget*	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance Favorable (Unfavorable)
Revenues:										
Intergovernmental revenues - state	\$ 23,000	\$ 26,282	\$ 114	\$ 26,396	\$ 3,396	\$ 114,000	\$ 133,729	\$ (343)	\$ 133,386	\$ 19,386
Property taxes	76,000	79,827.0	4,820	84,647	8,647	15,000	15,993	965	16,958	1,958
Sales tax	200,000	267,255.0	(4,266)	262,989	62,989	140,000	177,510	(3,049)	174,461	34,461
County fire tax	30,000	49,184.0	3,465	52,649	22,649	-	-	-	-	-
Franchise fees	68,000	71,345.0	9,703	81,048	13,048	-	-	-	-	-
Grants	64,775	176,065.0	-	176,065	111,290	18,750	-	-	-	(18,750)
Donation income	2,000	17,890.0	-	17,890	15,890	-	-	-	-	-
Parks and civic center activities	4,000	5,360.0	-	5,360	1,360	-	-	-	-	-
Fines, forfeitures and costs	20,000	29,902.0	(21)	29,881	9,881	-	-	-	-	-
Fire Act 833 income	10,000	12,486.0	-	12,486	2,486	-	-	-	-	-
Administration of justice	95,000	-	-	-	(95,000)	-	-	-	-	-
Interest income	500	1,293.0	-	1,293	793	50	298	-	298	248
Other income	1,000	918.0	-	918	(82)	200	1,157	-	1,157	957
Loan proceeds	-	-	-	-	-	-	-	-	-	-
Sale of equipment	1,000	-	-	-	(1,000)	4,000	-	-	-	(4,000)
Total revenues	595,275	737,807	13,815	751,622	156,347	292,000	328,687	(2,427)	326,260	34,260
Expenditures:										
General government	194,941	87,901.0	16,261	104,162	90,779	-	-	-	-	-
Public safety - police	266,958	249,150.0	1,291	250,441	16,517	-	-	-	-	-
Public safety - fire	81,148	65,100.0	(3,426)	61,674	19,474	-	-	-	-	-
Recreation and culture	66,675	25,527.0	-	25,527	41,148	-	-	-	-	-
Streets and highways	-	-	-	-	-	262,407	230,314	15,121	245,435	16,972
Industrial development	10,000	15,600.0	-	15,600	(5,600)	-	-	-	-	-
Capital outlay	-	60,975.0	-	60,975	(60,975)	13,000	-	-	-	13,000
Debt service; principal payments	-	12,058.0	-	12,058	(12,058)	-	526	-	526	(526)
Pension obligation contribution	-	39,727.0	-	39,727	(39,727)	-	12,860	-	12,860	(12,860)
Interest expense	-	453.0	-	453	(453)	-	-	-	-	-
Donation expense	-	-	-	-	-	-	-	-	-	-
Transfers (in) out	4,500	-	-	-	4,500	-	-	-	-	-
Total expenditures	624,222	556,491	14,126	570,617	53,605	275,407	243,700	15,121	258,821	16,586
Excess (deficit) of revenues over expenditures	\$ (28,947)	\$ 181,316	\$ (311)	\$ 181,005	\$ 209,952	\$ 16,593	\$ 84,987	\$ (17,548)	\$ 67,439	\$ 50,846

* Amounts represent the original and final budget of the City's general and street funds. The City did not amend the budget for the year ended December 31, 2021.

CITY OF SALEM, ARKANSAS
Statement of Revenues and Expenses
Budget and Actual –
Proprietary Fund – Water and Sewer
Year Ended December 31, 2021

	Water and Sewer				
	Budget*	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance Favorable (Unfavorable)
Operating revenues:					
Water sales	\$ 272,000	\$ 352,943	\$ 3,404	\$ 356,347	\$ 84,347
Sewer charges	190,000	193,729	-	193,729	3,729
Sanitation charges	100,000	104,455	-	104,455	4,455
Connection fees	600	1,350	-	1,350	750
Other miscellaneous income	1,300	1,384	-	1,384	84
Total operating revenues	563,900	653,861	3,404	657,265	93,365
Operating expenses:					
Salaries and wages	177,803	172,525	(659)	171,866	5,937
Employee benefits	44,481	32,372	10,863	43,235	1,246
Taxes, licenses and fees	20,300	38,924	-	38,924	(18,624)
Utilities	41,400	47,596	-	47,596	(6,196)
Sanitation contract	100,000	106,623	-	106,623	(6,623)
Supplies and maintenance	34,500	30,830	9,946	40,776	(6,276)
Office expense and postage	9,250	10,542	-	10,542	(1,292)
Insurance	7,800	9,239	(3,965)	5,274	2,526
Depreciation	55,000	51,959	-	51,959	3,041
Miscellaneous	5,000	10,044	-	10,044	(5,044)
Total operating expenses	495,534	510,654	16,185	526,839	(31,305)
Operating income (loss)	68,366	143,207	(12,781)	130,426	62,060
Nonoperating revenues (expenses):					
Interest income	500	1,903	-	1,903	1,403
Interest expense	(16,000)	(15,351)	35	(15,316)	684
Total nonoperating revenues (expenses)	(15,500)	(13,448)	35	(13,413)	2,087
Other financing sources (uses):					
Debt repayment	(9,000)	-	(22,410)	(22,410)	(13,410)
Capital outlay	(51,000)	-	-	-	51,000
Total other financing sources (uses)	(60,000)	-	(22,410)	(22,410)	37,590
Net income (loss)	\$ (7,134)	\$ 129,759	\$ (35,156)	\$ 94,603	\$ 101,737

* Amounts represent the original and final budget of the City's water and sewer fund. The City did not amend the budget for the year ended December 31, 2021.

CITY OF SALEM, ARKANSAS
Statement of Revenues and Expenses
Water and Sewer Fund
Year Ended December 31, 2021

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Water sales	\$ 352,943	\$ -	\$ 352,943
Sewer charges	-	193,729	193,729
Sanitation charges	104,455	-	104,455
Connection fees	1,350	-	1,350
Other miscellaneous income	692	692	1,384
Total operating revenues	<u>459,440</u>	<u>194,421</u>	<u>653,861</u>
Operating expenses:			
Salaries and wages	96,889	75,636	172,525
Employee benefits	17,711	14,661	32,372
Taxes, licenses and fees	35,726	3,198	38,924
Utilities	28,686	18,910	47,596
Sanitation contract	106,623	-	106,623
Supplies and maintenance	22,626	8,204	30,830
Office expense and postage	5,167	5,375	10,542
Insurance and league fees	3,300	5,939	9,239
Depreciation	25,979	25,980	51,959
Miscellaneous	4,064	5,980	10,044
Total operating expenses	<u>346,771</u>	<u>163,883</u>	<u>510,654</u>
Operating income	<u>112,669</u>	<u>30,538</u>	<u>143,207</u>
Nonoperating revenues (expenses):			
Interest income	-	1,903	1,903
Interest expense	-	(15,351)	(15,351)
Total nonoperating revenues (expenses)	<u>-</u>	<u>(13,448)</u>	<u>(13,448)</u>
Increase in net position	<u><u>\$ 112,669</u></u>	<u><u>\$ 17,090</u></u>	<u><u>\$ 129,759</u></u>

CITY OF SALEM, ARKANSAS
Water and Sewer
Schedule of Monthly Water and Sewer Rates
Year Ended December 31, 2021

Residential customers

\$17.00 first 1,500 gallons (minimum)	
\$3.75 per 1,000 gallons	All over 1,500 gallons

Commercial and industrial customers

\$18.00 first 3,000 gallons (minimum)	
\$3.75 per 1,000 gallons	All over 3,000 gallons

Sewer rates (based on water consumption)

Residential

\$15.00 first 5,000 gallons (minimum)	
\$3.75 per 1,000 gallons	All over 5,000 gallons

Commercial

\$17.00 first 3,000 gallons (minimum)	
\$3.75 per 1,000 gallons	All over 3,000 gallons

Industrial

50% of the monthly water bill

Water meter deposits	\$100.00
Reconnect fee	\$50.00

CITY OF SALEM, ARKANSAS
Water and Sewer
Supplemental Schedule of Consumption
Year Ended December 31, 2021

<u>Month</u>	<u>Consumption</u>
January	4,410,100
February	5,759,500
March	2,991,900
April	3,444,900
May	3,633,800
June	4,183,200
July	4,021,600
August	5,147,400
September	3,991,800
October	3,879,500
November	3,880,000
December	3,623,900
Total consumption	<u>48,967,600</u>
Monthly averages	<u>4,080,633</u>

	<u>Average Number of Users</u>	<u>Total Consumption</u>
Residential	594	29,955,700
Commercial	151	17,267,900
Industrial	3	<u>1,744,000</u>
Total consumption		<u>48,967,600</u>



Welch, Couch & Company, PA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
City of Salem, Arkansas

We have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of City of Salem, Arkansas, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Salem, Arkansas' basic financial statements and have issued our report thereon dated January 25, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Salem, Arkansas' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Salem, Arkansas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Salem, Arkansas' 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 a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and management's response as item # 2021-01 and 2021-02 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Salem, Arkansas' 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 financial statement. 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

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West Plains: 1386 Bill Virdon Blvd. | West Plains, MO 65775 | P: 417.256.6624 | F: 417.256.1171

disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Salem, Arkansas' Response to Findings

City of Salem, Arkansas' response to the findings identified in our audit is described in the accompanying schedule of findings and management's response. City of Salem, Arkansas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Welch, Couch & Company, PA
Welch, Couch & Company, PA
Certified Public Accountants

Batesville, Arkansas
January 25, 2023



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**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH CERTAIN STATE STATUTES**

To the City Council
City of Salem, Arkansas

We have examined management's assertions that the City of Salem, Arkansas complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas statutes during the year ended December 31, 2021.

1. Arkansas Municipal Accounting Law of 1973, § 14-59-101 et seq.;
2. Arkansas District Courts and City Courts Accounting Law, § 16-10-201 et seq.;
3. Improvement contracts, §§ 22-9-202 – 22-9-204;
4. Budgets, purchases, and payments of claims, etc., § 14-58-201 et seq. and 14-58-301 et seq.;
5. Investment of public funds, § 19-1-501 et seq.; and
6. Deposit of public funds, §§ 19-8-101 – 19-8-107.

Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City of Salem, Arkansas complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2021.

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

Welch, Couch & Company, PA
Welch, Couch & Company, PA
Certified Public Accountants

Batesville, Arkansas
January 25, 2023

CITY OF SALEM, ARKANSAS
Schedule of Findings and Management's Response
Year Ended December 31, 2021

Significant Deficiencies

2021-01 – Lack of Segregation of Duties

Condition: Due to the City's small size, only a small number of people are responsible for initiating, summarizing, recording and processing virtually all transactions of the City's business on a monthly basis.

Criteria: Internal controls should be in place to eliminate the simultaneous functions of authorization, physical custody of assets, and recording of transactions.

Effect: Inadequate segregation of duties could allow errors or irregularities in the accounting records to go undetected for extended periods of time.

Cause: Small number of people responsible for the financial transactions of the City.

Recommendation: We recommend that the City segregate duties to the extent possible.

Management Response: Management will continue to segregate internal control functions to the greatest extent possible. However, management feels it is not feasible from a cost/benefit standpoint to hire additional personnel in order to obtain greater segregation of duties

2021-02 – Material Misstatements

Condition: In the process of performing our audit, we encountered account balances that required adjustments to fairly state the balance.

Criteria: Complete and accurate accounting records and related supporting documentation should be maintained. In addition, a timely account reconciliation and financial statement close process should be implemented.

Cause: It is our belief the problem is due to a lack of timely reconciliations and conversion of accounting system.

Effect: As such, accounting processes were not efficient in reporting account balances which could cause material misstatements and unreconciled accounts.

Recommendation: Timely and accurate financial statements are critical in aiding management in making decisions to effectively manage the City. It is our recommendation that management reconciles and adjust account balances on a monthly basis based on appropriate documentation. In order to provide more accurate and timely financial reporting, we highly encourage management to implement a more rigorous review process.

Management Response: City management has hired a third-party accountant to assist in recordkeeping and financial statement close process. Auditor adjustments were made in complex areas that require actuary reports that are only available after year-end from the State. Management will make timely adjustments when necessary reports are available.