

CLARKSVILLE LIGHT & WATER COMPANY
Independent Auditors' Report
And
Financial Statements

September 30, 2010 and 2009

CLARKSVILLE LIGHT AND WATER COMPANY
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MANAGEMENT'S DISCUSSION & ANALYSIS
SEPTEMBER 30, 2010

History

Clarksville Light & Water Company is owned by the City of Clarksville, Arkansas. It was established in its present form in 1947, when the City Council appointed a Commission to act as an agency of the City, charged with the responsibility of administering the Light and Water Company in the best interest of the citizens of Clarksville.

Customers

Clarksville Light & Water Company presently serves approximately 4,300 residences and businesses within the Clarksville city limits, providing electricity, and water and wastewater treatment services. Additionally, water is supplied on a wholesale basis to the cities of Coal Hill, Lamar, Hartman and Knoxville, as well as the Horsehead, Ludwig and East Johnson County water associations.

Sales

Electricity sold during the year increased 5% to 272,384 megawatt hours. Water sales increased 3% to 1.6 billion gallons. That is roughly 4.3 million gallons per day. With a daily capacity of 12 million gallons, there is plenty of water to supply existing as well as future, residential, commercial and industrial customers.

Construction

The electric transmission loop was completed at a cost of \$1.3 million, resulting in improved reliability of the electric system. The electric utilities in the White Drive area were converted from overhead to underground service. Electric utilities were relocated to facilitate the construction of a "safe room" for the Clarksville School System. A "PCB" eradication program is underway to test 100% of all CLW transformers and to remove and replace all transformers testing positive for polychlorinated biphenyls. A new safety program was implemented for the potential hazard to workers for "arc flash"; the program included new flame resistant clothing and training on the hazards of arc flash. Electric facilities were installed to service the expansion of the U of O Seay Student Center.

Water Distribution system improvements totaled \$1.6 million. Major projects include replacing and upgrading water lines along West Main and Porter Industrial Road. Also, a new large 24" water main will provide major water distribution from the water treatment plant to the west side of town, improving service to industries such as Hanes Brands, Tyson Feed Mill, and Wal-Mart Distribution Center, as well as benefit potential future service to Scranton.

Water/Sewer Department has ongoing maintenance. Crews continue to identify and repair sources of "inflow and infiltration" into the sewer system. Critical repairs were made to the two larger lift stations. The lift station at South Park is being replaced. Periodic fire hydrant flow tests are conducted to ensure an adequate and reliable supply of water for the Fire Department.

Wholesale Power Provider

Our contract with Western Farmers Electric Coop (WEFC) to provide wholesale power to the City of Clarksville expired May 31, 2010. Clarksville successfully secured a long term power supply agreement with a proven low cost power provider, the Oklahoma Municipal Power Authority (OMPA). Clarksville secured the necessary transmission service from the Southwestern Power Administration (SPA) and the Southwest Power Pool (SPP). Clarksville continues to receive hydro power from SPA. SPA provides 19 megawatts of peaking power and approximately 40,000 megawatt hours of energy.

White River Hydro

Clarksville terminated its agreement with Independence County to take power from the White River Hydro Units. The reason cited for termination of the agreement was Independence County's failure to complete the Project, resulting in lower than projected power output, and higher than expected cost of power. Independence County filed suit against Clarksville in an effort to force arbitration. On December 6, 2010, Judge Pearson entered a ruling and order that Clarksville rightfully terminated the agreement and has no obligation to arbitrate. While the ruling is under appeal, Clarksville will continue to receive White River Hydropower, paying 5¢ per kilowatt hour, and placing the difference between 5¢ and the billed rate into escrow. Clarksville has an agreement with OMPA for power supply, with, or without, the White River Hydro resource.

Energy Efficiency Community Block Grant

CLW made application for and was awarded an Energy Efficiency Community Block Grant to install energy efficient HVAC systems in the Municipal Building and Forrester Davis. Also the grant provides for the old windows to be removed and new energy efficient windows installed at Forrester Davis.

CLW is currently working with an architect awaiting the bid process to contract the job.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 6 to 8) provide information about the activities of the Company as a whole. Net assets represent the difference in what the Company owns (assets) and in what the Company owes (liabilities). These two statements report net assets and changes in net assets. Over time, increases or decreases in net assets are one indication of the Company's financial health. Departmental schedules begin on page 25. These schedules provide a more detailed picture of the Company's revenues and expenses.

The Statement of Cash Flows (on pages 9 and 10) presents an overview of the cash received and expended during the year. It provides an insight into the sources of cash received the uses of that cash, and the increase or decrease in cash on hand at the end of the year.

Financial ratios may be used to analyze relationships between items on the financial statements. Short-term liquidity can be demonstrated using the Current Ratio and Quick Ratio. The Current Ratio is calculated by dividing current assets by current liabilities. The Quick Ratio is similar to the Current Ratio but excludes inventory because inventory is normally the least liquid current asset. The Current and Quick Ratios for the year ended September 30, 2010 are 5.47 and 4.99 respectively. This means, for example, that for every \$5.47 in current assets, the Company has \$1.00 in current liabilities. These ratios for the year ended September 30, 2009 were 6.30 and 5.73 respectively.

Comparison of Financial Data

| | 2010 | 2009 | Net Change |
|--|------------|------------|-------------|
| Current Assets | 14,884,572 | 14,400,206 | 484,366 |
| Restricted Fund Assets | 6,439,825 | 7,983,543 | (1,543,718) |
| Net Capital Assets | 37,643,260 | 38,445,923 | (802,663) |
| Other Assets | 124,846 | 129,282 | (4,436) |
| Total Assets | 59,092,503 | 60,958,954 | (1,866,451) |
| Current Liabilities | 2,722,751 | 2,285,086 | 437,665 |
| Net Long-Term Debt | 1,031,142 | 3,243,499 | (2,212,357) |
| Other Liabilities | 283,129 | 269,721 | 13,408 |
| Total Liabilities | 4,037,022 | 5,798,306 | (1,761,284) |
| Net Assets Invested in Capital Assets, Net of Related Debt | 36,267,118 | 34,862,424 | 1,404,694 |
| Net Assets Restricted | 6,439,825 | 7,983,543 | (1,543,718) |
| Net Assets Unrestricted | 12,348,538 | 12,314,681 | 33,857 |
| Total Net Assets | 55,055,481 | 55,160,648 | (105,167) |
| Operating Revenues | 24,999,087 | 24,573,969 | 425,118 |
| Direct Operating Expenses | 20,832,415 | 20,441,405 | 391,010 |
| General and Administrative Expenses | 4,388,161 | 3,796,436 | 591,725 |
| Non-Operating Revenues (Expenses) | 119,417 | 252,536 | (133,119) |
| Income Before Contributions and Transfers | (102,072) | 588,664 | (690,736) |
| Contributions by Developers | -0- | 392,599 | (392,599) |
| Transfers to the City | (3,095) | -0- | (3,095) |
| Changes in Net Assets | (105,167) | 1,856,036 | (1,961,203) |
| Cash Balance | 16,517,407 | 17,744,948 | (1,227,541) |

There was a decrease of \$105,000 in net assets during the year to \$55,055,000. Net long-term debt decreased \$2,212,000 to \$1,031,000 and the \$16,517,000 cash balance at year-end was \$1,228,000 lower than 2009.

Overall, the 2010 net loss before contributions and transfers of \$102,000 is down \$691,000 when compared to 2009. Operating revenues are up \$425,000, power costs increased \$320,000, and other expenses show a net increase of \$796,000.


Net long-term debt decreased in 2010 due to the early retirement on the Series 2008 Utility Refunding Revenue Bonds for years 2015 – 2019 in the amount of \$1,885,000.

Departmental Summary

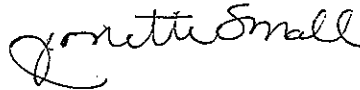
Electric Department operating revenues of \$19,190,000 are up \$261,000 from 2009 electric revenues. The cost of power purchased increased \$320,000 and there was a net increase of \$263,000 in other expenses. This resulted in a \$322,000 decrease in electric net income to \$627,000 for the year 2010.

Water Department operating revenues increased \$99,000 to \$3,925,000. Expenses increased \$247,000, and the net loss of \$346,000 reflects a decline in earnings of \$148,000 for the year.

Sewer Department operating revenues of \$1,884,000 are up \$65,000. Expenses increased \$286,000 and the net loss of \$383,000 reflects a decline in earnings of \$221,000 when compared to 2009.



Michael E. Hughes, PE
General Manager



Jeanette Small
Finance Officer



King Jacobs Gresham & Lorfing

Certified Public Accountants

Since 1958

Adele King Jacobs, CPA
Jane A. Gresham, CPA
Rhonda B. Lorfing, CPA

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Clarksville Light & Water Company
City of Clarksville
Clarksville, Arkansas

We have audited the accompanying financial statements of Clarksville Light & Water Company, a component unit of the City of Clarksville, Arkansas, as of and for the years ended September 30, 2010 and 2009 as listed in the table of contents. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Clarksville Light & Water Company, a component unit of the City of Clarksville, Arkansas, as of September 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2011, on our consideration of the Clarksville Light & Water Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Clarksville Light & Water Company, taken as a whole. The accompanying financial information listed as departmental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Clarksville Light & Water Company. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

King Jacobs Gresham & Lorfing, CPAs, PA
King, Jacobs, Gresham & Lorfing, CPAs, P.A.
January 31, 2011

CLARKSVILLE LIGHT & WATER COMPANY

Statements of Net Assets

September 30, 2010 and 2009

ASSETS

| | <u>2010</u> | <u>2009</u> |
|---|----------------------|----------------------|
| Current Assets | | |
| Cash | \$ 6,292,662 | \$ 6,110,561 |
| Electric Generation Fund | 3,784,920 | 3,650,844 |
| Accounts Receivable net of allowance for doubtful accounts of \$70,000 for 2010 and \$70,000 for 2009 | 2,300,155 | 2,122,147 |
| Unbilled Receivables | 981,971 | 907,555 |
| Accrued Interest Receivable | 85,192 | 148,020 |
| Inventories | 1,288,554 | 1,306,169 |
| Prepaid Expenses | 151,118 | 154,910 |
| Total Current Assets | <u>14,884,572</u> | <u>14,400,206</u> |
| Restricted Fund Accounts | <u>6,439,825</u> | <u>7,983,543</u> |
| Capital Assets | | |
| Land | 580,160 | 565,979 |
| Buildings | 2,415,692 | 2,265,496 |
| Electric System | 23,589,862 | 22,841,009 |
| Water System | 36,090,305 | 34,995,746 |
| Sewer System | 13,725,069 | 13,651,021 |
| Transportation Equipment | 1,455,211 | 1,399,727 |
| Office Equipment | 824,441 | 770,294 |
| Generation Equipment | 822,963 | 822,963 |
| Other Equipment | 1,883,312 | 1,753,505 |
| Construction in Progress | 675,971 | 668,887 |
| | <u>82,062,986</u> | <u>79,734,627</u> |
| Less Accumulated Depreciation | (44,419,726) | (41,288,704) |
| Net Capital Assets | <u>37,643,260</u> | <u>38,445,923</u> |
| Other Assets | | |
| Investments - Electric Cooperative Certificates | 98,957 | 83,827 |
| Deferred Bond Expenses, at amortized cost | 25,889 | 45,455 |
| Total Other Assets | <u>124,846</u> | <u>129,282</u> |
| Total Assets | <u>\$ 59,092,503</u> | <u>\$ 60,958,954</u> |

See accompanying notes to financial statements.

CLARKSVILLE LIGHT & WATER COMPANY
 Statements of Net Assets
 September 30, 2010 and 2009

LIABILITIES AND NET ASSETS

| | <u>2010</u> | <u>2009</u> |
|---|----------------------|----------------------|
| Current Liabilities | | |
| Current Installments of Long-Term Debt | \$ 345,000 | \$ 340,000 |
| Accounts Payable | 1,867,366 | 1,482,753 |
| Accrued Expenses | 501,985 | 439,837 |
| Accrued Interest Payable | 8,400 | 22,496 |
| Total Current Liabilities | <u>2,722,751</u> | <u>2,285,086</u> |
| Long-Term Debt, Net of Current Maturities and Discounts | <u>1,031,142</u> | <u>3,243,499</u> |
| Other Liabilities | | |
| Meter Deposits | 283,129 | 269,721 |
| Total Liabilities | <u>4,037,022</u> | <u>5,798,306</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 36,267,118 | 34,862,424 |
| Restricted | 6,439,825 | 7,983,543 |
| Unrestricted | 12,348,538 | 12,314,681 |
| Total Net Assets | <u>55,055,481</u> | <u>55,160,648</u> |
| Total Liabilities and Net Assets | <u>\$ 59,092,503</u> | <u>\$ 60,958,954</u> |

See accompanying notes to financial statements.

CLARKSVILLE LIGHT & WATER COMPANY
 Statements of Revenues, Expenses, and Changes in Net Assets
 Years Ended September 30, 2010 and 2009

| | 2010 | 2009 |
|--|---------------|---------------|
| Operating Revenue | | |
| Electric Revenue | \$ 19,190,495 | \$ 18,929,407 |
| Water Revenue | 3,924,903 | 3,826,298 |
| Sewer Revenue | 1,883,689 | 1,818,264 |
| Total Operating Revenue | 24,999,087 | 24,573,969 |
| Direct Operating Expenses | 20,832,415 | 20,441,405 |
| Operating Revenue less Direct Operating Expenses | 4,166,672 | 4,132,564 |
| General and Administrative Expense | 4,388,161 | 3,796,436 |
| Operating Income (Loss) | (221,489) | 336,128 |
| Non-Operating Revenues (Expenses) | | |
| Interest Income | 244,168 | 416,457 |
| Interest Expense | (88,182) | (146,878) |
| Amortization | (36,569) | (17,043) |
| Total Non-Operating Revenues (Expenses) | 119,417 | 252,536 |
| Income before Contributions and Transfers | (102,072) | 588,664 |
| Contributions by Developers & State Grants | - | 1,267,372 |
| Transfers to the City | (3,095) | - |
| Changes in Net Assets | (105,167) | 1,856,036 |
| Net Assets - Beginning of Year | 55,160,648 | 53,304,612 |
| Net Assets - End of Year | \$ 55,055,481 | \$ 55,160,648 |

See accompanying notes to financial statements.

CLARKSVILLE LIGHT & WATER COMPANY
 Statements of Cash Flows
 Years Ended September 30, 2010 and 2009

| | 2010 | 2009 |
|---|---------------|---------------|
| Cash Flows from Operating Activities: | | |
| Cash Received from Customers | \$ 24,746,663 | \$ 24,571,693 |
| Cash Paid to Employees, Payroll Taxes and Employee Benefits | (4,233,426) | (3,967,619) |
| Cash paid to Suppliers for Operations and General & Administrative Expense | (17,607,752) | (17,245,764) |
| Net Cash Provided by Operating Activities | 2,905,485 | 3,358,310 |
| Cash Flows From Non-Capital Financing Activities | | |
| Increase (Decrease) in Meter Deposits | 13,408 | 16,788 |
| Net Cash Provided by Non-Capital Financing Activities | 13,408 | 16,788 |
| Cash Flows from Financing Activities: | | |
| Payments on Debt Obligations | (2,225,000) | (330,000) |
| Interest paid on Debt Obligations, Net of Capitalized Interest | (101,638) | (148,351) |
| Net Cash used for Financing Activities | (2,326,638) | (478,351) |
| Cash Flows from Investing Activities: | | |
| Investment Income | 306,996 | 471,175 |
| Sale of Assets | 3,150 | - |
| Capital Expenditures | (2,129,942) | (1,374,214) |
| Net Cash Provided by Investing Activities | (1,819,796) | (903,039) |
| Net Increase (Decrease) in Cash | (1,227,541) | 1,993,708 |
| Cash at Beginning of Year | 17,744,948 | 15,751,240 |
| Cash at End of Year | \$ 16,517,407 | \$ 17,744,948 |

See accompanying notes to financial statements.

CLARKSVILLE LIGHT & WATER COMPANY
 Statements of Cash Flows (continued)
 Years Ended September 30, 2010 and 2009

| | 2010 | 2009 |
|--|--------------|--------------|
| Reconciliation of Earnings from Operations to Net Cash Provided by Operating Activities | | |
| Operating Income (Loss) | \$ (221,489) | \$ 336,128 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | |
| Depreciation | 3,184,108 | 3,081,904 |
| Change in Operating Assets and Liabilities: | | |
| (Increase) Decrease in Accounts Receivables | (178,008) | (19,858) |
| (Increase) Decrease in Unbilled Receivables | (74,416) | 17,582 |
| (Increase) Decrease in Inventory | 17,615 | (5,333) |
| (Increase) Decrease in Prepaid Expenses | 3,792 | (36,323) |
| (Increase) Decrease in Certificates of Equity | (15,130) | (7,770) |
| Increase (Decrease) in Accounts Payable | 126,865 | (5,694) |
| Increase (Decrease) in Accrued Expenses | 62,148 | (2,326) |
| Net Cash Provided by Operating Activities | \$ 2,905,485 | \$ 3,358,310 |
| Non-Cash Investing, Capital & Financing Activities | | |
| Capital Assets Contributed by Developers & State Grants | - | 1,267,372 |
| Capital Assets Included in Accounts Payable at Year End | 305,049 | 50,396 |
| Amortization of Deferred Charges | (19,566) | (17,043) |
| Total Non-Cash Investing, Capital and Financing Activities | 285,483 | 1,300,725 |
| Cash Paid during the year for: | | |
| Interest | \$ 101,638 | \$ 148,351 |

See accompanying notes to financial statements.

CLARKSVILLE LIGHT AND WATER COMPANY

Notes to Financial Statements

September 30, 2010 and 2009

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Reporting Entity

The Clarksville Light and Water Company is a component unit of the City of Clarksville, Arkansas. The Company is governed by a Board of Commissioners appointed by the Mayor and approved by the City Council. The Company is a business-type activity of the City of Clarksville, Arkansas and is responsible for the operation and maintenance of the city-owned electric, water and sewer systems. The Utility renders services to the general public on a user-charge basis. The Board of Commissioners is composed of five members who are appointed for terms of five years on a staggered basis so that only one new member is appointed each year.

(B) Measurement Focus and Basis of Accounting

The accounts of the Utility are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Utility applies all Governmental Accounting Standards Board ("GASB") pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements.

In June of 1999, the Governmental Accounting Standards Board ("GASB") unanimously approved statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*. The accompanying financial statements reflect the changes necessary to implement GASB Statement No. 34.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with the Utility's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

CLARKSVILLE LIGHT AND WATER COMPANY

Notes to Financial Statements

September 30, 2010 and 2009

(C) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures 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.

(D) Receivables and Uncollectible Accounts

Significant receivables include amounts due from customers primarily for utility services. The allowance for uncollectible accounts was \$70,000 and \$70,000 for years ending September 30, 2010 and 2009, respectively. The allowance of uncollectible accounts is based on historical trends and the periodic aging of accounts receivable.

(E) Inventory Valuation

Material and supplies inventories are stated at the average cost.

(F) Capital Assets and Depreciation

Capital assets are assets with an initial value or cost greater than \$1,000 and an estimated useful life of greater than one year. Capital assets are valued at cost. Depreciation is recorded on each class of property utilizing the straight-line method over the estimated useful lives of the assets. Annual rates used for computing depreciation are as follows:

| <u>Assets</u> | <u>Rate</u> |
|------------------------------|-----------------|
| Water and sewer systems | 1.15 - 20.00 % |
| Electric plant in service | 3.03 - 10.00 % |
| Buildings | 3.03 - 10.00 % |
| Transportation equipment | 12.50 - 20.00 % |
| Furniture and fixtures | 10.00 - 20.00 % |
| Maintenance & Shop equipment | 10.00 - 20.00 % |
| Construction equipment | 10.00 - 20.00 % |

CLARKSVILLE LIGHT AND WATER COMPANY

Notes to Financial Statements

September 30, 2010 and 2009

(G) Amortization

Bond discount and deferred bond expense are being amortized on the straight-line method over the life of the bonds.

(H) Cash Flows Statement

For purposes of the statement of cash flows, Clarksville Light and Water Company considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, cash and certificates of deposits to be cash equivalents.

(I) Income Taxes

As a municipally owned utility, the Utility is exempt from federal and state income taxes.

(J) Contributions

Contributions by developers reflect capital assets contributed by developers for improvements and extensions of Utility assets. Contributed property is recorded at fair value at the date of contribution.

For 2009, three capital projects for improvement and extension of Utility assets were financed by state grants received and/or contributions of cash or services by the Utility and private businesses. There were no contributions by developers or grants received in 2010.

(K) Capitalized Interest

The Company capitalizes interest costs as part of the cost of constructing various electric, water and sewer projects when material. No interest was capitalized for the years ended September 30, 2010 or 2009.

(L) Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the Company. Generally, after one year of service, employees are entitled to all accrued vacation leave upon termination. The estimated current portion of the liability for vested vacation attributable to the Company's funds is recorded as an expense and liability.

CLARKSVILLE LIGHT AND WATER COMPANY

Notes to Financial Statements

September 30, 2010 and 2009

For sick leave, employees with more than six months employment are allowed to accrue 12 working days in a calendar year up to a maximum of 60 working days. Employees who accumulate 240 hours (30 working days) of sick leave may opt to take sick leave to take immediate family members to doctor appointments or care for sick family members. This sick leave cannot exceed 16 consecutive hours away from work, and ends upon employees account being drawn down to 240 hours. Employees who have accumulated 480 hours of sick leave may elect to sell back a 40 hour block of sick leave at 50% of his/her current hourly rate. Upon voluntary termination, earned but unused sick leave in excess of 240 hours is paid at 50% of the wage in effect at the time of termination. Due to this policy change, accrued sick leave payable over 240 hours is accrued at 50% of the employees current pay rate. Since the employee's accumulating rights to receive compensation for future absences for hours fewer than 240 are contingent upon the absences caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

(2) CASH AND INVESTMENTS

The Company follows GASB Statement 3 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement 40, *Deposit and Investment Risk Disclosure*. The investments and deposits are stated at fair values.

(A) Deposits

All monies received by the Company shall be deposited by it in such a depository or depositories, as may be lawfully designated from time to time by the Board of Commissioners; subject, however, to the giving of security as now or as hereafter may be required by law, and provided that such depositories shall hold membership in the Federal Deposit Insurance Corporation. The bank balances and carrying amounts of the Company's deposits held as of September 30, 2010 were as follows:

| Description | Bank Balance | Carrying Amount |
|-------------------------|----------------------|----------------------|
| Cash on Hand | \$ - | \$ 650 |
| Demand Deposits | 8,672,677 | 8,481,837 |
| Certificates of Deposit | 8,115,510 | 8,034,920 |
| | <u>\$ 16,788,187</u> | <u>\$ 16,517,407</u> |

CLARKSVILLE LIGHT AND WATER COMPANY

Notes to Financial Statements

September 30, 2010 and 2009

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. The Company's policy is that deposits be insured or collateralized at a minimum of 100% of the deposits fair value. As of September 30, 2010, the Company's bank balance was \$16,788,187.

| | |
|---|----------------------|
| Insured - FDIC | \$ 408,596 |
| Collateralized: | |
| Collateral held by the pledging bank's trust department or agent in the Company's name | 16,379,591 |
| Uninsured and uncollateralized | - |
| | <u>\$ 16,788,187</u> |

(B) Investments

No investments were held by the Company as of September 30, 2010 and 2009.

(3) RESTRICTED FUNDS

When both restricted and unrestricted resources are available for use, generally it is the Company's policy to use unrestricted resources first and to transfer restricted funds as needed. For projects funded by tax-exempt debt proceeds, the debt proceeds are used first. Certain resources of the Company, set aside for the repayment of the Company's revenue bonds, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

| | <u>2010</u> | <u>2009</u> |
|--------------------------------------|---------------------|---------------------|
| Depreciation fund | | |
| Checking Account | \$ 1,635,506 | \$ 4,111,784 |
| Certificates of Deposit | 3,500,000 | 840,445 |
| 2008 Utility Refunding Revenue Bonds | | |
| Checking Account | 554,319 | 2,791,314 |
| Certificates of Deposit | 750,000 | 240,000 |
| | <u>\$ 6,439,825</u> | <u>\$ 7,983,543</u> |

CLARKSVILLE LIGHT AND WATER COMPANY

Notes to Financial Statements

September 30, 2010 and 2009

(4) MAJOR CUSTOMERS

The following tables set forth the major customers and suppliers for Clarksville Light & Water Company for the years ended September 30, 2010 and 2009. Amounts are presented in dollars and percent of totals. Accounts receivable from the following customers represent 42% and 44% of total accounts receivable as of September 30, 2010 and 2009.

| Customer | Year Ended 9/30/2010 | | Year Ended 9/30/2009 | |
|--|----------------------|---------------------|----------------------|---------------------|
| | \$ Gross Revenues | % of Total Revenues | \$ Gross Revenues | % of Total Revenues |
| Tyson Foods | \$5,552,919 | 22% | \$ 5,556,352 | 23% |
| Hanesbrand, Inc. | 3,700,116 | 15% | 3,848,467 | 16% |
| Wal-Mart Supercenter and Distribution Center | 2,082,988 | 8% | 2,098,454 | 8% |
| Totals | \$11,336,023 | 45% | \$11,503,273 | 47% |

(5) MAJOR SUPPLIERS

| Supplier | Year Ended 9/30/2010 | | Year Ended 9/30/2009 | |
|--|-------------------------------------|------------------|-------------------------------------|------------------|
| | \$ Power Purchases | % of Total Power | \$ Power Purchases | % of Total Power |
| Western Farmers Electric | \$4,294,941 | 29.16% | \$ 7,866,023 | 54.60% |
| Independence County | 4,114,072 | 27.93% | 4,028,004 | 27.96% |
| Southwestern Power Administration | 2,528,597 | 17.17% | 2,513,807 | 17.44% |
| Oklahoma Municipal Power Association | 3,792,497 | 25.74% | - | - |
| Total | 14,730,107 | 100.00% | 14,407,834 | 100.00% |
| Total Power Purchased to Direct Operating Expenses | <u>\$14,730,107</u> \$20,832,415 | 70.71% | <u>\$14,407,834</u> \$20,441,405 | 70.48% |

CLARKSVILLE LIGHT AND WATER COMPANY

Notes to Financial Statements

September 30, 2010 and 2009

(6) CAPITAL ASSETS

| | Balance 9/30/09 | Additions | Deletions | Balance 9/30/10 |
|--|----------------------|---------------------|-----------------------|----------------------|
| Nondepreciable Assets | | | | |
| Land - Electric | \$ 154,559 | \$ - | \$ - | \$ 154,559 |
| Land - Water | 195,206 | 14,181 | - | 209,387 |
| Land - Sewer | 216,214 | - | - | 216,214 |
| Construction in Progress - Electric | 196,006 | 680,221 | (748,853) | 127,374 |
| Construction in Progress - Water | 472,881 | 1,163,621 | (1,087,905) | 548,597 |
| Construction in Progress - Sewer | - | 31,030 | (31,030) | - |
| Total Nondepreciable Assets | 1,234,866 | 1,889,053 | (1,867,788) | 1,256,131 |
| Depreciable Assets | | | | |
| Office Building | 1,146,759 | - | - | 1,146,759 |
| Buildings - Electric | 36,629 | - | - | 36,629 |
| Warehouse | 1,082,109 | 150,195 | - | 1,232,304 |
| Electric System | 22,841,009 | 748,853 | - | 23,589,862 |
| Water System | 34,995,746 | 1,094,559 | - | 36,090,305 |
| Sewer System | 13,651,021 | 74,048 | - | 13,725,069 |
| Transportation Equipment | 1,399,727 | 70,313 | (14,829) | 1,455,211 |
| Generation Equipment | 822,963 | - | - | 822,963 |
| Office Equipment | 770,293 | 54,148 | - | 824,441 |
| Lab Equipment | 56,386 | 2,928 | - | 59,314 |
| Construction Equipment | 648,386 | 46,093 | (41,734) | 652,745 |
| Maintenance Equipment | 707,075 | 49,250 | - | 756,325 |
| Plant & Shop Equipment | 341,658 | 73,270 | - | 414,928 |
| Total Depreciable Assets | 78,499,761 | 2,363,657 | (56,563) | 80,806,855 |
| Total Assets at Historical Cost | 79,734,627 | 4,252,710 | (1,924,351) | 82,062,986 |
| Less: Accumulated Depreciation | (41,288,704) | (3,184,108) | 53,086 | (44,419,726) |
| Total Capital Assets, Net | \$ 38,445,923 | \$ 1,068,602 | \$ (1,871,265) | \$ 37,643,260 |

CLARKSVILLE LIGHT AND WATER COMPANY

Notes to Financial Statements

September 30, 2010 and 2009

Depreciation expense was charged to departments as follows:

| | | | |
|----------------------------|----------------------------|------------|---------------------|
| Depreciation Expense | - Direct Operating Expense | - Electric | \$ 910,386 |
| Depreciation Expense | - Direct Operating Expense | - Water | 1,691,281 |
| Depreciation Expense | - Direct Operating Expense | - Sewer | 473,267 |
| Generation Costs | - Direct Operating Expense | - Electric | 41,145 |
| Depreciation Expense | - General & Administrative | - Electric | 22,681 |
| Depreciation Expense | - General & Administrative | - Water | 22,674 |
| Depreciation Expense | - General & Administrative | - Sewer | 22,674 |
| Total Depreciation Expense | | | <u>\$ 3,184,108</u> |

(7) LONG-TERM DEBT

2008 Utility Refunding Revenue Bonds

These bonds are special obligations payable solely from the revenues derived from the operation of the Clarksville Light and Water Company and collateralized by a pledge of the net revenues of the system. These bonds were issued for current refunding of the 2001 Utility Revenue Refunding and Construction Bonds for the City of Clarksville, Arkansas. Interest rates range from 3.1 to 4.1 percent.

Long-Term Debt Schedule

| | Balance | | | Balance | Amounts |
|------------------------|---------------------|-------------|---------------------|---------------------|-------------------|
| | 9/30/2009 | Additions | Deletions | 9/30/2010 | Due In |
| | | | | | One Year |
| 2008 Utility Refunding | | | | | |
| Revenue Bonds | \$ 3,670,000 | \$ - | \$ 2,225,000 | \$ 1,445,000 | \$ 345,000 |
| | <u>\$ 3,670,000</u> | <u>\$ -</u> | <u>\$ 2,225,000</u> | <u>\$ 1,445,000</u> | <u>\$ 345,000</u> |

CLARKSVILLE LIGHT AND WATER COMPANY

Notes to Financial Statements

September 30, 2010 and 2009

Summary of Long-Term Debt

| | <u>2010</u> | <u>2009</u> |
|--|---------------------|---------------------|
| 2008 Utility Refunding Revenue Bonds | \$ 1,445,000 | \$ 3,670,000 |
| Less: Discounts and loss on advanced refunding | (68,858) | (86,501) |
| Less: Current Portion | <u>(345,000)</u> | <u>(340,000)</u> |
| | <u>\$ 1,031,142</u> | <u>\$ 3,243,499</u> |

Long-term debt and interest maturing in the next five years and after consists of:

| | Principal | Interest |
|------|---------------------|-------------------|
| 2011 | \$ 345,000 | \$ 50,266 |
| 2012 | 355,000 | 38,880 |
| 2013 | 365,000 | 26,456 |
| 2014 | <u>380,000</u> | <u>13,680</u> |
| | <u>\$ 1,445,000</u> | <u>\$ 129,282</u> |

On April 10, 2008, Clarksville Light & Water Company issued \$4.1 million in Revenue Bonds with interest rates ranging from 3.1% to 4.1% to refund the 2001 Revenue Bonds with interest rates ranging from 4.05% to 4.8%. The net proceeds, plus additional funds were deposited with an escrow agent to provide for the retirement of the 2001 bonds which were retired in April, 2008.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$96,349. This difference reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2014 using the straight-line method. The economic gain (difference between the present values of the old and new debt service payments) is \$194,661.

(8) RELATED PARTIES

The Utility provides utility services to the City of Clarksville, Arkansas. These utility services are recorded as revenue, and then expensed as services to the City. Amounts included as revenue and expensed as services to the City for utilities for the years ended September 30, 2010 and 2009 are \$258,038 and \$238,818, respectively. They also provided other services to the city which are expensed as services to the City for September 30, 2010 and 2009 of \$138,818 and \$170,838, respectively.

CLARKSVILLE LIGHT AND WATER COMPANY

Notes to Financial Statements

September 30, 2010 and 2009

(9) EARLY RETIREMENT

Clarksville Light & Water adopted an early retirement policy on October 18, 1999. The primary purpose of this early retirement policy is to bridge the gap from retirement to Social Security and Medicare eligibility. It is in addition to any benefits available from the pension plan. Disability retirement, which is covered by its own provisions, is excluded from parts (A) and (B) below. The Clarksville Light & Water Commission may amend or rescind this policy at its sole discretion without liability to any active employee.

Employees, age 59 or older, with a minimum of 10 years service, may elect retirement under provisions of this policy. Benefits begin the first day of the month following retirement and are payable monthly, by the fifteenth day of the month. These benefits do not apply to the spouse of an employee and do not transfer to an heir at the time of death.

(A) The monthly benefit to Social Security eligibility at age 62 is one-twelfth the annual benefit computed as the product of:

- Annual Wages at Retirement (computed as regular hourly rate x 2,080 hours)
- Benefit Factor (defined as 1.25%)
- Years of Service at Date of Retirement

(B) Health insurance coverage to Medicare eligibility at age 65 will be provided for the retiree. He may elect to pay the difference in cost to carry a family plan rather than single coverage. If a retiree declines coverage, or if the Company's group health insurance policy does not permit continuation of coverage for retirees, the cost of single coverage as of the date of retirement may be paid directly to the retiree on a monthly basis.

If coverage is initially provided and later terminated because of changes to health insurance policy, the benefit payable to the retiree will be the amount paid for single coverage at the time of the change.

Currently, two employees meet the eligibility requirements for early retirement benefits. The expenditures for early retirement benefits were \$16,797 for the year ended September 30, 2010. Three retirees met eligibility requirements for health insurance coverage and elected to participate. The expenditures for health insurance coverage for retirees participating were \$7,984. The cost of early retirement benefits have not been material to the financial statements and are not expected to be in the future. No actuarial valuation has been estimated.

CLARKSVILLE LIGHT AND WATER COMPANY

Notes to Financial Statements

September 30, 2010 and 2009

(10) DEFINED BENEFIT PLAN

The Clarksville Light & Water Company Retirement Plan with Life Insurance is a single-employer defined benefit plan controlled by the provisions of the city of Clarksville, Arkansas. The Plan is governed by the city of Clarksville, Arkansas which may amend plan provisions, and which is responsible for the management of plan assets. The city of Clarksville, Arkansas has delegated the authority to manage certain plan assets to Principal Life Insurance Company. The Plan covers substantially all full-time employees who have completed at least one year of service. The normal retirement benefit is a monthly annuity guaranteed for five years and life thereafter after the later of attaining age 65 or five years after the plan entry date. The monthly annuity is 60% of average compensation multiplied by short service percentage, multiplied by accrued benefit adjustment as defined in the plan. The Plan also provides for the greater of a survivor annuity death benefit or whole life insurance death benefit. The Plan does not have a stand-alone report.

The Plan requires employee contributions of 2.5% of compensation. The Company contributions are determined based on actuarial valuations as to the amounts required to fund benefits under the plan.

Annual required contributions for the Company's defined benefit pension plan as reported by The Principal Financial Group for the years ended February 1, 2010, 2009, and 2008 are as follows:

| | 2010 | 2009 | 2008 |
|------------------------------|-------------|-------------|-------------|
| Annual Required Contribution | \$ 228,329 | \$ 215,921 | \$ 252,035 |
| Contributions Made | \$ 228,329 | \$ 215,921 | \$ 299,396 |
| Percentage Contributed | <u>100%</u> | <u>100%</u> | <u>119%</u> |

For 2010, the Company's required contribution was determined as part of the February 1, 2010 annual actuarial valuation using the aggregate actuarial cost method and the 2010 IRS Prescribed Mortality-Optional Combined Table for Small Plans, male and female. The actuarial assumptions included (a) 5.5% valuation interest (net of investment expense) and (b) projected salary increases ranging from 4.38% to 7.60%.

CLARKSVILLE LIGHT AND WATER COMPANY
Notes to Financial Statements
September 30, 2010 and 2009

Historical trend information about the plan is presented herewith as required supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other retirement plans.

| Actuarial Valuation Date | (1) Actuarial Value of Assets | (2) Actuarial Accrued Liability (AAL) | (3) Unfunded AAL (UAAL) (2)-(1) | (4) Funded Ratio (1)/(2) | (5) Annual Covered Payroll | (6) UAAL As a % of Payroll [(2)-(1)]/(5) |
|--------------------------------|--|---|---|-----------------------------------|-------------------------------------|---|
| 02/01/10 | \$ 2,705,782 | \$ 4,209,686 | \$ 1,503,904 | 64% | \$ 2,667,122 | 56% |
| 02/01/09 | \$ 2,310,227 | \$ 3,651,657 | \$ 1,341,293 | 63% | \$ 2,651,118 | 51% |
| 02/01/08 | \$ 1,932,227 | \$ 3,224,167 | \$ 1,311,940 | 60% | \$ 2,566,235 | 50% |

Prior to the adoption of GASB 50, GASB 25 and 27 defined the Actuarial Accrued Liability under the Aggregate method to be equal to the Actuarial Value of the Assets. Subsequent to the adoption of GASB 50 for periods after June 15, 2007, funded status information is prepared using the entry age actuarial cost method. The actuarial value of the assets is contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses. Funds under the contract that have been allocated and applied to purchase annuities are excluded from the Plan's assets. The information presented is intended to serve as a surrogate for the funded status and funding progress of the Plan.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the accrued liability as a factor. The actuarial valuation assumptions used in this report differ from those used in previous years. This year the mortality, salary scale, and withdrawal assumptions were updated. These assumptions were change to better reflect the anticipated experience of the Plan.

Analysis of the dollar amount of the actuarial value of assets, accrued liability, and unfunded accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the accrued liability (column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the plan is becoming financially stronger or weaker, generally, the greater this percentage, the stronger the plan.

CLARKSVILLE LIGHT AND WATER COMPANY

Notes to Financial Statements

September 30, 2010 and 2009

Trends in unfunded accrued liability and annual covered payroll are both affected by inflation. Expressing unfunded accrued liability as a percentage of annual covered payroll (column 6) approximately adjusts for the effects of inflation and aids analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded accrued liability, the smaller this percentage, the stronger the plan.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations, if applicable.

(11) DEFINED CONTRIBUTION PLAN

The Clarksville Light & Water Company 457(b) Plan, administered by July Business Services, is a defined contribution plan which covers substantially all employees who elect to participate who have completed at least six months of service. The Company does not contribute to the plan. Participant's salary reduction contributions require a minimum of \$20 per pay period. Modifications to salary reductions may be made quarterly. Age 50 catch-up contributions are allowed. The plan does not permit salary reduction contributions from accumulated sick pay, accumulated vacation pay or back pay.

The Company has the right at any time and from time to time to amend this Plan and Trust Agreement and its Adoption Agreement in any manner it deems necessary or advisable in order to continue the status of this Plan as an Eligible 457 Plan; and to amend this Plan and Trust Agreement and its Adoption Agreement in any other manner, including deletion, substitution or modification of any Plan, Trust or Adoption Agreement provision.

Contributions made by plan members for fiscal year 2010 is \$75,643 and for 2009 is \$53,850.

CLARKSVILLE LIGHT AND WATER COMPANY

Notes to Financial Statements

September 30, 2010 and 2009

(12) PENDING LITIGATION

This matter involves litigation over a Power Supply Agreement (Agreement) between Independence County, Arkansas and the City of Clarksville, Arkansas (the Parties). The Parties had entered into an agreement whereby Clarksville Light and Water agreed to purchase power from the White River Hydroelectric Plant, which is owned by Independence County. Because of the physical condition of the plant and its failure to achieve production output per contract requirements, the City of Clarksville exercised its right to cancel the Agreement per its terms on August 4, 2010, by providing Notice to Independence County of the cancellation of the Agreement effective November 1, 2010. Independence County filed a lawsuit in Johnson County Circuit Court on September 14, 2010, requesting the Clarksville Light & Water be required to enter into Arbitration with Independence County. This filing made by Independence County in Johnson County Circuit Court was in the form of a Motion to Compel Arbitration. Clarksville Light & Water disagreed with this assessment and filed a Response stating that Clarksville Light & Water is and was not required to Arbitrate because it had lawfully and rightfully terminated the Agreement per its terms. The Court agreed with Clarksville Light and Water and entered a ruling and order in favor of Clarksville Light and Water on December 6, 2010, ruling that Clarksville Light & Water rightfully terminated the agreement and has no obligation to Arbitrate. Independence County filed a Notice of Appeal on December 7, 2010 of which this matter is currently pending before the Arkansas Court of Appeals. This matter involves potential monetary claims that have not been precisely calculated. The monetary claims are basically overcharges by Independence County in its sale of wholesale electric power to Clarksville Light & Water. Independence County maintains that Clarksville Light & Water is bound by the Agreement per its terms to purchase the entire output of the White River Hydroelectric Project under a rate methodology with which Clarksville Light & Water does not agree.

(13) SUBSEQUENT EVENTS

Subsequent events have been reviewed through January 31, 2011 which is the date that the financial statements were available to be issued.

CLARKSVILLE LIGHT AND WATER COMPANY

DEPARTMENTAL INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2010

CLARKSVILLE LIGHT & WATER COMPANY
 Departmental Statement of Revenues and Expenses
 For the Year Ended September 30, 2010

| | Electric | Water | Sewer | Total |
|--|---------------|--------------|--------------|---------------|
| Operating Revenue | | | | |
| Electric | \$ 19,190,495 | \$ - | \$ - | \$ 19,190,495 |
| Water | - | 3,924,903 | - | 3,924,903 |
| Sewer | - | - | 1,883,689 | 1,883,689 |
| Total Operating Revenue | 19,190,495 | 3,924,903 | 1,883,689 | 24,999,087 |
| Direct Operating Expenses | 16,780,269 | 2,845,258 | 1,206,888 | 20,832,415 |
| Operating Revenue less | | | | |
| Direct Operating Expenses | 2,410,226 | 1,079,645 | 676,801 | 4,166,672 |
| General and Administrative Expenses | 1,861,721 | 1,385,646 | 1,140,794 | 4,388,161 |
| Operating Income (Loss) | 548,505 | (306,001) | (463,993) | (221,489) |
| Non-Operating Revenue (Expenses) | | | | |
| Interest Income | 81,178 | 81,812 | 81,178 | 244,168 |
| Interest Expense | (2,972) | (84,836) | (374) | (88,182) |
| Amortization | - | (36,569) | - | (36,569) |
| Total Non-Operating Revenue (Expenses) | 78,206 | (39,593) | 80,804 | 119,417 |
| Income (Loss) before contributions & transfers | \$ 626,711 | \$ (345,594) | \$ (383,189) | \$ (102,072) |

CLARKSVILLE LIGHT & WATER COMPANY
 Schedule of Direct Operating Expenses
 For the Year Ended September 30, 2010

| | <u>Electric</u> | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
|------------------|----------------------|---------------------|---------------------|----------------------|
| Depreciation | \$ 910,386 | \$ 1,691,281 | \$ 473,267 | \$ 3,074,934 |
| Fuel | 27,065 | 21,192 | 21,957 | 70,214 |
| Generation Costs | 46,641 | - | - | 46,641 |
| Labor | 171,026 | 471,185 | 361,061 | 1,003,272 |
| Maintenance | 891,208 | 161,886 | 114,491 | 1,167,585 |
| Power Purchased | 14,730,107 | - | - | 14,730,107 |
| Supplies | - | 212,155 | 70,288 | 282,443 |
| Utilities | 179 | 285,678 | 164,790 | 450,647 |
| Use Tax | 3,657 | 1,881 | 1,034 | 6,572 |
| Total | <u>\$ 16,780,269</u> | <u>\$ 2,845,258</u> | <u>\$ 1,206,888</u> | <u>\$ 20,832,415</u> |

CLARKSVILLE LIGHT & WATER COMPANY
 Schedule of General and Administrative Expense
 For the Year Ended September 30, 2010

| | Electric | Water | Sewer | Total |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|
| Advertising and Promotion | \$ 3,713 | \$ 3,830 | \$ 3,273 | \$ 10,816 |
| Bad Debts | 35,167 | 7,088 | 3,428 | 45,683 |
| Depreciation and Amortization | 22,681 | 22,674 | 22,674 | 68,029 |
| Dues and Subscriptions | 25,388 | 8,919 | 13,265 | 47,572 |
| Education, Travel, and Meetings | 19,025 | 9,914 | 9,843 | 38,782 |
| Employee Benefits | 210,050 | 210,026 | 148,271 | 568,347 |
| Fuel | 2,711 | 2,711 | 2,711 | 8,133 |
| Insurance | 57,269 | 48,326 | 29,395 | 134,990 |
| Inventory Variances | (522) | 637 | (134) | (19) |
| Lab Fees and Tests | 6,478 | 890 | 21,317 | 28,685 |
| Labor | 522,093 | 522,420 | 367,121 | 1,411,634 |
| Maintenance | 211,393 | 174,173 | 220,165 | 605,731 |
| Miscellaneous | 5,692 | 6,318 | 10,719 | 22,729 |
| Office Supplies | 19,343 | 18,530 | 18,350 | 56,223 |
| Payroll Taxes | 89,975 | 84,078 | 58,468 | 232,521 |
| Pension | 88,496 | 88,496 | 62,186 | 239,178 |
| Professional Services | 152,125 | 34,693 | 13,933 | 200,751 |
| Services to City | 296,283 | 47,899 | 52,674 | 396,856 |
| Supplies | 46,093 | 45,629 | 40,266 | 131,988 |
| Uniforms | 19,055 | 10,356 | 11,070 | 40,481 |
| Utilities | 29,213 | 38,039 | 31,799 | 99,051 |
| Total | <u>\$ 1,861,721</u> | <u>\$ 1,385,646</u> | <u>\$ 1,140,794</u> | <u>\$ 4,388,161</u> |

CLARKSVILLE LIGHT AND WATER COMPANY

DEPARTMENTAL INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2009

CLARKSVILLE LIGHT & WATER COMPANY
 Departmental Statement of Revenue and Expenses
 For the Year Ended September 30, 2009

| | Electric | Water | Sewer | Total |
|----------------------------|-------------------|---------------------|---------------------|-------------------|
| Operating Revenue | | | | |
| Electric | \$ 18,929,407 | \$ - | \$ - | \$ 18,929,407 |
| Water | - | 3,826,298 | - | 3,826,298 |
| Sewer | - | - | 1,818,264 | 1,818,264 |
| Total Operating Revenue | <u>18,929,407</u> | <u>3,826,298</u> | <u>1,818,264</u> | <u>24,573,969</u> |
| Direct Operating Expenses | <u>16,518,196</u> | <u>2,771,554</u> | <u>1,151,655</u> | <u>20,441,405</u> |
| Operating Revenue less | | | | |
| Direct Operating Expenses | 2,411,211 | 1,054,744 | 666,609 | 4,132,564 |
| General and Administrative | | | | |
| Expenses | <u>1,595,601</u> | <u>1,235,864</u> | <u>964,971</u> | <u>3,796,436</u> |
| Operating Income (Loss) | <u>815,610</u> | <u>(181,120)</u> | <u>(298,362)</u> | <u>336,128</u> |
| Non-Operating | | | | |
| Revenue (Expenses) | | | | |
| Interest Income | 136,135 | 144,187 | 136,135 | 416,457 |
| Interest Expense | (2,608) | (143,928) | (342) | (146,878) |
| Amortization | - | (17,043) | - | (17,043) |
| Total Non-Operating | <u>133,527</u> | <u>(16,784)</u> | <u>135,793</u> | <u>252,536</u> |
| Income (Loss) before | | | | |
| contributions | <u>\$ 949,137</u> | <u>\$ (197,904)</u> | <u>\$ (162,569)</u> | <u>\$ 588,664</u> |

CLARKSVILLE LIGHT & WATER COMPANY
 Schedule of Direct Operating Expenses
 For the Year Ended September 30, 2009

| | <u>Electric</u> | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
|------------------|----------------------|---------------------|---------------------|----------------------|
| Depreciation | \$ 924,095 | \$ 1,625,321 | \$ 426,194 | \$ 2,975,610 |
| Fuel | 26,015 | 14,481 | 15,951 | 56,447 |
| Generation Costs | 48,890 | - | - | 48,890 |
| Labor | 260,508 | 454,306 | 382,956 | 1,097,770 |
| Maintenance | 845,587 | 154,065 | 115,662 | 1,115,314 |
| Power Purchased | 14,407,834 | - | - | 14,407,834 |
| Supplies | 978 | 254,285 | 50,137 | 305,400 |
| Utilities | 176 | 266,043 | 159,920 | 426,139 |
| Use Tax | 4,113 | 3,053 | 835 | 8,001 |
| Total | <u>\$ 16,518,196</u> | <u>\$ 2,771,554</u> | <u>\$ 1,151,655</u> | <u>\$ 20,441,405</u> |

CLARKSVILLE LIGHT & WATER COMPANY
 Schedule of General and Administrative Expense
 For the Year Ended September 30, 2009

| | Electric | Water | Sewer | Total |
|---------------------------------|---------------------|---------------------|-------------------|---------------------|
| Advertising and Promotion | \$ 3,162 | \$ 3,935 | \$ 3,298 | \$ 10,395 |
| Bad Debts | 43,287 | 8,432 | 4,501 | 56,220 |
| Depreciation and Amortization | 21,716 | 21,716 | 21,716 | 65,148 |
| Dues and Subscriptions | 25,890 | 10,459 | 14,899 | 51,248 |
| Education, Travel, and Meetings | 9,102 | 8,288 | 7,793 | 25,183 |
| Employee Benefits | 196,740 | 196,863 | 137,520 | 531,123 |
| Fuel | 2,711 | 2,711 | 2,711 | 8,133 |
| Insurance | 63,996 | 53,755 | 33,033 | 150,784 |
| Inventory Variances | 2,207 | (2,491) | (264) | (548) |
| Lab Fees and Tests | 3,486 | 700 | 18,856 | 23,042 |
| Labor | 478,663 | 478,663 | 336,090 | 1,293,416 |
| Maintenance | 152,683 | 136,129 | 117,356 | 406,168 |
| Miscellaneous | 2,201 | 3,621 | 5,368 | 11,190 |
| Office Supplies | 18,608 | 18,939 | 18,490 | 56,037 |
| Payroll Taxes | 85,562 | 75,339 | 58,082 | 218,983 |
| Pension | 82,888 | 82,888 | 58,290 | 224,066 |
| Professional Services | 26,694 | 21,473 | 11,416 | 59,583 |
| Services to City | 314,504 | 45,382 | 49,771 | 409,657 |
| Supplies | 23,870 | 21,999 | 26,484 | 72,353 |
| Uniforms | 8,868 | 10,085 | 10,658 | 29,611 |
| Utilities | 28,763 | 36,978 | 28,903 | 94,644 |
| Total | <u>\$ 1,595,601</u> | <u>\$ 1,235,864</u> | <u>\$ 964,971</u> | <u>\$ 3,796,436</u> |



King Jacobs Gresham & Lorfing

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Since 1958

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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 Board of Commissioners
Clarksville Light & Water Company
City of Clarksville, Arkansas

We have audited the financial statements of the Clarksville Light & Water Company, a component unit of the City of Clarksville, Arkansas, as of and for the year ended September 30, 2010, and have issued our report thereon dated January 31, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clarksville Light & Water Company's, a component unit of the City of Clarksville, Arkansas, internal control over financial reporting as a basis for designing our auditing procedures 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 Clarksville Light & Water Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Clarksville Light & Water Company's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clarksville Light & Water Company's, a component unit of the City of Clarksville, Arkansas, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

King Jacobs Gresham & Lorfing, CPAs, PA
King, Jacobs, Gresham & Lorfing, CPAs, P.A.

Clarksville, Arkansas
January 31, 2011