

CITY OF SALEM, ARKANSAS
Independent Auditor's Report and
Financial Statements
December 31, 2024

CITY OF SALEM, ARKANSAS

December 31, 2024

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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, 2024, and the related notes to the financial statements, which collectively comprise the City of Salem, Arkansas' 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, 2024, 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' 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.

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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 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' 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' 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 on pages 4-14 and 57-66 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' basic financial statements. The accompanying water and sewer schedules on pages 67-70 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2026, on our consideration of the City of Salem, Arkansas' 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' 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' internal control over financial reporting and compliance.

Welch, Couch & Company, PA

Certified Public Accountants

Batesville, Arkansas

January 19, 2026



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, 2024 and 2023. Readers should consider the information presented here in conjunction with the City's financial statements which begin on page 15.

Financial Highlights

- As of December 31, 2024 and 2023, total assets of the City exceeded total liabilities by \$4,709,671 and \$4,064,671, respectively. Of this amount, \$715,172 and \$296,532, respectively, is considered unrestricted. As of December 31, 2024 and 2023, the unrestricted (deficit) of the City's governmental activities are \$(175,064) and \$(225,987), 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 \$890,236 and \$522,219, 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 \$645,000 and \$71,823 in 2024 and 2023, respectively. Net position of the governmental activities increased by \$614,123 and \$51,791 in 2024 and 2023, respectively. Net position of the business-type activities increased by \$30,877 and \$20,032 in 2024 and 2023, respectively.
- As of December 31, 2024 and 2023, the City's governmental funds reported combined ending fund balances of \$1,903,112 and \$1,806,810, respectively. The combined governmental fund balances increased by \$443,329 and \$200,694 in 2024 and 2023, respectively. At December 31, 2024 and 2023, fund balance of \$315,213 and \$346,545, respectively, is considered unassigned.
- The general fund reported fund balances of \$1,188,297 and \$1,089,092 at the end of 2024 and 2023, respectively. Unreserved fund balance for the general fund was \$315,213 or 54% of total general fund expenditures in 2024 and \$346,545 or 64% of total general fund expenditures in 2023. There was a \$446,232 and \$115,939 increase in the total fund balance for the general fund for the years ended December 31, 2024 and 2023, respectively.
- The City's total debt at December 31, 2024 and 2023, was \$246,004 and \$272,906, 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 15 through 17 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 two categories: governmental funds and proprietary 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 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 annual budgets for both its general fund and street fund. A budgetary comparison statement has been provided for the funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 18 through 21 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 22 through 26 of this report.

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 27 through 56 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 and major special revenue fund budget. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The required supplementary information can be found on pages 57 through 66 of this report.

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

The schedules can be found on pages 67 through 70 of this report.

Government-Wide Financial Analysis

Statement of Net Position			
<u>December 31, 2024</u>			
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Current assets	\$ 906,871	\$ 1,247,104	\$ 2,153,975
Restricted assets	856,195	560,533	1,416,728
Capital assets	1,165,411	1,083,921	2,249,332
Deferred outflows of resources	97,428	41,675	139,103
Total assets and deferred outflows of resources	<u>3,025,905</u>	<u>2,933,233</u>	<u>5,959,138</u>
Current liabilities	(138,931)	332,590	193,659
Long-term liabilities	566,289	356,072	922,361
Deferred inflows of resources	118,798	14,649	133,447
Total liabilities and deferred inflows of resources	<u>546,156</u>	<u>703,311</u>	<u>1,249,467</u>
Net investment in capital assets	1,161,149	842,179	2,003,328
Restricted	1,493,664	497,507	1,991,171
Unrestricted	<u>(175,064)</u>	<u>890,236</u>	<u>715,172</u>
Total net position	<u>\$ 2,479,749</u>	<u>\$ 2,229,922</u>	<u>\$ 4,709,671</u>

Statement of Net Position
December 31, 2023

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current assets	\$ 1,024,779	\$ 1,198,707	\$ 2,223,486
Restricted assets	732,799	537,907	1,270,706
Capital assets	1,064,098	1,121,254	2,185,352
Deferred outflows of resources	208,995	78,341	287,336
Total assets and deferred outflows of resources	<u>3,030,671</u>	<u>2,936,209</u>	<u>5,966,880</u>
Current liabilities	(48,134)	663,307	615,173
Long-term liabilities	803,707	417,737	1,221,444
Deferred inflows of resources	62,445	3,147	65,592
Total liabilities and deferred inflows of resources	<u>818,018</u>	<u>1,084,191</u>	<u>1,902,209</u>
Net investment in capital assets	1,058,737	853,709	1,912,446
Restricted	1,379,903	475,790	1,855,693
Unrestricted	<u>(225,987)</u>	<u>522,519</u>	<u>296,532</u>
Total net position	<u>\$ 2,212,653</u>	<u>\$ 1,852,018</u>	<u>\$ 4,064,671</u>

Net position may serve, over time, as an indicator of a government's financial position. The City's assets exceeded liabilities by \$4,709,671 and \$4,064,671 as of December 31, 2024 and 2023, 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 assets. 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 the debt.

Net position is also subject to external restrictions on how they may be used. In 2024 and 2023, the City has \$1,991,171 and \$1,855,693, 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 which may be used to meet ongoing obligations of the City totaled \$715,172 and \$296,532 in 2024 and 2023, respectively.

Schedules of statement of activities for December 31, 2024 and 2023, follow:

Statement of Activities			
<u>Year Ended December 31, 2024</u>			
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Revenues:			
Program revenues:			
Charges for services	\$ 29,135	\$ 694,240	\$ 723,375
Operating grants and contributions	527,909	-	527,909
General revenues:			
Property taxes	102,417	-	102,417
Sales taxes	480,977	-	480,977
County fire tax	56,879	-	56,879
Franchise fees	69,601	-	69,601
Intergovernmental - state	173,496	-	173,496
Act 833 income	14,835	-	14,835
Investment earnings	7,657	33,362	41,019
Miscellaneous	1,241	-	1,241
Total revenues	<u>1,464,147</u>	<u>727,602</u>	<u>2,191,749</u>
Expenses:			
General government	106,229	-	106,229
Public safety	398,114	-	398,114
Recreation and culture	73,971	-	73,971
Streets and highways	252,623	-	252,623
Industrial development	15,600	-	15,600
Interest on long-term debt	70	-	70
Water and sewer	-	648,226	648,226
Airport	-	27,020	27,020
Softball and baseball	-	24,896	24,896
Total expenses	<u>846,607</u>	<u>700,142</u>	<u>1,546,749</u>
Increase in net position before transfers	617,540	27,460	645,000
Transfers	<u>(3,417)</u>	<u>3,417</u>	<u>-</u>
Change in net position	614,123	30,877	645,000
Net position - beginning of year as previously presented	<u>2,212,653</u>	<u>1,852,018</u>	<u>4,064,671</u>
Prior period adjustment	(347,027)	347,027	-
Net position - ending	<u>\$ 2,479,749</u>	<u>\$ 2,229,922</u>	<u>\$ 4,709,671</u>

Statement of Activities
Year Ended December 31, 2023

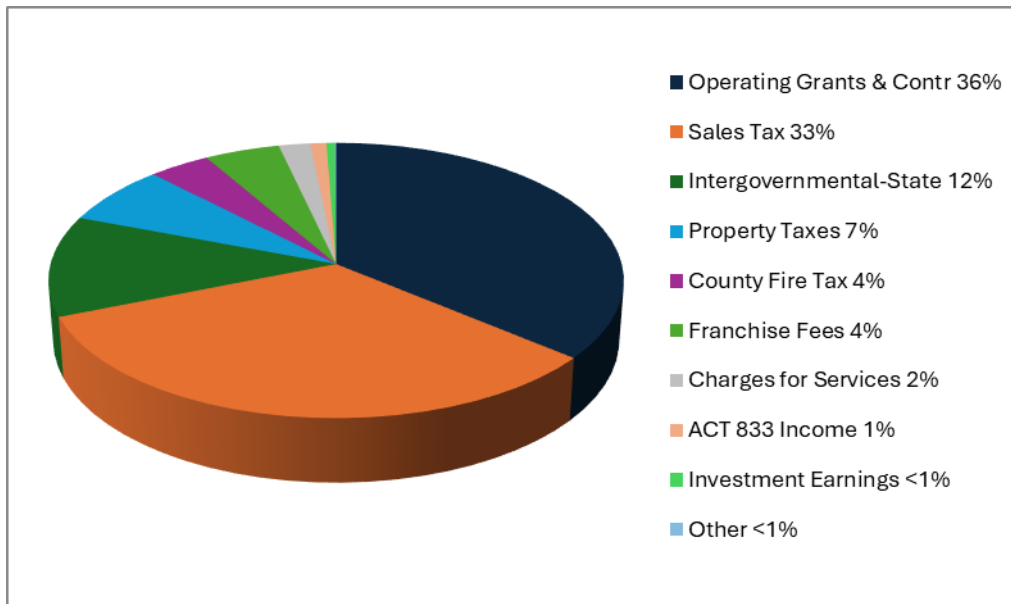
	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 21,014	\$ 709,080	\$ 730,094
Operating grants and contributions	76,120	-	76,120
General revenues:			
Property taxes	99,119	-	99,119
Sales taxes	492,611	-	492,611
County fire tax	56,368	-	56,368
Franchise fees	69,301	-	69,301
Intergovernmental - state	169,712	-	169,712
Act 833 income	14,966	-	14,966
Investment earnings	6,589	27,347	33,936
Gain on sale of capital assets	-	526	526
Miscellaneous	2,464	-	2,464
Total revenues	<u>1,008,264</u>	<u>736,953</u>	<u>1,745,217</u>
Expenses:			
General government	112,972	-	112,972
Public safety	487,320	-	487,320
Recreation and culture	58,512	-	58,512
Streets and highways	279,501	-	279,501
Industrial development	15,600	-	15,600
Interest on long-term debt	86	-	86
Water and sewer	-	668,855	668,855
Airport	-	26,836	26,836
Softball and baseball	-	23,712	23,712
Total expenses	<u>953,991</u>	<u>719,403</u>	<u>1,673,394</u>
Increase in net position before transfers	54,273	17,550	71,823
Transfers	<u>(2,482)</u>	<u>2,482</u>	<u>-</u>
Change in net position	51,791	20,032	71,823
Net position - beginning	<u>2,160,862</u>	<u>1,831,986</u>	<u>3,992,848</u>
Net position - ending	<u>\$ 2,212,653</u>	<u>\$ 1,852,018</u>	<u>\$ 4,064,671</u>

Governmental Activities

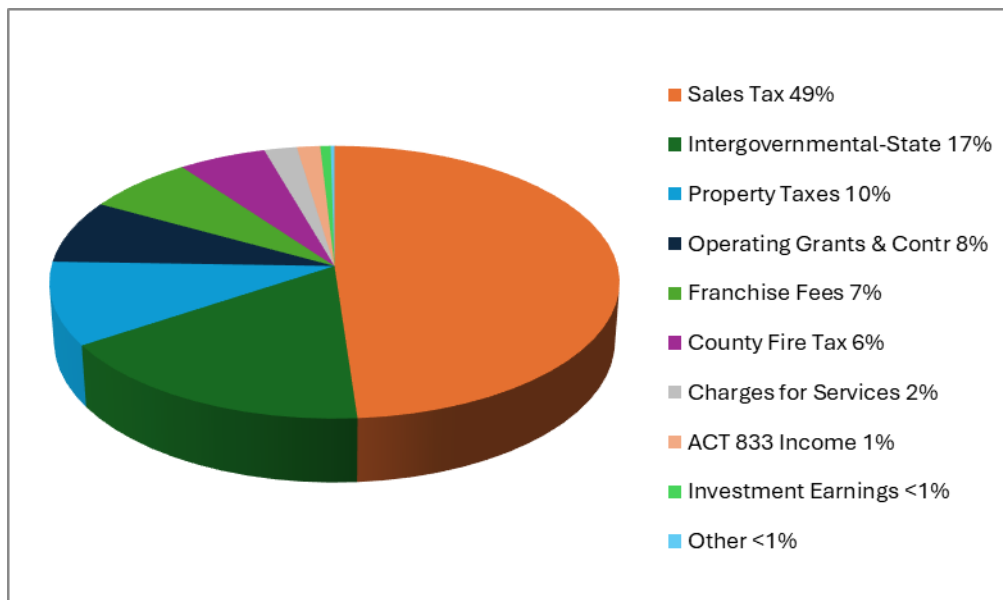
Governmental activities increased net position by \$267,096 and \$51,791 in 2024 and 2023, respectively. A chart of revenues by source for governmental activities follows.

Revenues by Source – Governmental Activities

December 31, 2024



December 31, 2023



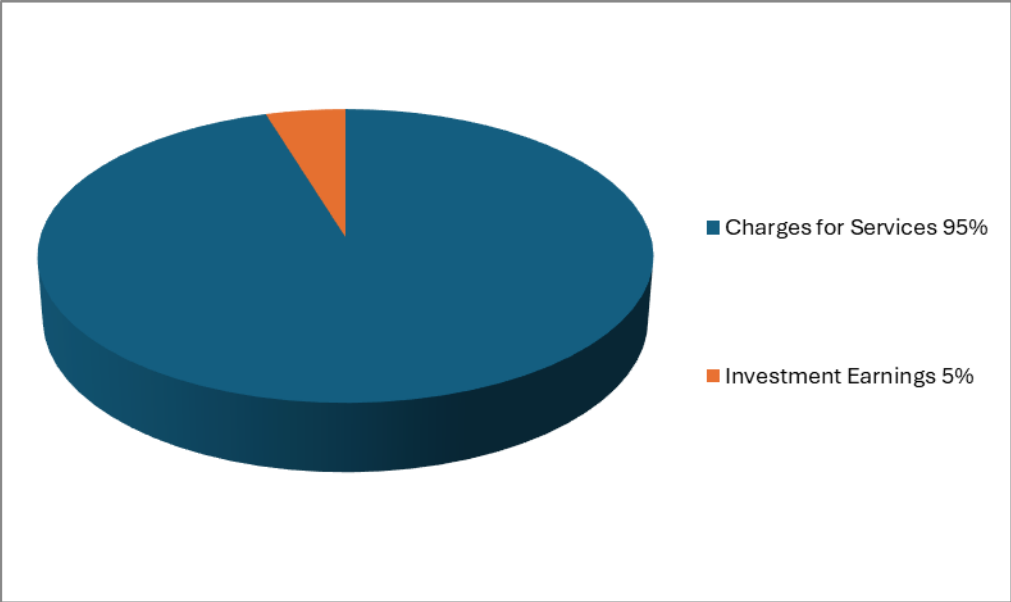
As graphically portrayed above, the City is heavily reliant on sales and property taxes to support governmental operations. Sales and property taxes provided 40% and 59% of the City's total governmental revenues in fiscal years 2024 and 2023, respectively.

Business-Type Activities

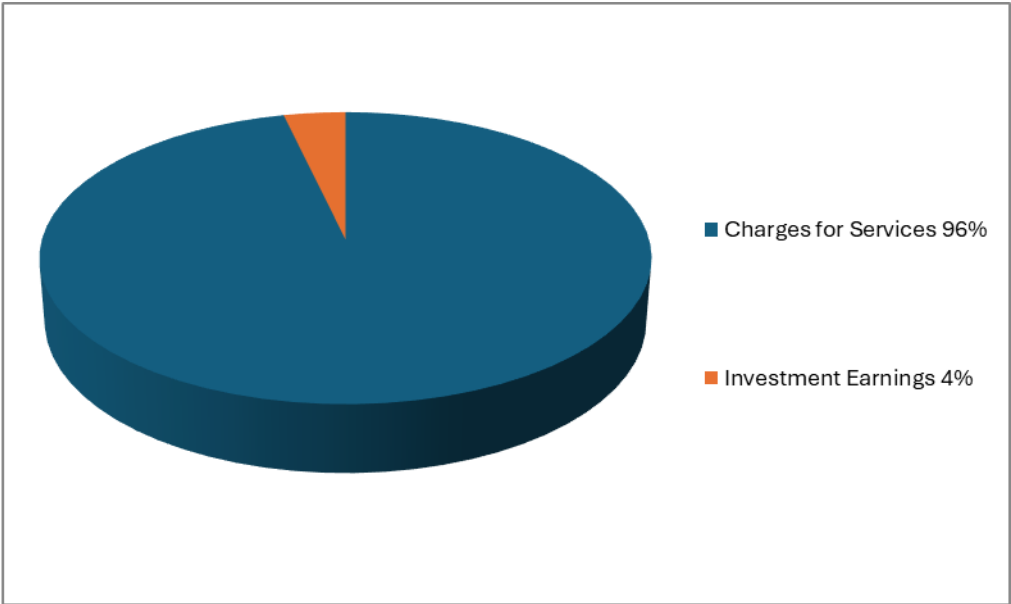
Business-type activities increased net position by \$30,877 and \$20,032 in 2024 and 2023, respectively. A chart of revenues by source for business-type activities is presented below:

Revenues by Source – Business-Type Activities

December 31, 2024



December 31, 2023



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, 2024 and 2023, the City's governmental funds reported combined ending fund balances of \$1,903,112 and \$1,806,810, respectively. Of this total amount \$315,213 and \$346,545, 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 2024 and 2023, total fund balance of the general fund was \$1,188,297 and \$1,089,092, respectively. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. In 2024 and 2023, total fund balance represents 202% and 201%, respectively, of total general fund expenditures. The total general fund balance increased by \$99,205 and \$115,939 during 2024 and 2023, respectively.

As of December 31, 2024 and 2023, the special revenue fund had a total fund balance of \$714,815 and \$717,718, respectively. The net (decrease) increase in fund balance in 2024 and 2023 for this fund was \$(2,903) and \$84,755, 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 2024 amounted to \$2,019,098, \$210,824, and \$0 for water and sewer, airport, and softball and baseball, respectively. Unrestricted net assets of the water and sewer, airport, and softball and baseball were \$879,598, \$10,638, and \$0, respectively.

Net position at the end of 2023 amounted to \$1,621,911, \$227,021, and \$3,086 for water and sewer, airport, and softball and baseball, respectively. Unrestricted net assets of the water and sewer, airport, and softball and baseball were \$449,997, \$(7,319), and \$(3,086), respectively.

General Fund Budget Highlights

Actual revenues and transfers-in exceeded budgetary estimates by \$223,965 and actual expenditures and transfers-out were less than budgetary estimates by \$81,168 resulting in an increase in existing fund balance of \$446,232 as compared to the budgeted decrease of \$(28,035).

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, 2024 and 2023, amounts to \$2,249,332 and \$2,185,352, 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 2024 and 2023 were \$241,478 and \$13,025, respectively.

**Capital Assets, Net of Accumulated Depreciation
December 31, 2024**

	Governmental Activities	Business-Type Activities	Total
Land and construction in progress	\$ 15,000	\$ 140,824	\$ 155,824
Buildings, systems and improvements	2,420,410	3,187,134	5,607,544
Equipment	859,790	309,106	1,168,896
Infrastructure	1,233,000	-	1,233,000
Construction in progress	84,392	11,500	95,892
Accumulated depreciation	<u>(3,447,181)</u>	<u>(2,564,643)</u>	<u>(6,011,824)</u>
Total	<u>\$ 1,165,411</u>	<u>\$ 1,083,921</u>	<u>\$ 2,249,332</u>

**Capital Assets, Net of Accumulated Depreciation
December 31, 2023**

	Governmental Activities	Business-Type Activities	Total
Land and construction in progress	\$ 15,000	\$ 140,824	\$ 155,824
Buildings, systems and improvements	2,420,410	3,187,134	5,607,544
Equipment	723,846	287,964	1,011,810
Infrastructure	1,233,000	-	1,233,000
Construction in progress	-	11,500	11,500
Accumulated depreciation	<u>(3,328,158)</u>	<u>(2,506,168)</u>	<u>(5,834,326)</u>
Total	<u>\$ 1,064,098</u>	<u>\$ 1,121,254</u>	<u>\$ 2,185,352</u>

Additional information on the City's capital assets can be found in Note 4 on pages 35 through 37 of this report.

Long-Term Debt

At December 31, 2024 and 2023, the City had \$246,004 and \$272,906, respectively, of long-term debt outstanding.

**Long-Term Debt
December 31, 2024**

	Governmental Activities	Business-Type Activities	Total
Note payable	\$ 4,262	\$ 4,262	\$ 8,524
Revenue bonds payable	<u>-</u>	<u>237,480</u>	<u>237,480</u>
Total	<u>\$ 4,262</u>	<u>\$ 241,742</u>	<u>\$ 246,004</u>

Long-Term Debt			
<u>December 31, 2023</u>			
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Note payable	\$ 5,361	\$ 5,361	\$ 10,722
Revenue bonds payable	-	262,184	262,184
Total	<u>\$ 5,361</u>	<u>\$ 267,545</u>	<u>\$ 272,906</u>

Total long-term debt outstanding at December 31, 2024 and 2023, (decreased) by \$(26,902) and \$(25,702), respectively. The City issued no new debt during the fiscal years ending December 31, 2024 and 2023.

Additional information regarding the City’s long-term debt can be found in Note 5 on pages 37 through 40 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 2024 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 2024 budget, the City recognized the need to continue its pattern of cost containment. The total 2025 general fund budget is \$858,807.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, 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.

CITY OF SALEM, ARKANSAS
Statement of Net Position
December 31, 2024

Assets and Deferred Outflows of Resources

	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash and cash equivalents - Notes 1 & 2	\$ 655,151	\$ 1,181,316	\$ 1,836,467
Certificate of deposits - Notes 1 & 2	104,154	-	104,154
Receivables: - Note 3			
Intergovernmental and sales tax	97,138	-	97,138
Franchise fees	6,034	-	6,034
Other	22,301	2,168	24,469
Customers, net of allowance for uncollectible accounts	-	50,618	50,618
Prepaid expenses	22,093	13,002	35,095
Total current assets	906,871	1,247,104	2,153,975
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents - Notes 1 & 2	856,195	440,369	1,296,564
Certificate of deposits - Notes 1 & 2	-	120,164	120,164
Total restricted assets	856,195	560,533	1,416,728
Capital assets, net of accumulated depreciation - Notes 1 & 4	1,165,411	1,083,921	2,249,332
Total noncurrent assets	2,021,606	1,644,454	3,666,060
Deferred outflows of resources:			
Deferred pension outflows - APERS - Note 7	42,807	41,675	84,482
Deferred pension outflows - FPRF - Note 7	6,621	-	6,621
Deferred pension outflows - LOPFI - Note 7	48,000	-	48,000
Total deferred outflows of resources	97,428	41,675	139,103
Total assets and deferred outflows of resources	\$ 3,025,905	\$ 2,933,233	\$ 5,959,138

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

Welch, Couch & Company, PA
Certified Public Accountants

CITY OF SALEM, ARKANSAS
Statement of Net Position (Cont.)
December 31, 2024

Liabilities, Deferred Inflows of Resources and Net Position

	Governmental Activities	Business-Type Activities	Total
Current liabilities:			
Accounts payable - trade	\$ 15,048	\$ 20,116	\$ 35,164
Accrued expenses	56,482	5,219	61,701
Internal balances	(217,184)	217,184	-
Deferred revenue	5,608	-	5,608
Total current liabilities	(140,046)	242,519	102,473
Current liabilities payable from restricted assets:			
Customer meter deposits - Note 5	-	63,026	63,026
Notes payable - Note 5	1,115	1,115	2,230
Revenue bonds payable - Note 5	-	25,930	25,930
Total current liabilities payable from restricted assets	1,115	90,071	91,186
Noncurrent liabilities:			
Net pension liability - APERS - Note 7	145,216	141,375	286,591
Net pension liability - FPRF - Note 7	13,186	-	13,186
Net pension liability - LOPFI - Note 7	404,740	-	404,740
Notes payable - Note 5	3,147	3,147	6,294
Revenue bonds payable - Note 5	-	211,550	211,550
Total noncurrent liabilities	566,289	356,072	922,361
Total liabilities	427,358	688,662	1,116,020
Deferred inflows of resources:			
Deferred pension inflows - APERS - Note 7	15,048	14,649	29,697
Deferred pension inflows - FPRF - Note 7	9,270	-	9,270
Deferred pension inflows - LOPFI - Note 7	94,480	-	94,480
Total deferred inflows of resources	118,798	14,649	133,447
Net position:			
Net investment in capital assets	1,161,149	842,179	2,003,328
Restricted:			
Expendable - administration of justice	64,955	-	64,955
Expendable - Act 833	35,684	-	35,684
Expendable - industrial development	169,120	-	169,120
Expendable - municipal court	2,178	-	2,178
Expendable - debt service	-	120,722	120,722
Expendable - capital expenditures	584,259	350,389	934,648
Expendable - meter fund	-	26,396	26,396
Expendable - street fund	637,468	-	637,468
Unrestricted	(175,064)	890,236	715,172
Total net position	2,479,749	2,229,922	4,709,671
Total liabilities, deferred inflows of resources and net position	\$ 3,025,905	\$ 2,933,233	\$ 5,959,138

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

Welch, Couch & Company, PA
Certified Public Accountants

CITY OF SALEM, ARKANSAS
Statement of Activities
Year Ended December 31, 2024

<u>Function/Program Activities</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Program (Expense) Revenue</u>		
		<u>Charges for Services</u>	<u>Capital</u>	<u>Operating</u>	<u>Primary Government</u>		
			<u>Grants & Contributions</u>	<u>Grants & Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental activities:							
General government	\$ 106,229	\$ -	\$ -	\$ 353,524	\$ 247,295	\$ -	\$ 247,295
Public safety	398,114	24,337	-	89,993	(283,784)	-	(283,784)
Recreation and culture	73,971	4,798	-	84,392	15,219	-	15,219
Streets and highways	252,623	-	-	-	(252,623)	-	(252,623)
Industrial development	15,600	-	-	-	(15,600)	-	(15,600)
Interest charges	70	-	-	-	(70)	-	(70)
Total governmental activities	846,607	29,135	-	527,909	(289,563)	-	(289,563)
Business-type activities:							
Water and sewer	648,226	665,025	-	-	-	16,799	16,799
Airport	27,020	9,405	-	-	-	(17,615)	(17,615)
Softball and baseball	24,896	19,810	-	-	-	(5,086)	(5,086)
Total business-type activities	700,142	694,240	-	-	-	(5,902)	(5,902)
Total government	\$ 1,546,749	\$ 723,375	\$ -	\$ 527,909	\$ (289,563)	\$ (5,902)	\$ (295,465)
General revenues:							
Taxes:							
Property taxes					\$ 102,417	\$ -	\$ 102,417
Sales taxes					480,977	-	480,977
County fire tax					56,879	-	56,879
Franchise fees					69,601	-	69,601
Intergovernmental - state					173,496	-	173,496
Act 833 income					14,835	-	14,835
Investment earnings					7,657	33,362	41,019
Miscellaneous					1,241	-	1,241
Transfers					(3,417)	3,417	-
Total general revenues and transfers					<u>903,686</u>	<u>36,779</u>	<u>940,465</u>
Change in net position					614,123	30,877	645,000
Net position - beginning of year					2,212,653	1,852,018	4,064,671
Prior period adjustment - note 1					(347,027)	347,027	-
Net position - ending					\$ 2,479,749	\$ 2,229,922	\$ 4,709,671

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

CITY OF SALEM, ARKANSAS
Balance Sheet – Governmental Funds
December 31, 2024

	<u>General Fund</u>	<u>Special Revenue Street Fund</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Assets:			
Cash and cash equivalents	\$ 414,200	\$ 240,951	\$ 655,151
Certificate of deposits	-	104,154	104,154
Receivables - intergovernmental	54,073	43,065	97,138
Receivables - franchise fees	6,034	-	6,034
Receivables - other	22,301	-	22,301
Prepaid expenses	16,889	5,204	22,093
Due from other funds	(112,547)	329,731	217,184
Total assets	400,950	723,105	1,124,055
Restricted assets:			
Cash and cash equivalents	856,195	-	856,195
Total restricted assets	856,195	-	856,195
Total assets	\$ 1,257,145	\$ 723,105	\$ 1,980,250
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 10,001	\$ 5,047	\$ 15,048
Accrued expenses	53,239	3,243	56,482
Unearned revenue	5,608	-	5,608
Total liabilities	68,848	8,290	77,138
Fund balances:			
Nonspendable:			
Prepaid items	16,889	5,204	22,093
Restricted for:			
Street Fund	-	709,611	709,611
Committed for:			
Industrial development	169,120	-	169,120
Municipal court	2,178	-	2,178
Act 833	35,684	-	35,684
Administration of justice	64,954	-	64,954
Assigned to:			
Capital expenditures	584,259	-	584,259
Unassigned	315,213	-	315,213
Total fund balances	1,188,297	714,815	1,903,112
Total liabilities and fund balances	\$ 1,257,145	\$ 723,105	\$ 1,980,250

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

Welch, Couch & Company, PA
Certified Public Accountants

CITY OF SALEM, ARKANSAS
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2024

Total fund balance - total governmental funds \$ 1,903,112

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets of \$4,612,592, net of accumulated depreciation of \$(3,447,181), are not financial resources and, therefore, are not reported in the funds. See Note 4 for additional detail. 1,165,411

Deferred outflows of resources are not reported in the governmental funds but are presented on the government-wide financial statements 97,428

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	(13,186)
Net pension liability - APERS	(145,216)
Net pension liability - LOPFI	(404,740)
Note payable	(4,262)

Deferred inflows of resources are not reported in the governmental funds but are presented on the government-wide financial statements (118,798)

Net position of governmental activities **\$ 2,479,749**

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

Welch, Couch & Company, PA
Certified Public Accountants

CITY OF SALEM, ARKANSAS
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2024

	General Fund	Special Revenue Street Fund	Total Governmental Funds
Revenues:			
Intergovernmental revenues - state	\$ 24,849	\$ 128,134	\$ 152,983
Property taxes	102,417	20,514	122,931
Sales tax	291,652	189,326	480,978
County fire tax	56,879	-	56,879
Act 833 income	14,835	-	14,835
Franchise fees	69,601	-	69,601
Parks and civic center activities	4,798	-	4,798
Fines, forfeitures and costs	24,337	-	24,337
Interest income	5,816	1,841	7,657
Other income	6,496	1,241	7,737
Total revenues	<u>601,680</u>	<u>341,056</u>	<u>942,736</u>
Expenditures:			
Current:			
General government	72,377	-	72,377
Public safety - police	323,191	-	323,191
Public safety - fire	62,452	-	62,452
Recreation and culture	43,605	-	43,605
Streets and highways	-	221,237	221,237
Industrial development	15,600	-	15,600
Capital outlay	29,966	105,978	135,944
Debt service: principal payments	550	549	1,099
Pension obligation: contributions	41,277	16,160	57,437
Total expenditures	<u>589,018</u>	<u>343,924</u>	<u>932,942</u>
Excess (deficiency) of revenues over expenditures	<u>12,663</u>	<u>(2,868)</u>	<u>9,795</u>
Other financing sources (uses):			
Grants	435,747	-	435,747
Donation income (expense)	1,274	-	1,274
Interest expense	(35)	(35)	(70)
Transfers from (to) other funds	(3,417)	-	(3,417)
Total other financing sources (uses)	<u>433,569</u>	<u>(35)</u>	<u>433,534</u>
Increase (decrease) in fund balance	446,232	(2,903)	443,329
Fund balances - beginning of the year	1,089,092	717,718	1,806,810
Prior period adjustment - note 1	<u>(347,027)</u>	<u>-</u>	<u>(347,027)</u>
Fund balances - ending	<u>\$ 1,188,297</u>	<u>\$ 714,815</u>	<u>\$ 1,903,112</u>

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

Welch, Couch & Company, PA
Certified Public Accountants

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, 2024

Net change in fund balance - total governmental funds \$ 443,329

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 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay of \$220,336 exceeded depreciation of \$(119,023) in the current period. 101,313

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 contractually required contributions \$57,437 exceeded change in net pension obligation, deferred outflows of resources, and deferred inflows of resources \$(10,945) in the current period. 68,382

Repayment of long-term debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,099

Change in net position of governmental activities **\$ 614,123**

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

Welch, Couch & Company, PA
Certified Public Accountants

CITY OF SALEM, ARKANSAS
Statement of Net Position – Proprietary Funds
December 31, 2024

	<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	\$ 1,161,288	\$ 20,028	\$ -	\$ 1,181,316
Accounts receivable - net of allowance for uncollectible accounts	50,618	-	-	50,618
Other receivables	2,168	-	-	2,168
Prepaid expenses	13,002	-	-	13,002
Total current assets	1,227,076	20,028	-	1,247,104
Restricted assets:				
Cash and cash equivalents	440,369	-	-	440,369
Certificate of deposits	120,164	-	-	120,164
Total restricted assets	560,533	-	-	560,533
Capital assets - net of accumulated depreciation	883,735	200,186	-	1,083,921
Deferred outflows of resources:				
Deferred pension outflows	41,675	-	-	41,675
Total assets and deferred outflows of resources	\$ 2,713,019	\$ 220,214	\$ -	\$ 2,933,233

* See note 9 to the financial statements.

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

Welch, Couch & Company, PA
Certified Public Accountants

CITY OF SALEM, ARKANSAS
Statement of Net Position – Proprietary Funds (Cont.)
December 31, 2024

Liabilities, Deferred Inflows of Resources and Net Position	Water and Sewer	Airport	Softball * and Baseball	Total Enterprise Funds
Current liabilities:				
Accounts payable - trade	\$ 20,116	\$ -	\$ -	\$ 20,116
Accrued expenses	5,219	-	-	5,219
Due to other funds	207,794	9,390	-	217,184
Total current liabilities	233,129	9,390	-	242,519
Current liabilities payable from restricted assets:				
Customer meter deposits	63,026	-	-	63,026
Notes payable	1,115	-	-	1,115
Revenue bonds payable	25,930	-	-	25,930
Total current liabilities payable from restricted assets	90,071	-	-	90,071
Noncurrent liabilities:				
Net pension liability - APERS	141,375	-	-	141,375
Notes payable	3,147	-	-	3,147
Revenue bonds payable	211,550	-	-	211,550
Total noncurrent liabilities	356,072	-	-	356,072
Total liabilities	679,272	9,390	-	688,662
Deferred inflows of resources:				
Deferred pension inflows - APERS	14,649	-	-	14,649
Net position:				
Net investment in capital assets	641,993	200,186	-	842,179
Restricted expendable	497,507	-	-	497,507
Unrestricted	879,598	10,638	-	890,236
Total net position	2,019,098	210,824	-	2,229,922
Total liabilities, deferred inflows of resources and net position	\$ 2,713,019	\$ 220,214	\$ -	\$ 2,933,233

* See note 9 to the financial statements.

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

Welch, Couch & Company, PA
Certified Public Accountants

CITY OF SALEM, ARKANSAS
Statement of Revenues, Expenses and
Changes in Fund Net Position – Proprietary Funds
Year Ended December 31, 2024

	<u>Water and Sewer</u>	<u>Airport</u>	<u>Softball and Baseball</u>	<u>Total Enterprise Funds</u>
Operating revenues:				
Water sales	\$ 319,438	\$ -	\$ -	\$ 319,438
Sewer charges	190,467	-	-	190,467
Sanitation charges	145,840	-	-	145,840
Connection fees	7,196	-	-	7,196
Promotional fees	-	-	19,810	19,810
Other miscellaneous income	2,084	9,405	-	11,489
Total operating revenues	<u>665,025</u>	<u>9,405</u>	<u>19,810</u>	<u>694,240</u>
Operating expenses:				
Salaries and wages	184,048	-	-	184,048
Employee benefits	70,745	-	-	70,745
Contract labor	-	-	7,415	7,415
Taxes, licenses and fees	36,760	-	-	36,760
Utilities	42,726	1,194	528	44,448
Sanitation contract	145,840	-	-	145,840
Uniforms and equipment	-	-	5,098	5,098
Supplies and maintenance	57,432	4,893	597	62,922
Office expense and postage	37,249	-	-	37,249
Insurance and league fees	14,405	1,417	3,077	18,899
Depreciation	38,959	19,516	-	58,475
Miscellaneous	8,111	-	8,181	16,292
Total operating expenses	<u>636,275</u>	<u>27,020</u>	<u>24,896</u>	<u>688,191</u>
Operating income (loss)	<u>28,750</u>	<u>(17,615)</u>	<u>(5,086)</u>	<u>6,049</u>
Nonoperating revenues (expenses):				
Interest income	33,361	1	-	33,362
Interest expense	(11,951)	-	-	(11,951)
Total nonoperating revenues (expenses)	<u>21,410</u>	<u>1</u>	<u>-</u>	<u>21,411</u>
Income (loss) before transfers and capital grants	50,160	(17,614)	(5,086)	27,460
Transfer from other funds	<u>-</u>	<u>1,417</u>	<u>2,000</u>	<u>3,417</u>
Increase (decrease) in net position	50,160	(16,197)	(3,086)	30,877
Net position - beginning of year as previously presented	1,621,911	227,021	3,086	1,852,018
Prior period adjustment - note 1	<u>347,027</u>	<u>-</u>	<u>-</u>	<u>347,027</u>
Net position - ending	<u><u>\$ 2,019,098</u></u>	<u><u>\$ 210,824</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,229,922</u></u>

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

Welch, Couch & Company, PA
Certified Public Accountants

CITY OF SALEM, ARKANSAS
Statement of Cash Flows – Proprietary Funds
Year Ended December 31, 2024

	Water and Sewer	Airport	Softball and Baseball	Total Enterprise Funds
Cash flows from operating activities:				
Receipts from customers	\$ 665,472	\$ 9,405	\$ 19,810	\$ 694,687
Payments to suppliers	(242,419)	(7,504)	(24,896)	(274,819)
Payments to employees	(252,810)	-	-	(252,810)
Other operating revenue (expenses)	(74,776)	-	-	(74,776)
Net cash provided by (used in) operating activities	95,467	1,901	(5,086)	92,282
Cash flows from non-capital financing activities:				
Transfers in	-	1,417	2,000	3,417
Net cash provided by non-capital financing activities	-	1,417	2,000	3,417
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(21,142)	-	-	(21,142)
Principal payment on debt	(25,803)	-	-	(25,803)
Interest payments on debt	(11,951)	-	-	(11,951)
Net cash (used in) capital and related financing activities	(58,896)	-	-	(58,896)
Cash flows from investing activities:				
Interest earned	33,361	1	-	33,362
Net cash provided by investing activities	33,361	1	-	33,362
Net increase (decrease) in cash and cash equivalents	69,932	3,319	(3,086)	70,165
Cash and cash equivalents - beginning	1,651,889	16,709	3,086	1,671,684
Cash and cash equivalents - ending	\$ 1,721,821	\$ 20,028	\$ -	\$ 1,741,849
Reconciliation of cash to the statement of net position - proprietary funds:				
Cash in current assets	\$ 1,161,288	\$ 20,028	\$ -	\$ 1,181,316
Cash in restricted assets	560,533	-	-	560,533
Total cash	\$ 1,721,821	\$ 20,028	\$ -	\$ 1,741,849
Supplemental disclosures of cash flow information:				
Cash paid for interest	\$ 11,992	\$ -	\$ -	\$ 11,992

(Continued)

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

Welch, Couch & Company, PA
Certified Public Accountants

CITY OF SALEM, ARKANSAS
Statement of Cash Flows – Proprietary Funds (Cont.)
Year Ended December 31, 2024

	<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)	\$ 28,750	\$ (17,615)	\$ (5,086)	\$ 6,049
Non cash items included in operating income (loss):				
Depreciation expense	38,959	19,516	-	58,475
Net changes in:				
Receivables	1,540	-	-	1,540
Prepaid expenses	(2,398)	-	-	(2,398)
Accounts payable	(1,898)	-	-	(1,898)
Accrued expenses	1,982	-	-	1,982
Customer meter deposits	909	-	-	909
Net pension liability	(34,617)	-	-	(34,617)
Deferred outflows of resources	36,666	-	-	36,666
Deferred inflows of resources	11,502	-	-	11,502
Other liabilities	14,072	-	-	14,072
Net cash provided by (used in) operating activities	<u>\$ 95,467</u>	<u>\$ 1,901</u>	<u>\$ (5,086)</u>	<u>\$ 92,282</u>

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

Welch, Couch & Company, PA
Certified Public Accountants

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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 governmental-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 payments are due.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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.

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 the 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.

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.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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

D) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 Net Position or Fund Balance

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.

(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.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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

E) Assets, Liabilities and Net Position or Fund Balance (cont.)

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 noncurrent 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, 2024, 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 uncollectible accounts.

3. Prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses 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 statement of net position and 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.

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 nonoperating revenues for the change in net position.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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

E) Assets, Liabilities and Net Position or Fund Balance (cont.)

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

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 and a fund liability of the governmental fund that will pay it.

9. Long-term obligations

In the government-wide and proprietary funds financial statements, outstanding debt is reported as liabilities. Bond discounts and premiums are recognized as an adjustment of interest expense under GASB 65 and amortized using the effective interest method.

The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period.

10. Deferred Inflows of Resources

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

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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

E) Assets, Liabilities and Net Position or Fund Balance (cont.)

11. Net position / fund balance

Government-wide statements

Net position of the City is classified in four components. *Net investment in capital assets* 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. *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 net investment in capital assets, 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;
- *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 unassigned amounts are reported only in the general fund. Other governmental funds do not report positive unassigned fund amounts.

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 2024.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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

G) Prior Period Adjustment

During the year ended December 31, 2024, the City identified and reclassified a \$347,027 decrease in net position on the general fund that was previously reported as deferred revenue on the water and sewer fund. This correction had no effect on total net position at December 31, 2024, or on the change in net position during the year ended December 31, 2024.

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 \$3,357,349 and the bank balance was \$3,374,863. The entire bank balance was covered by federal depository insurance and by a Federal Home Loan Bank letter of credit.

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.

Investment income for cash equivalents and certificate of deposits are comprised of the following for the year ended December 31, 2024:

	<u>2024</u>
Income	
Governmental	
Interest income - General Fund	\$ 5,816
Interest income - Street Fund	1,841
Proprietary	
Interest income - Water and Sewer Fund	33,361
Interest income - Airport Fund	1
	1
Total interest income	\$ 41,019

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.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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

The carrying amounts of deposits and investments are included in the City's statement of net position as follows:

	<u>2024</u>
Current assets:	
Cash and cash equivalents	\$ 1,836,467
Certificate of deposits	104,154
Noncurrent assets:	
Cash and cash equivalents	1,296,564
Certificate of deposits	<u>120,164</u>
	<u>\$ 3,357,349</u>

Note 3 – Receivables

Receivables as of December 31, 2024, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds		Proprietary Funds	Total
	General	Special Revenue	Enterprise	
Franchise fees	\$ 6,034	\$ -	\$ -	\$ 6,034
Sales tax	50,907	31,604	-	82,511
Water and sewer billings	-	-	52,887	52,887
Intergovernmental revenue - state	3,166	11,461	-	14,627
Other	22,301	-	2,168	24,469
Less: allowance for uncollectible accounts	<u>-</u>	<u>-</u>	<u>(2,269)</u>	<u>(2,269)</u>
Net receivables	<u>\$ 82,408</u>	<u>\$ 43,065</u>	<u>\$ 52,786</u>	<u>\$ 178,259</u>

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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, 2024:

	<u>Balance</u> <u>Dec. 31, 2023</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>Dec. 31, 2024</u>
Capital assets not being depreciated:				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Construction in progress	-	84,392	-	84,392
Total capital assets not being depreciated	<u>15,000</u>	<u>84,392</u>	<u>-</u>	<u>99,392</u>
Capital assets being depreciated:				
Buildings:				
Administration	693,118	-	-	693,118
Ballpark & recreation center	1,120,342	-	-	1,120,342
Police department	204,382	-	-	204,382
Fire department	343,422	-	-	343,422
Street department	59,146	-	-	59,146
	<u>2,420,410</u>	<u>-</u>	<u>-</u>	<u>2,420,410</u>
Equipment:				
Administration	32,292	-	-	32,292
Police department	227,934	28,325	-	256,259
Fire department	125,684	1,097	-	126,781
Street department	288,728	105,978	-	394,706
Park equipment	49,208	544	-	49,752
	<u>723,846</u>	<u>135,944</u>	<u>-</u>	<u>859,790</u>
Infrastructure:				
Street department	1,233,000	-	-	1,233,000
Total capital assets being depreciated	<u>4,377,256</u>	<u>135,944</u>	<u>-</u>	<u>4,513,200</u>
Less accumulated depreciation for:				
Buildings:				
Administration	(486,365)	(21,158)	-	(507,523)
Ballpark & recreation center	(438,914)	(29,394)	-	(468,308)
Police department	(198,540)	(5,839)	-	(204,379)
Fire department	(333,716)	(9,703)	-	(343,419)
Street department	(43,743)	(2,165)	-	(45,908)
	<u>(1,501,278)</u>	<u>(68,259)</u>	<u>-</u>	<u>(1,569,537)</u>
Equipment:				
Administration	(21,642)	(2,266)	-	(23,908)
Police department	(171,773)	(29,451)	-	(201,224)
Fire department	(68,467)	(11,745)	-	(80,212)
Street department	(285,138)	(6,330)	-	(291,468)
Park equipment	(46,860)	(972)	-	(47,832)
	<u>(593,880)</u>	<u>(50,764)</u>	<u>-</u>	<u>(644,644)</u>
Infrastructure:				
Street department	(1,233,000)	-	-	(1,233,000)
Total accumulated depreciation	<u>(3,328,158)</u>	<u>(119,023)</u>	<u>-</u>	<u>(3,447,181)</u>
Total capital assets being depreciated, net	<u>1,049,098</u>	<u>16,921</u>	<u>-</u>	<u>1,066,019</u>
Capital assets, net	<u>\$ 1,064,098</u>	<u>\$ 101,313</u>	<u>\$ -</u>	<u>\$ 1,165,411</u>

Welch, Couch & Company, PA
Certified Public Accountants

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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, 2024:

	<u>Balance</u> <u>Dec. 31, 2023</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>Dec. 31, 2024</u>
Capital assets not being depreciated:				
Land:				
Water & sewer department	\$ 45,624	\$ -	\$ -	\$ 45,624
Airport	95,200	-	-	95,200
Construction in progress	11,500	-	-	11,500
Total capital assets not being depreciated	<u>152,324</u>	<u>-</u>	<u>-</u>	<u>152,324</u>
Capital assets being depreciated:				
Buildings, systems & improvements:				
Water department	26,106	-	-	26,106
Water plant	1,237,714	-	-	1,237,714
Sewer plant	1,437,443	-	-	1,437,443
Airport	485,871	-	-	485,871
	<u>3,187,134</u>	<u>-</u>	<u>-</u>	<u>3,187,134</u>
Equipment:				
Office equipment	70,154	-	-	70,154
Service equipment	217,810	21,142	-	238,952
	<u>287,964</u>	<u>21,142</u>	<u>-</u>	<u>309,106</u>
Total capital assets being depreciated	<u>3,475,098</u>	<u>21,142</u>	<u>-</u>	<u>3,496,240</u>
Less accumulated depreciation for:				
Buildings, systems & improvements:				
Water department	(3,564)	(1,066)	-	(4,630)
Water plant	(964,995)	(12,494)	-	(977,489)
Sewer plant	(898,771)	(20,051)	-	(918,822)
Airport	(361,369)	(19,516)	-	(380,885)
	<u>(2,228,699)</u>	<u>(53,127)</u>	<u>-</u>	<u>(2,281,826)</u>
Equipment:				
Office equipment	(65,609)	(2,270)	-	(67,879)
Service equipment	(211,860)	(3,078)	-	(214,938)
	<u>(277,469)</u>	<u>(5,348)</u>	<u>-</u>	<u>(282,817)</u>
Total accumulated depreciation	<u>(2,506,168)</u>	<u>(58,475)</u>	<u>-</u>	<u>(2,564,643)</u>
Total capital assets being depreciated, net	<u>968,930</u>	<u>(37,333)</u>	<u>-</u>	<u>931,597</u>
Capital assets, net	<u>\$ 1,121,254</u>	<u>\$ (37,333)</u>	<u>\$ -</u>	<u>\$ 1,083,921</u>

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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	\$ 23,424
Public safety	56,738
Recreation and culture	30,366
Streets and highways	<u>8,495</u>
Total depreciation expense - governmental activities	<u>\$ 119,023</u>
Business-type activities:	
Water and sewer	\$ 38,959
Airport	<u>19,516</u>
Total depreciation expense - business-type activities	<u>\$ 58,475</u>

Note 5 – Long-Term Debt and Customer Meter Deposits

Governmental Activities

A schedule of changes in long-term debt for governmental activities of the City for December 31, 2024, follows

	Balance at December 31, <u>2023</u>	<u>Additions</u>	<u>Reductions</u>	Balance at December 31, <u>2024</u>	Amount Due Within <u>One Year</u>
Notes Payable					
NAEC (A)	\$ 5,361	\$ -	\$ (1,099)	\$ 4,262	\$ 1,115
Total revenue bonds payable	<u>\$ 5,361</u>	<u>\$ -</u>	<u>\$ (1,099)</u>	<u>\$ 4,262</u>	<u>\$ 1,115</u>

The terms and due dates of long-term debt for governmental activities of the City at December 31, 2024, follow:

(A) 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.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

Note 5 – Long-Term Debt and Customer Meter Deposits (Cont.)

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>
2025	\$ 1,115	\$ 56	\$ 1,171
2026	1,132	40	1,172
2027	1,149	22	1,171
2028	866	5	871
	<u>\$ 4,262</u>	<u>\$ 123</u>	<u>\$ 4,385</u>

Business-Type Activities

A schedule of changes in long-term debt and customer meter deposits for business-type activities of the City for December 31, 2024, follows:

	<u>Balance at December 31, 2023</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2024</u>	<u>Amount Due Within One Year</u>
<u>Revenue bonds payable</u>					
Water and Sewer Revenue Bonds, Series 1990 (A)	\$ 133,673	\$ -	\$ (17,867)	\$ 115,806	\$ 18,779
Water and Sewer Revenue Bonds, Series 1999 (B)	128,511	-	(6,837)	121,674	7,151
Total revenue bonds payable	<u>262,184</u>	<u>-</u>	<u>(24,704)</u>	<u>237,480</u>	<u>25,930</u>
<u>Notes payable</u>					
NAEC (C)	5,361	-	(1,099)	4,262	1,115
Total notes payable	<u>5,361</u>	<u>-</u>	<u>(1,099)</u>	<u>4,262</u>	<u>1,115</u>
<u>Customer meter deposits</u>					
Meter deposits	62,117	8,950	(8,041)	63,026	-
Total customer meter deposits	<u>62,117</u>	<u>8,950</u>	<u>(8,041)</u>	<u>63,026</u>	<u>-</u>
Total long-term debt and customer meter deposits	<u>\$ 329,662</u>	<u>\$ 8,950</u>	<u>\$ (33,844)</u>	<u>\$ 304,768</u>	<u>\$ 27,045</u>

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

Note 5 – Long-Term Debt and Customer Meter Deposits (Cont.)

Business-Type Activities (cont.)

The terms and due dates of long-term debt for business-type activities of the City at December 31, 2024, 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, 2024, the City has \$120,722 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, 2024

Note 5 – Long-Term Debt and Customer Meter Deposits (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>
2025	\$ 27,045	\$ 10,750	\$ 37,795
2026	28,351	9,444	37,795
2027	29,722	8,074	37,796
2028	30,861	6,636	37,497
2029	31,486	5,138	36,624
2030-2034	60,858	13,503	74,361
2035-2039	33,420	4,020	37,440
	<u>\$ 241,743</u>	<u>\$ 57,565</u>	<u>\$ 299,308</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.

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.

CITY OF SALEM, ARKANSAS

Notes to Financial Statements

December 31, 2024

Note 6 – Other Information (Cont.)

B) Risk Management (cont.)

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, 2024

Note 7 – Retirement Plans

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

Plan Description

The Fireman’s Pension and Relief Fund (FPRF) is an agent multiple-employer defined benefit plan 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 determined 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 LOPFI 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, Arkansas’ 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 mutual fund’s current price per share.

Net Pension Liability

At the date of the last actuarial valuation, December 31, 2024, the unfunded accrued liability for the pension plan was \$13,186. The annual required contribution (ARC) provided in the December 31, 2024, actuarial valuation calculates the amount sufficient to pay off the unfunded actuarial liability over a twenty-year period plus the payment of the 2024 normal cost for benefits to be \$5,868.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

Note 7 – Retirement Plans (Cont.)

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

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.

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, 2024. Actuarial assumptions used in evaluating the fund include entry age cost method, book value is used for valuing assets, and amortization period, and a 7.25% 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, 2024, was sixteen years.

Valuation Date:	December 31, 2022
Notes	Actuarially determined contribution rates are calculated as of December 31 st 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 2024:

Actuarial Cost Method	Individual Entry-Age Normal
Amortization Method	Closed Amortization Period based on projected benefit factors
Remaining Amortization Period	17 years beginning January 1, 2024
Asset Valuation Method	5-year smoothed market; 20% corridor (for funding purposes)
Price Inflation	2.25%
Salary Increases	N/A
Investment Rate of Return	7.25%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2021 valuation pursuant to an experience study of the period 2017-2020.
Mortality	Pub-2010 Amount-Weighted General Below Median Income Healthy Retiree tables set forward one year for males and two years for females, Disabled Retiree and Employee mortality tables for males and females. The tables were adjusted for full generational mortality improvements using Scales MP-2020.

Other information:

Notes	There were no benefit changes during the year.
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CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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 Real Rate of Return</u>	<u>Allocation-Weighted Long-Term Expected Real Rate of Return</u>
U.S. Stock - large cap	21%	5.05%	1.06%
U.S. Stock - small cap	21%	5.57%	1.17%
International equity	9%	6.16%	0.55%
Emerging markets	9%	7.79%	0.70%
U.S. corporate bonds	25%	2.67%	0.67%
Real estate	5%	4.62%	0.23%
Private equity	10%	9.11%	0.91%
Total	<u>100%</u>		<u>5.29%</u>

Single Discount Rate

A single discount rate of 7.25% 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, 2024, were as follows:

Total pension liability	\$ 129,011
Minus: plan’s fiduciary net position	<u>115,825</u>
Net pension liability	<u><u>\$ 13,186</u></u>

Plan’s fiduciary net position as a percentage of total pension liability	89.78%
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CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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 7.25%, as well as what the plan’s Net Pension Liability would be if it were calculated using a single discount rate one percentage point lower and one percentage point higher:

	1% Decrease <u>6.25%</u>	Current Single Rate Assumed <u>7.25%</u>	1% Increase <u>8.25%</u>
Total pension liability	\$ 138,188	\$ 129,011	\$ 120,881
Plan fiduciary net position	115,825	115,825	115,825
Net pension liability	<u>\$ 22,363</u>	<u>\$ 13,186</u>	<u>\$ 5,056</u>

Changes in the Net Pension Liability

	Total Pension <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net Pension <u>Liability</u>
Balances at December 31, 2023	\$ 132,429	\$ 61,077	\$ 71,352
Changes for the year			
a. Service cost	-	-	-
b. Interest on TPL	8,999	-	8,999
c. Differences between expected and actual experience	4,179	-	4,179
d. Employee contributions	-	-	-
e. Employer contributions	-	59,145	(59,145)
f. Net investment income	-	12,338	(12,338)
g. Benefits and refunds	(16,596)	(16,596)	-
h. Administrative expenses	-	(139)	139
i. Benefit changes	-	-	-
j. Assumption changes	-	-	-
k. Local plan administrative mergers	-	-	-
l. Other/reconciliation	-	-	-
Net changes	<u>(3,418)</u>	<u>54,748</u>	<u>(58,166)</u>
Balances at December 31, 2024	<u>\$ 129,011</u>	<u>\$ 115,825</u>	<u>\$ 13,186</u>

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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, 2024, the City of Salem recognized pension benefit of \$0. At December 31, 2024, 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	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	-
Changes of assumptions	-	-
Changes in proportion and differences between employer contributions and share of contributions	6,621	9,270
Total	\$ 6,621	\$ 9,270

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>
2025	\$ (283)
2026	1,108
2027	(2,201)
2028	(1,273)
Total	\$ (2,649)

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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 \$5,723 for the year ending December 31, 2024.

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, 620 W. Third St., Suite 200, Little Rock, Arkansas 72201, 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 3.5% of covered payroll for police officers. The City contributed 24% of covered employees' salaries to the plan for police officers and \$6 per month per member for volunteer firefighters for the year ended December 31, 2024. Contributions by the City to the plan for the year ended December 31, 2024, were \$48,401 for paid police, and \$7,860 for volunteer firefighters.

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

At December 31, 2024, the City reported a liability of \$404,740 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2024, 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, 2024

Note 7 – Retirement Plans (Cont.)

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

For the year ended December 31, 2024, the City recognized pension expense of \$8,705 related to this plan. At December 31, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 48,000	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	43,140
Changes of assumptions	-	4,444
Changes in proportion and differences between employer contributions and share of contributions	-	46,896
Total	<u>\$ 48,000</u>	<u>\$ 94,480</u>

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

<u>Year Ending December 31,</u>	<u>Net Deferred Outflows/(Inflows) of Resources</u>
2025	\$ (6,293)
2026	17,546
2027	(37,390)
2028	(20,343)
Total	<u>\$ (46,480)</u>

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

Note 7 – Retirement Plans (Cont.)

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

Actuarial Assumptions

The total pension liability as of December 31, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Paid Service

Valuation date: December 31, 2022

Notes Actuarially determined contribution rates are calculated as of December 31, 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 2024:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	18 years beginning January 1, 2024
Asset valuation method	5-year smoothed market; 20% corridor
Wage inflation	3.00%
Price inflation	2.25%
Salary increases	3.50% to 18.00%, including inflation
Investment rate of return	7.25%, 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 2021 valuation pursuant to an experience study of the period 2017-2020.
Mortality	The healthy post-retirement tables used were the Pub-2010 Amount-Weighted Below Median Income Health Retiree tables, set forward one year for males, and two years for females. The disability post-retirement mortality tables used were the Pub-2010 Amount-Weighted General Disabled Retiree tables for males and females. The death-in-service mortality tables used were the Pub-2010 Amount-Weighted General Below Median Income Employee Tables for males and females. Fifty percent of deaths-in-service were assumed to be duty related. The tables were adjusted for fully generational mortality improvements using Scale MP-2020.

Other information:

Notes There were benefit provision changes reflected in the December 31, 2022 actuarial valuation. Please see page A-1 of the valuation report for additional details. There were no assumption and actuarial methods changes for the December 31, 2022 actuarial valuation.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

Note 7 – Retirement Plans (Cont.)

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

Volunteer Service

Valuation Date: December 31, 2022

Notes Actuarially determined contribution rates are calculated as of December 31, 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 2024:

Actuarial cost method	Entry age normal
Amortization method	Increasing dollar, closed
Remaining amortization period	26 years beginning January 1, 2024
Asset valuation method	5-year smoothed market; 20% corridor
Price inflation	2.25%
Investment rate of return	7.25%, 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 2021 valuation pursuant to an experience study of the period 2017-2020.
Mortality	The healthy post-retirement tables used were the Pub-2010 Amount-Weighted General Below Median Income Healthy Retiree tables, set forward one year for males, and two year for females. The disability post-retirement mortality tables used were the Pub-2010 Amount-Weighted General Disabled Retiree tables for males and females. The death-in-service mortality tables used were the Pub-2010 Amount-Weighted General Below Median Income Employee tables for males and females. Fifty percent of deaths-in-service were assumed to be duty related. The tables were adjusted for fully generational mortality improvements using Scale MP-2020.

Other information:

Notes There were benefit provision changes reflected in the December 31, 2022 actuarial valuation. Please see page A-1 of the valuation report for additional details. There were no assumption and actuarial methods changes for the December 31, 2022 actuarial valuation.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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 Real Rate of Return</u>	<u>Allocation-Weighted Long-Term Expected Real Rate of Return</u>
U.S. Stock - large cap	21%	5.05%	1.06%
U.S. Stock - small cap	21%	5.57%	1.17%
International equity	9%	6.16%	0.55%
Emerging markets	9%	7.79%	0.70%
U.S. corporate bonds	25%	2.67%	0.67%
Real estate	5%	4.62%	0.23%
Private equity	10%	9.11%	0.91%
	<hr/>		<hr/>
Total	100%		5.29%

Discount Rate

In the year ended December 31, 2024, actuarial valuation, a single discount rate of 7.25% 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 7.25%. 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 7.25%, 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 (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	<u>1% Lower 6.25%</u>	<u>Discount Rate 7.25%</u>	<u>1% Higher 8.25%</u>
Net pension liability	<u>\$ 691,763</u>	<u>\$ 404,740</u>	<u>\$ 170,083</u>

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

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 <https://lopfi-prb.com/LOPFI>.

D) Arkansas Public Employees Retirement System

The City contributes to the Arkansas Public Employees Retirement System (APERS), 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 APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 W. Capitol, Suite 400, 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 Board of Trustees of the Arkansas Public Employees Retirement System (the Board).

Benefits Provided

The public employee's retirement plan was established as contributory. Act 793 of 1977 allowed existing and previous members to become noncontributory members. Anyone joining after January 1, 1978, was automatically enrolled as a noncontributory member. Act 2084 of 2005 established a new contributory requirement for all covered employees first hired on or after July 1, 2005. Employees hired prior to this date that are noncontributory have the option to become a contributory member at any time.

Members are eligible for full retirement benefits (1) at any age with 28 years of credited service; (2) at age 65 with five years of actual service, except for members of the General Assembly who must have 10 years of actual service if the member only has service as a member of the General Assembly; or (3) at age 55 with 35 years of credited service as an elected official or public safety member. Members are eligible for reduced benefits (1) at any age with at least 25 years but less than 28 years of actual service or (2) at age 55 with five years of actual service. A member who is defined as a public safety member is eligible for a reduced benefit with five years of actual service if the member is within 10 years of normal retirement age. The normal retirement benefit, paid monthly, is determined based on (1) the member's final average compensation (FAC) and (2) the number of years of credited service. FAC for members first hired prior to July 1, 2022, is the average of the three highest annual compensations paid during a completed fiscal year of credited service, and for members first hired on or after July 1, 2022, FAC is the average of the five highest annual compensations. The plan also provides for disability and survivor benefits.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

Note 7 – Retirement Plans (Cont.)

D) Arkansas Public Employees Retirement System (cont.)

Benefits Provided (cont.)

Under Arkansas Code, the following groups or individuals are allowed credit for years of service on a basis greater than 1:1:

Public safety members	1.5 per year for individuals employed prior to July 1, 1997
Governor	3 per year if first elected to public office prior to July 1, 1999
Elected state constitutional officers	2.5 per year if first elected to public office prior to July 1, 1999
Elected under state division	2 per year if first elected to public office prior to July 1, 1999
Local elected officials	2 per year

The benefit provisions provided by the public employees retirement plan are established by state law and may be amended only by the General Assembly. Retiree benefit increases are calculated each year on July 1 for the following 12 months. The redetermined amount if first hired prior to July 1, 2022, is the amount of the benefit payable as of the immediately preceding July 1, increased by 3%. If first hired on or after July 1, 2022, the redetermined amount is the lesser of 3% or the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers as determined by the United States Department of Labor.

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. Beginning July 1, 2022, the member contribution rate will increase in increments of 0.25% per year until it reaches the maximum 7%. 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 15.32% of compensation for the fiscal year ended June 30, 2024. 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 year ending December 31, 2024, was \$40,087 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://apers.org/publications>.

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

At December 31, 2024, the City reported a liability of \$286,591 for its proportionate share of the net pension liability.

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

Note 7 – Retirement Plans (Cont.)

D) Arkansas Public Employees Retirement System (cont.)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions (cont.)

The collective net pension liability was measured as of June 30, 2024, 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, 2024, the City's proportion was 0.0115%.

For the year ended December 31, 2024, the City recognized pension expense of \$76,776. At December 31, 2024, the City's 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	\$ 11,122	\$ (11,717)
Net difference between projected and actual investment earnings on pension plan investments	8,314	-
Changes of assumptions	9,988	-
Changes in proportion and differences between employer contributions and share of contributions	27,039	(17,910)
Contributions subsequent to the measurement date	28,019	-
Total	\$ 84,482	\$ (29,627)

The \$28,019 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, 2025. Other 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 Outflows/(Inflows) of Resources
2025	\$ 5,124
2026	44,814
2027	(16,313)
2028	(6,859)
Total	\$ 26,766

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

Note 7 – Retirement Plans (Cont.)

D) Arkansas Public Employees Retirement System (cont.)

Actuarial Assumptions

The total pension liability in the June 30, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry age normal
Discount rate	7.00%
Wage inflation rate	3.25%
Salary increases	3.25% - 9.85%
Investment rate of return*	7.15%
Mortality rate table	The healthy retiree mortality tables, for post-retirement mortality, used in evaluation allowances to be paid were 114% and 132% of the PubG-2010 Amount-Weighted Below-Median Income General Retiree Mortality tables males and females, respectively. The disabled retiree mortality tables, for post-retirement disabled mortality, used in evaluating allowances to be paid were 114% and 132% of the PubNS-2010 Amount-Weighted Disabled Retiree Mortality tables for males and females, respectively. The pre-retirement mortality tables used were 75% of the PubG-2010 Amount-Weighted Below-Median General Employee Mortality tables for active mortality experience. Mortality rates for a particular calendar year are determined by applying the MP-2021 mortality improvement scale to the above described tables.

*Net of investment and administrative expenses

All other actuarial assumptions used in the June 30, 2024, valuation were based on the results of an actuarial experience study for the period from July 1, 2017, through June 30, 2022, and were applied to all prior periods included in the measurement.

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 2024 – 2033 were based upon GRS’ 2024 Capital Market Assumptions Modeler. For each major asset class included in the plan’s target asset allocation as of June 30, 2024, these best estimates are summarized in the following table:

<u>Asset Allocation</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad domestic equity	39%	5.03%
International equity	17%	6.34%
Real estate	16%	4.51%
Private equity	5%	9.00%
Hedge funds	2%	3.63%
Domestic fixed	21%	3.38%
Total	<u>100%</u>	

CITY OF SALEM, ARKANSAS
Notes to Financial Statements
December 31, 2024

Note 7 – Retirement Plans (Cont.)

D) Arkansas Public Employees Retirement System (cont.)

Actuarial Assumptions (cont.)

Total Real Rate of Return

Plus: price inflation - actuary's assumption	5.00%
Less: investment expenses (passive)	2.50%
Net expected return	0.00%
	7.50%

Discount Rate – A single discount rate of 7% 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%. 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.

	1% Lower	Discount Rate	1% Higher
	6.00%	7.00%	8.00%
Net pension liability	\$ 489,025	\$ 286,591	\$ 119,696

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 \$145,840 and \$145,840, respectively, for the year ended December 31, 2024. Sanitation billings and payments are reported with the water and sewer department.

Note 9 – Softball and Baseball

During the year ended December 31, 2024, the City dissolved the Softball and Baseball enterprise fund and discontinued operations of this service.

Note 10 – Subsequent Event

Management has evaluated subsequent events through January 19, 2026, 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
December 31, 2024

	<u>June 30,</u> <u>2024</u>	<u>June 30,</u> <u>2023</u>	<u>June 30,</u> <u>2022</u>	<u>June 30,</u> <u>2021</u>	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>	<u>June 30,</u> <u>2018</u>	<u>June 30,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>
City's proportion of the net pension liability (asset)	0.0115%	0.0012%	0.0097%	0.0010%	0.0082%	0.0087%	0.0092%	0.0097%	0.0090%	0.0090%
City's proportionate share of the net pension liability (asset)	\$ 286,591	\$ 364,147	\$ 261,776	\$ 77,929	\$ 235,524	\$ 211,432	\$ 203,680	\$ 249,764	\$ 216,213	\$ 165,087
City's covered-employee payroll	\$ 261,664	\$ 276,958	\$ 202,931	\$ 202,402	\$ 160,483	\$ 167,709	\$ 172,949	\$ 174,200	\$ 163,814	\$ 159,038
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	109.53%	131.48%	129.00%	38.50%	146.76%	126.07%	117.77%	143.38%	131.99%	103.80%
Plan fiduciary net position as a percentage of the total pension liability	81.61%	77.94%	78.31%	93.57%	75.38%	78.55%	75.65%	75.65%	75.50%	80.39%

See Independent Auditor's Report

Welch, Couch & Company, PA
Certified Public Accountants

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SALEM, ARKANSAS
Schedule of City's Contributions – APERS Plan
December 31, 2024

	<u>June 30,</u> <u>2024</u>	<u>June 30,</u> <u>2023</u>	<u>June 30,</u> <u>2022</u>	<u>June 30,</u> <u>2021</u>	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>	<u>June 30,</u> <u>2018</u>	<u>June 30,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>
Contractually required contributions	\$ 40,087	\$ 42,430	\$ 31,089	\$ 31,008	\$ 24,586	\$ 25,693	\$ 25,510	\$ 25,259	\$ 23,753	\$ 23,474
Contributions in relation to the contractually required contribution	<u>(40,087)</u>	<u>(42,430)</u>	<u>(31,089)</u>	<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>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 261,664	\$ 276,958	\$ 202,931	\$ 202,402	\$ 160,483	\$ 167,709	\$ 172,949	\$ 174,200	\$ 163,814	\$ 159,038
Contributions as a percentage of covered-employee payroll	15.32%	15.32%	15.32%	15.32%	15.32%	15.32%	14.75%	14.50%	14.50%	14.76%

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CITY OF SALEM, ARKANSAS
Schedule of City's Proportionate Share
of the Net Pension Liability – LOPFI Police
December 31, 2024

	<u>December 31,</u> <u>2024</u>	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
City's proportionate share of the net pension liability (asset)	0.0402%	0.0411%	0.0431%	0.0046%	0.0043%	0.0041%	0.0042%	0.0410%
City's proportionate share of the net pension liability (asset)	\$ 344,251	\$ 411,327	\$ 460,345	\$ 231,780	\$ 294,433	\$ 289,718	\$ 380,818	\$ 294,093
City's covered-employee payroll	\$ 201,671	\$ 188,954	\$ 177,923	\$ 177,766	\$ 161,187	\$ 133,140	\$ 140,221	\$ 125,983
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	170.70%	217.69%	258.73%	130.38%	182.67%	217.60%	271.58%	233.44%
Plan fiduciary net position as a percentage of the total pension liability	78.89%	73.50%	69.20%	84.75%	77.79%	73.21%	66.09%	71.48%

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

See Independent Auditor's Report

Welch, Couch & Company, PA
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CITY OF SALEM, ARKANSAS
Schedule of City's Contributions – LOPFI Police
December 31, 2024

	<u>December 31,</u> <u>2024</u>	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Contractually required contributions	\$ 48,401	\$ 45,349	\$ 41,812	\$ 41,775	\$ 37,879	\$ 31,288	\$ 32,952	\$ 29,606
Contributions in relation to the contractually required contribution	<u>\$ (48,401)</u>	<u>\$ (45,349)</u>	<u>\$ (41,812)</u>	<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>
City's covered-employee payroll	\$ 201,671	\$ 188,954	\$ 177,923	\$ 177,766	\$ 161,187	\$ 133,140	\$ 140,221	\$ 125,983
Contributions as a percentage of covered-employee payroll	24.00%	24.00%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%

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

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Welch, Couch & Company, PA
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CITY OF SALEM, ARKANSAS
Schedule of City's Proportionate Share
of the Net Pension Liability – LOPFI Firefighters
December 31, 2024

	December 31, <u>2024</u>	December 31, <u>2023</u>	December 31, <u>2022</u>	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>
City's proportionate share of the net pension liability (asset)	0.1500%	0.2636%	0.2900%	0.2900%	0.3000%	0.3000%	0.3100%	0.3000%
City's proportionate share of the net pension liability (asset)	\$ 60,489	\$ 128,610	\$ 159,098	\$ 76,563	\$ 106,455	\$ 128,413	\$ 156,799	\$ 127,148
City's covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
City'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	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	78.24%	72.07%	66.19%	82.87%	75.30%	69.21%	60.56%	64.71%

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

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Welch, Couch & Company, PA
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CITY OF SALEM, ARKANSAS
Schedule of City's Contributions – LOPFI Firefighters
December 31, 2024

	<u>December 31,</u> <u>2024</u>	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Contractually required contributions	\$ 7,860	\$ 13,890	\$ 14,939	\$ 15,564	\$ 3,190	\$ 2,024	\$ 1,558	1,558
Contributions in relation to the contractually required contribution	<u>(7,860)</u>	<u>(13,890)</u>	<u>(14,939)</u>	<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>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	N/A	N/A	N/A	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	N/A	N/A	N/A

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

See Independent Auditor's Report

Welch, Couch & Company, PA
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CITY OF SALEM, ARKANSAS
Schedule of Changes in Employer's Net Pension Liability and
Related Ratios – Firemen's Pension and Relief Fund
December 31, 2024

<u>Fiscal year ending December 31,</u>	*	<u>2024</u>	*	<u>2023</u>	*	<u>2022</u>	*	<u>2021</u>	*	<u>2020</u>	*	<u>2019</u>	#	<u>2018</u>	#	<u>2017</u>	#	<u>2016</u>	#	<u>2015</u>
Total pension liability																				
Service cost	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Interest		8,999		9,242		9,562		9,777		9,985		10,418		7,195		8,175		8,344		10,716
Benefit changes		-		-		-		-		-		-		-		-		-		-
Difference between actual and expected experience		4,179		3,978		255		3,611		3,449		2,887		1,504		(2,267)		1,004		(36,528)
Assumption changes		-		-		(2,429)		(11)		-		5,723		(6,676)		10,897		(465)		10,020
Benefit payments		(16,596)		(16,538)		(16,481)		(16,426)		(16,373)		(14,220)		(14,220)		(14,220)		(14,220)		(16,370)
Net change in total pension liability		(3,418)		(3,318)		(9,093)		(3,049)		(2,939)		4,808		(12,197)		2,585		(5,337)		(32,162)
Total pension liability - beginning		132,429		135,747		144,840		147,889		150,828		146,020		(34,914)		(37,499)		(32,162)		-
Total pension liability - ending		\$ 129,011		\$ 132,429		\$ 135,747		\$ 144,840		\$ 147,889		\$ 150,828		\$ (47,111)		\$ (34,914)		\$ (37,499)		\$ (32,162)
Plan Fiduciary Net Position																				
Contributions - Employee	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Contributions - Employer		59,145		8,259		8,055		7,597		3,912		1,188		30		-		-		-
Net investment income		12,338		8,732		(11,222)		12,050		9,657		6,843		374		319		334		297
Benefit payments		(16,596)		(16,538)		(16,481)		(16,426)		(16,373)		(3,555)		(14,220)		(14,220)		(14,220)		(16,370)
Administrative expense		(139)		(73)		(74)		(100)		(119)		(60)		(600)		(600)		-		(44)
Local plan administrative merger		-		-		-		-		-		75,805		-		-		-		-
Reconciliation		-		-		-		-		-		-		-		-		-		-
Net change in plan net position		54,748		380		(19,722)		3,121		(2,923)		80,221		(14,416)		(14,501)		(13,886)		(16,117)
Plan fiduciary net position - beginning		61,077		60,697		80,419		77,298		80,221		-		(44,504)		(30,003)		(16,117)		-
Plan fiduciary net position - end		\$ 115,825		\$ 61,077		\$ 60,697		\$ 80,419		\$ 77,298		\$ 80,221		\$ (58,920)		\$ (44,504)		\$ (30,003)		\$ (16,117)
Plan fiduciary net position as a percentage of total pension liability		89.78%		46.12%		44.71%		55.52%		52.27%		53.19%		43.72%		48.01%		55.52%		60.61%
Covered employee payroll		N/A		N/A		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		N/A		N/A

* Plan consolidation into LOPFI effective October 1, 2019

Prior to consolidation

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Welch, Couch & Company, PA
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CITY OF SALEM, ARKANSAS
Schedule of Components Net Pension Liability Along With Related Ratios –
Firemen’s Pension and Relief Fund
December 31, 2024

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
12/31/2015 #	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
12/31/2022 *	7.25%	135,747	60,697	75,050	44.71%	-	N/A
12/31/2023 *	7.25%	132,429	61,077	71,352	46.12%	-	N/A
12/31/2024 *	7.25%	129,011	115,825	13,186	89.78%	-	N/A

* Plan consolidation into LOPFI effective October 1, 2019

Prior to consolidation

See Independent Auditor’s Report

Welch, Couch & Company, PA
Certified Public Accountants

CITY OF SALEM, ARKANSAS

Schedule of Contributions – Firemen’s Pension and Relief Fund

December 31, 2024

FY Ending December 31,		Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as Percentage of Payroll
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
12/31/2022	*	5,652	5,652	-	N/A	N/A
12/31/2023	*	5,820	5,820	-	N/A	N/A
12/31/2024	*	5,868	5,868	-	N/A	N/A

* Plan consolidated into LOPFI effective October 1, 2019

Prior to consolidation

Valuation Date: December 31, 2022

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 2024:

Actuarial Cost Method	Individual Entry-Age Normal
Amortization Method	Closed Amortization Period based on projected benefit factors
Remaining Amortization Period	17 years beginning January 1, 2024
Asset Valuation Method	5-year smoothed market; 20% corridor (for funding purposes)
Price Inflation	2.25%
Salary Increases	N/A
Investment Rate of Return	7.25%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2021 valuation pursuant to an experience study of the period 2017-2020.
Mortality	RP-2010 Amount-Weighted General Below Median Income Healthy Retiree tables set forward one year for males and two years for females, Disabled Retiree and Employee mortality tables for males and females. The tables were adjusted for full generational Mortality improvements using Scales MP-2020.

Other Information:

Notes There were no benefit changes during the year.

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Certified Public Accountants

CITY OF SALEM, ARKANSAS

**Statement of Revenues and Expenditures Budget and Actual –
General and Special Revenue Funds**

Year Ended December 31, 2024

	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	\$ 24,849	\$ (1,561)	\$ 23,288	\$ 288	\$ 107,000	\$ 128,134	\$ (601)	\$ 127,533	\$ 20,533
Property taxes	95,000	102,417	-	102,417	7,417	20,000	20,514	1,065	21,579	1,579
Sales tax	275,000	291,652	4	291,656	16,656	176,200	189,326	-	189,326	13,126
County fire tax	52,000	56,879	-	56,879	4,879	-	-	-	-	-
Franchise fees	75,500	69,601	411	70,012	(5,488)	-	-	-	-	-
Grants	30,000	388,265	(84,392)	303,873	273,873	-	-	-	-	-
Donation income	1,800	1,274	-	1,274	(526)	-	-	-	-	-
Parks and civic center activities	-	4,798	-	4,798	4,798	-	-	-	-	-
Fines, forfeitures and costs	-	24,337	(5,451)	18,886	18,886	-	-	-	-	-
Fire Act 833 income	13,000	14,835	-	14,835	1,835	-	-	-	-	-
Administration of justice	90,000	-	-	-	(90,000)	-	-	-	-	-
School Resource Officer	62,447	47,482	-	47,482	(14,965)	-	-	-	-	-
Interest income	5,000	5,816	-	5,816	816	500	1,841	-	1,841	1,341
Other income	1,000	6,496	-	6,496	5,496	4,000	1,241	-	1,241	(2,759)
Sale of equipment	-	-	-	-	-	1,000	-	-	-	(1,000)
Total revenues	723,747	1,038,701	(90,989)	947,712	223,965	308,700	341,056	464	341,520	32,820
Expenditures:										
General government	213,700	72,377	78,145	150,522	63,178	-	-	-	-	-
Public safety - police	318,300	323,191	-	323,191	(4,891)	-	-	-	-	-
Public safety - fire	102,232	62,452	-	62,452	39,780	-	-	-	-	-
Recreation and culture	82,250	43,605	-	43,605	38,645	-	-	-	-	-
Streets and highways	-	-	-	-	-	290,550	221,237	63,892	285,129	5,421
Industrial development	15,600	15,600	-	15,600	-	-	-	-	-	-
Capital outlay	-	29,966	-	29,966	(29,966)	20,000	105,978	-	105,978	(85,978)
Debt service: principal payments	-	550	-	550	(550)	-	549	-	549	(549)
Pension obligation contribution	17,700	41,277	-	41,277	(23,577)	15,000	16,160	-	16,160	(1,160)
Interest expense	-	35	-	35	(35)	-	35	-	35	(35)
Transfers out	2,000	3,417	-	3,417	(1,417)	-	-	-	-	-
Total expenditures	751,782	592,470	78,145	670,615	81,168	325,550	343,959	63,892	407,851	(82,301)
Excess (deficit) of revenues over expenditures	\$ (28,035)	\$ 446,232	\$ (169,134)	\$ 277,098	\$ 305,133	\$ (16,850)	\$ (2,903)	\$ (63,428)	\$ (66,331)	\$ (49,481)

* 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, 2024.

See Independent Auditor's Report

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SUPPLEMENTARY INFORMATION

CITY OF SALEM, ARKANSAS
Statement of Revenues and Expenses
Water and Sewer Fund
Year Ended December 31, 2024

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Water sales	\$ 319,438	\$ -	\$ 319,438
Sewer charges	-	190,467	190,467
Sanitation charges	145,840	-	145,840
Connection fees	7,196	-	7,196
Other miscellaneous income	1,537	547	2,084
Total operating revenues	<u>474,011</u>	<u>191,014</u>	<u>665,025</u>
Operating expenses:			
Salaries and wages	94,895	89,153	184,048
Employee benefits	36,788	33,957	70,745
Taxes, licenses and fees	32,356	4,404	36,760
Utilities	25,550	17,176	42,726
Sanitation contract	145,840	-	145,840
Supplies and maintenance	37,160	20,272	57,432
Office expense and postage	18,706	18,543	37,249
Insurance and league fees	8,948	5,457	14,405
Depreciation	19,480	19,479	38,959
Miscellaneous	(2,056)	10,167	8,111
Total operating expenses	<u>417,667</u>	<u>218,608</u>	<u>636,275</u>
Operating income (loss)	<u>56,344</u>	<u>(27,594)</u>	<u>28,750</u>
Nonoperating revenues (expenses):			
Interest income	-	33,361	33,361
Interest expense	-	(11,951)	(11,951)
Total nonoperating revenues (expenses)	<u>-</u>	<u>21,410</u>	<u>21,410</u>
Increase (decrease) in net position	<u>\$ 56,344</u>	<u>\$ (6,184)</u>	<u>\$ 50,160</u>

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CITY OF SALEM, ARKANSAS
Water and Sewer
Schedule of Monthly Water and Sewer Rates
Year Ended December 31, 2024

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
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Reconnect fee	\$50.00
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CITY OF SALEM, ARKANSAS
Water and Sewer
Supplemental Schedule of Consumption
Year Ended December 31, 2024

<u>Month</u>	<u>Consumption</u>	
January	3,387,800	
February	4,442,300	
March	3,312,500	
April	3,485,700	
May	3,587,600	
June	3,978,600	
July	4,340,300	
August	3,702,100	
September	4,001,100	
October	3,590,400	
November	3,279,800	
December	3,360,100	
	<hr/>	
Total consumption	44,468,300	
	<hr/> <hr/>	
Monthly averages	3,705,692	
	<hr/> <hr/>	
	Average Number of Users	Total Consumption
Residential	599	32,964,700
Commercial	156	10,432,000
Industrial	3	1,071,600
		<hr/>
Total consumption		44,468,300
		<hr/> <hr/>

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CITY OF SALEM, ARKANSAS
Statement of Revenues and Expenses
Budget and Actual –
Proprietary Fund – Water and Sewer
Year Ended December 31, 2024

	Water and Sewer				Variance Favorable (Unfavorable)
	Budget*	Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	
Operating revenues:					
Water sales	\$ 330,000	\$ 319,438	\$ 1,541	\$ 320,979	\$ (9,021)
Sewer charges	193,000	190,467	-	190,467	(2,533)
Sanitation charges	142,000	145,840	-	145,840	3,840
Connection fees	7,100	7,196	-	7,196	96
Other miscellaneous income	400	2,084	-	2,084	1,684
Total operating revenues	<u>672,500</u>	<u>665,025</u>	<u>1,541</u>	<u>666,566</u>	<u>(5,934)</u>
Operating expenses:					
Salaries and wages	171,600	184,048	(2,022)	182,026	(10,426)
Employee benefits	93,000	70,745	(13,551)	57,194	35,806
Taxes, licenses and fees	38,000	36,760	-	36,760	1,240
Utilities	42,000	42,726	-	42,726	(726)
Sanitation contract	154,000	145,840	-	145,840	8,160
Supplies and maintenance	129,400	57,432	1,898	59,330	70,070
Office expense and postage	35,500	37,249	-	37,249	(1,749)
Insurance	12,000	14,405	2,398	16,803	(4,803)
Depreciation	28,000	38,959	-	38,959	(10,959)
Miscellaneous	7,500	8,111	-	8,111	(611)
Total operating expenses	<u>711,000</u>	<u>636,275</u>	<u>(11,277)</u>	<u>624,998</u>	<u>86,002</u>
Operating income (loss)	<u>(38,500)</u>	<u>28,750</u>	<u>12,818</u>	<u>41,568</u>	<u>80,068</u>
Nonoperating revenues (expenses):					
Interest income	20,000	33,361	-	33,361	13,361
Gain on sale of assets	5,000	-	-	-	(5,000)
Interest expense	-	(11,951)	(40)	(11,991)	(11,991)
Total nonoperating revenues (expenses)	<u>25,000</u>	<u>21,410</u>	<u>(40)</u>	<u>21,370</u>	<u>(3,630)</u>
Other financing sources (uses):					
Debt repayment	(36,500)	-	(25,803)	(25,803)	10,697
Capital outlay	(454,000)	-	(21,142)	(21,142)	432,858
Total other financing sources (uses)	<u>(490,500)</u>	<u>-</u>	<u>(46,945)</u>	<u>(46,945)</u>	<u>443,555</u>
Net income (loss)	<u><u>\$ (504,000)</u></u>	<u><u>\$ 50,160</u></u>	<u><u>\$ (34,167)</u></u>	<u><u>\$ 15,993</u></u>	<u><u>\$ 519,993</u></u>

* 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, 2024.

See Independent Auditor's Report

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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, 2024, 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 19, 2026.

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 were not 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 items 2024-01, 2024-02, and 2024-03 that we consider to be significant deficiencies.

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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 statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Salem, Arkansas' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Salem, Arkansas' response to the findings identified in our audit and described in the accompanying schedule of findings and management's response. The City of Salem, Arkansas' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

Certified Public Accountants

Batesville, Arkansas

January 19, 2026



Welch, Couch & Company, PA
Certified Public Accountants

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M. Garrett McSpadden, CPA | Allen E. Brinkman, CPA

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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, 2024.

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, 2024.

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
Certified Public Accountants

Batesville, Arkansas
January 19, 2026

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CITY OF SALEM, ARKANSAS
Schedule of Findings and Management's Response
Year Ended December 31, 2024

Significant Deficiencies

2024-01 – 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

2024-02 – Material Misstatements

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

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.

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 reconcile 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 the 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.

2024-03 – Unapproved transfers and payments for Baseball and Softball enterprise fund

Condition: During our audit we were notified by the City of Salem that certain bank transfers and invoice payments were not approved by City Officials.

CITY OF SALEM, ARKANSAS
Schedule of Findings and Management's Response
Year Ended December 31, 2024

Significant Deficiencies (Cont.)

2024-03 – Unapproved transfers and payments for Baseball and Softball enterprise fund (Cont.)

Criteria: Management oversight of financial transactions and review of relating supporting documentation should be implemented.

Cause: No oversight of Baseball and Softball enterprise fund transactions by City Officials.

Effect: Due to a lack of oversight in the Baseball and Softball enterprise fund bank statements, seven transfers out of the bank account were incorrect and in error. In addition, management approval for payment of invoices was not obtained.

Recommendation: We recommend that City of Salem management take over the signature authority of applicable Baseball and Softball bank accounts and implement a rigorous invoice approval process prior to payment.

Management Response: Upon notification and after research of the issues stated above, the appropriate Arkansas State police officials were notified. In addition, no fraudulent activity was found after the Arkansas State Police investigation resulting in no charges being filed. Furthermore, the City of Salem dissolved the Baseball and Softball enterprise fund in August 2024.