

**CLARKSVILLE LIGHT & WATER COMPANY**

**Independent Auditors' Report**

**And**

**Financial Statements**

**September 30, 2018 and 2017**

**CLARKSVILLE LIGHT AND WATER COMPANY**  
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# King Jacobs Gresham & Lorfing

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Since 1958

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on Financial Statements**

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, 2018 and 2017 and the related notes to the financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Basis for Qualified Opinion**

The Clarksville Light and Water Company Retirement Plan with Life Insurance, a defined benefit plan, was not audited. Therefore, we were unable to obtain sufficient appropriate audit evidence regarding the Net Pension Liability and related disclosures.

## Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, 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, 2018 and 2017, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 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.

### Other Information

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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

## Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2019 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* in considering Clarksville Light & Water Company's internal control over financial reporting and compliance.

King Jacobs Gresham & Lorfing, CPAs, PA

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

January 28, 2019



# King Jacobs Gresham & Lorfing

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**INDEPENDENT AUDITORS' 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***

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

We have audited the financial statements and the related notes of the Clarksville Light & Water Company, a component unit of the City of Clarksville, Arkansas, as of and for the year ended September 30, 2018, and have issued our report thereon dated January 28, 2019. 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 of the financial statements, we considered Clarksville Light & Water Company's, a component unit of the City of Clarksville, Arkansas, internal control over financial reporting (internal control) to determine the 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 effectiveness of Clarksville Light & Water Company's internal control. Accordingly, we do not express an opinion on the effectiveness of Clarksville Light & Water Company's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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 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 that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

#### Purpose of this Report

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.

King Jacobs Gresham & Lorfing, CPAs, PA

King, Jacobs, Gresham & Lorfing, CPAs, P.A.  
Clarksville, Arkansas  
January 28, 2019



## Management Discussion and Analysis 2018

### Clarksville Light & Water

#### **Background**

Clarksville Light & Water Company is owned by the City of Clarksville, Arkansas. The history of the utility goes back to 1913 when the electric, water and sewerage operations started providing utility services to the community. At the time, Clarksville was considered one of the most progressive towns in Arkansas. CLW's current governing structure was established 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. That tradition continues today with Clarksville Light & Water and the current commissioners are: Cody Black, Eddie Lindsey, Margot McCleod, Bendex Stephenson, and Christel Thompson.

#### **Customers**

Clarksville Light & Water Company presently serves approximately 4,500 residences and businesses within the Clarksville city limits, providing electricity, water, wastewater treatment services, and CLW has begun to provide data transport services within the community via its fiber optic network. Additionally, water is supplied on a wholesale basis to the cities of Coal Hill, Lamar, Hartman, Knoxville, and Scranton as well as to Horsehead, Ludwig and East Johnson County water associations.

#### **Sales**

Clarksville Light & Water Company's total annual revenues for fiscal year 2018 were \$27,637,084 which was 4.7% higher or \$1,243,910 more than the previous year. Electric revenues for 2018 were \$20,235,394 up by 5.6% a total of \$1,079,823 in residential, commercial, and industrial accounts. Electricity kilowatt hours sold during 2018 were 243,516,173 up 1.0 % to compared to 241,116,430 kilowatt hours the previous year. This resulted in electric net income of \$182,658 for the year. The 2018 results were generally a result of normal weather patterns in our regions which includes both temperatures and rainfall. Temperatures impact customer energy consumption and with our hydropower contracts with the Southwestern Power Administration heavy rainfalls mean additional low-cost supplemental energy.

Water revenues were \$5,177,265 up \$107,159 (2.1%). Water sold during 2018 was up to 1,913,534,768 gallons from 1,890,124,062 gallons in 2017. This was a 1.2% increase from the previous year. Currently the plant's capacity is 16 million gallons per day (MGD) after the completion of a recent expansion project and much of the facility is capable of 24 MGD with some additional investments at a future point. Sewer revenues were \$2,224,425 up by \$208,854.89 (2.6%) in 2018 vs. 2017.

## **ABOUT THE ELECTRIC UTILITY**

### **Wholesale Power Providers**

Clarksville's largest power provider Oklahoma Municipal Power Authority (OMPA) furnished approximately 63%, down from 65% in 2017, of Clarksville Light & Water Company's power purchases. In addition to the purchase of energy, OMPA provides ancillary services to Clarksville Light & Water Company by scheduling, tagging, balancing, and performing other tasks in accordance with the Southwest Power Pool (SPP) transmission and generation requirements. OMPA is a joint action agency formed by the Oklahoma legislature in 1981 specifically to provide power for municipal utilities across Oklahoma. Clarksville and Paris, Arkansas are OMPA's only Arkansas customers. Joint action allows for the collective resources to be pooled related to generation facilities and power contracts to the benefit of individual members.

Clarksville Light & Water Company continues to receive hydro peaking power from the Southwestern Power Administration (SWPA) and supplemental energy, comprising approximately 15% in 2018 which matched the previous fiscal year. One discussion point near the end of the year related to SWPA was our electric transmission service. Historically CLW has had two contracts with SWPA and that was for power supply and transmission. During the latter part of 2018 we have changed our transmission contract from a "Point to Point (PTP)" type service from SWPA to a "Network Integrated Transmission Service (NITS)". The reason for the move was related to changing market conditions related to transmission service whereas ultimately the cost of transmission would be lowered in an estimated \$400,000 a year savings to upwards of \$800,000 a year. During this reporting period CLW did begin to take transmission service from the Southwest Power Pool beginning the month of September and the first month produced a 30% drop in the transmission expense.

The third supplier, Independence County Hydroelectric, currently furnished approximately 19% of the supply in 2018 up 3% from 2017, of Clarksville Light & Water Company's power purchased. These 'run of the river' units near Batesville, Arkansas have significantly improved their power production and reliably compared to previous years following some major capital improvements. A renegotiated contract extending the support included performance benchmarks built into the contract to incent the provider to keep up production levels.

In last year's report, it was noted CLW entered into an additional power supply agreement with Scenic Hill Solar (SHS). The power plant become operational on December, 23 2017 and provided 8,782,844 to CLW by the end of September 2018. The estimated generation of the solar plant during a full fiscal year is estimated to be nearly 11,000,000 kilowatts, which means this additional supply would equal approximately 5% of the CLW overall supply. The capacity of the existing plant is 5.3 MW AC. When OMPA granted permission for CLW to add solar our portfolio they gave Clarksville the ability to add 7 MW of capacity. The arrangement between SHS and CLW included four key elements. First, CLW purchased 42 acres of property inside the city limits that was already zoned C3 where the power plant would be constructed. Second, CLW entered into a long-term property lease with SHS, where the solar facility would be interconnected directly to the CLW electric distribution system. The third element of the agreement was that CLW would agree to purchase 100% of the energy produced by power plant

at a fixed price for the next 28 years via a PPA. The PPA was for a fixed price a \$55 a MW for the next 28 years. The final and maybe the most impactful in this agreement with SHS was the pre-negotiated price for CLW to purchase the plant after the tax credits have been fully monetized by SHS. This pre-negotiated price would place the cost of the solar power in the \$35 a MW range which includes the debt service incurred for the purchase. The net debt supply cost is estimated to be in between \$10 and \$13 a MW. The original analysis was based upon the CLW seeing a net savings on power supply compared to recent supply costs because it would act as a supply which would shave CLW peaks during higher demand times and there would be a savings on transmission because the energy provided by the solar plant would be “behind the meter” and the energy would not need to be imported into the CLW system via transmission. Ultimately in during the 2017 fiscal year the cost of energy from OMPA ended up being \$58.62 which was higher than the solar generation making the new supply less expensive before the potential of demand reduction or transmission costs.

CLW has already had discussions with SHS and other solar developers about additional capacity being added, however, there is been no decision to move forward at the current time. Each project brings different variables related to location, construction cost and energy costs. If and when another opportunity presents itself, it will be analyzed and if the business case and economic work then CLW will consider the next steps.

### **Fuel Adjustment/Rates**

Electric rates are established in reference to a base rate for the cost of a kilowatt-hour of power purchased including the cost of transmission, distribution and overhead expenses related to the electric utility. When the cost of power differs from that base rate, the difference goes into the calculation of a fuel adjustment to be applied to each customer’s bill. The fuel adjustment is calculated on a six-month moving average basis. This means that it will take six months for the Clarksville Light & Water Company to recover the difference in the base cost of power and in what was actually paid to purchase that power. Historically, this time gap can and has resulted in significant swings in the Company’s reported net income. The difference between the 2016 and 2017 results are a perfect example of this. Additionally, substantial cash reserves are required to finance this delay in cost recovery.

During the previous fiscal year, the CLW board requested management engage an engineering firm to review the current rate structure to determine if there are changes which should be made to reduce this volatility from year to year in its financials and in a way to simplify the overall rate structure. Currently, beyond the fuel adjustment formula the CLW electric rate calculations include declining blocks, and winter rates versus summer rates for all electric homes as examples. CLW engaged Finley Engineers to conduct a rate study and based upon the study some recommendations did arise indicating a benefit for a rate adjustment. The suggestions were to simplify the rate structure by, increasing the fixed “connection charge,” adjust how the fuel adjust works along with the timing, and to eliminate the winter rates. The ultimate goal would be to flatten the rates and have a consistent financial result year over year without unpredictability of the six-month rolling fuel adjustment average currently in place. As of the end of the 2018 fiscal year, the report had been taken under advisement.

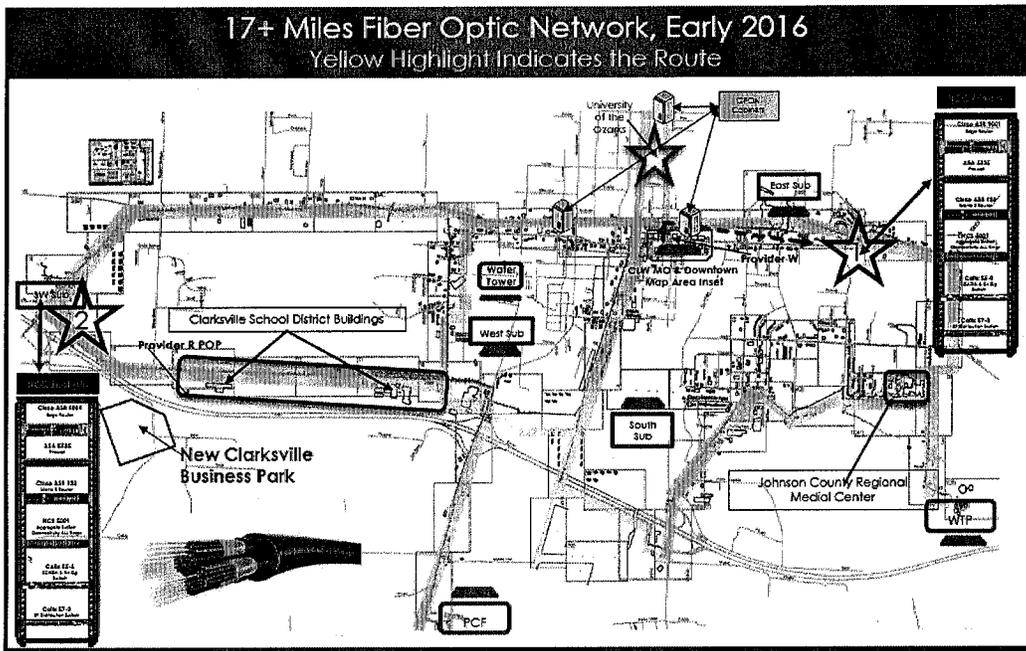
## **ABOUT THE WATER UTILITY**

The water and sewer utilities have been financially performing consistently for the last few years followed the expansion of the treatment plant and connecting Scranton as a new wholesale water customer. During 2017 we did have one of our wholesale customers, East Johnson County Water Users Association (EJCWA), contract term expire. Both parties were able to work together to extend the term for another twenty (20) years, however, CLW has agreed to allow EJCWA connect to another provider on the eastern most part of their service territory. This was the right thing to do both for reliability and operational for EJCWA. The EJCWA had grown enough in areas that pumping multiple times was required just to deliver to those areas. This change going into effect in 2017 did not create a significant decrease in water demand from EJCWA. The other significant milestone that took place is that CLW engaged and reached a settlement in late 2016 with the Plains All American Pipeline, who planned a 20' crude oil pipeline project from Cushing, Oklahoma to Memphis, Tennessee's Valero refinery. Diamond Pipeline LLC and CLW settlement included CLW constructing a new raw water intake on Spadra Creek upstream of where Diamond was going to cross its water shed. The other portion of the project was to open up the additional lower port at the Piney Bay intake and have Diamond provide on-site emergency equipment available for local first responders if the pipeline released oil on the other Piney Bay watershed. The settlement of \$6.6 million was based upon an engineer's plan for CLW to be about the mitigate CLW water supply in case of a failure of the oil pipeline. these measures. The construction of this project began in early 2017 and was completed in early 2018. Ultimately the project eliminated the risk of a water supply contamination via an oil release into Clarksville watersheds. Per the settlement agreement CLW finalized the project by returning approximately \$6,000 of the remaining \$6,000,000 back to Diamond Pipeline LLC.

## **ABOUT THE FIBER OPTIC NETWORK**

CLW has been steadily growing its fiber optic network since 2015. The initial purpose for constructing the fiber network was to provide a secure, highly reliable, and highspeed communications for utility SCADA and its internal business operations. When the decision to construct was made the CLW Commission approved the construction of the network with extra fiber capacity in the core network cabling, so CLW could possibly provide services to other local anchor institutions like the Clarksville School District, University of the Ozarks, Johnson Regional Medical Center, Johnson County governmental offices, and City of Clarksville facilities. Additionally, they were aware that broadband services might also be a possibility for Clarksville residents and businesses.

After building the core fiber network in 2016, CLW runs its business network and the SCADA network for both the water and electric utilities. In early 2017, the CLW commission authorized the implementation of additional electronics to be connected to the network that included Cisco edge routers, service provider level switches, firewalls, and other equipment which would give CLW the capability to become an Internet Service Provider (ISP). Additionally, CLW took the formal steps to register with the American Registry of Internet Numbers (ARIN) and secured IPv4 numbers and we registered to become a formal ISP under the name of ClarksvilleConnected.net. This step makes CLW 's network, ClarksvilleConnected, an officially recognized ISP across the world wide web.



The equipment and design of the network was implemented with reliability and redundancy in mind. Put another way, the equipment and the network has been constructed in a way which reduces the potential for service outages. This is possible by the way the outside plant is constructed in rings and by duplicating the critical electronics at separate locations. Both of these measures are steps we have taken so the network acts to heal itself in case a cut in the outside plant fiber or a fault in the electronics.

**Community Broadband – Connecting Anchor Institutions.**

As the fiber network has developed so has the interest of the local anchor institutions related to using it within the community. By early 2017, CLW entered into an agreement with a regional telecommunications service provider named Ritter to use CLW’s fiber to connect and begin to provide services to the Johnson Regional Medical Center (JRMC). In this case, CLW provided two dark dedicated fibers around the entire ring and the provider installed their electronics for the sole purpose of serving the hospital. In a “dark fiber” arrangement CLW provide the fiber and the other party attached the electronics to the fiber to send signal. CLW agreed to this arrangement because this provider had interconnections with other medical facilities across Arkansas making it the best provider for telemedicine for our local hospital. CLW negotiated a low price with Ritter for wholesale priced internet bandwidth. This gave ClarksvilleConnected a connection to the world wide web starting with 1 Gig capacity with the ability to increase as our local network demands increased.

Additionally, by the end of the first quarter of 2017 CLW submitted a competitive proposal for wide area network services (WAN) to the Clarksville school system. The proposal was accepted and the Clarksville School District (CSD) moved forward with interconnecting all of their school buildings and uses using two fibers dedicated to the school system within the CLW network and across the entire ring. This was implemented by July 1, 2017. With the CSD, CLW is transporting data between their building at 10 Gig speeds. Shortly thereafter the district elected to begin purchasing internet bandwidth from CLW utilizing a shared 1 Gig. This contractual agreement made CSD the first paying customer for ClarksvilleConnected. Since that

time the network has operated extremely well and the school district has been very positive about the relationship. Recently, a proposal has been made to The University of the Ozarks and Johnson County related to connecting to ClarksvilleConnected. Both parties have agreed to become customers beginning the next fiscal year. The arrangement will increase their network speeds and capability to serve their constituent by being on ClarksvilleConnected and save money at the same time.

With our last management letter, we indicated CLW was considering taking the additional step of evaluating the expansion of the network to all of the residential and business customers in Clarksville. Based upon the research analysis and statistically valid customer surveys, all indications are moving forward that a Fiber-To-The-Home (FTTx) is viable and it is something the community overwhelmingly supports. The business case analysis provided by CCG Consulting (<http://www.ccgcomm.com/>), has indicated that a 50% take rate for voice and ultrahigh speed internet only would produce financial results showing the network would be cash flow positive at the end of year 3 and then potentially pay itself off between year 10 or 11 based upon agreed upon assumptions. The assumptions include the cost to construct, staffing needed, price points for residential and business customers, and at the 50% take rate. The research studies actually indicate Clarksville customers dissatisfied with their existing provider choices feel that it would be beneficial for CLW to provide such a service, and they believe it is important for the local economic development efforts. Below are a few images indicating results of both the first and second surveys. The surveys were conducted by SDS Research (<http://www.sdsresearch.com/>) which have been conducting research and customer satisfaction surveys for municipally owned electric and broadband for many years.

## Survey #1 Summary Results

- ▶ Over 90% pay more than \$100 a month
  - ▶ Over 76% pay more than \$50 just for internet
- ▶ Almost three fourths (72%) of respondents think it would be very beneficial for CLW to deliver high-speed communications through fiber optic cable to businesses and residents in the community, with an NPI of 156.
  - ▶ Box 4 +5 =
- ▶ Almost two-thirds (64%) of respondents think it is very important to economic development for CLW to have a fiber communications network, with an NPI of 143.

**Q23. About how much is your monthly bill for your bundled services?**

**Q27. Clarksville Light and Water has built a fiber optic network for its own internal communications purposes. How beneficial would it be to extend this network to businesses and residents in the community?**

**Box 4 & 5 = 84%**

**Q27. Clarksville Light and Water has built a fiber optic network for its own internal communications purposes. How beneficial would it be to extend this network to businesses and residents in the community?**

**Box 4 +5 = 84%**

**Q28. How important is it to Clarksville's economic development effort for Clarksville Light and Water to have a fiber communications network? Please use a 1-5 scale, where 5 is Very important and 1 is Not at all important.**

**Box 4 & 5 = 79%**

# Survey #1 Summary Results

- ▶ 400 Surveys, +/- 4.6 Margin of Error
  - ▶ 95% Confidence Level
- ▶ Internet provider perceptions and satisfaction
  - ▶ Value = Price you pay for reliability and the level of service you receive
  - ▶ VERY LOW
- ▶ Cable TV perceptions and satisfaction
  - ▶ 33% = No Cable, Did they cut the cord?
  - ▶ 25% = Already have a satellite
- ▶ Switching
  - ▶ Great result, BUT!!!
    - ▶ Did we ask the right question(s)?

	5	4	(3+2+1)	NPI
Customer service (Q4)	39	34	26	111
Reliability (Q5)	41	31	29	112
Speed (Q6)	39	27	35	104
Overall value (Q7)	17	23	54	85

All numbers in tables are percentages rounded to the nearest whole number.

Current TV providers include: Suddenlink (40%), DirecTV (18%), Dish (10%), and Other (8%). Additionally 33% said they don't have a cable or satellite TV provider

Provider	5	4	(3+2+1)	NPI
Suddenlink	25	23	50	73
DirecTV	48	25	27	112
Dish	33	20	48	125
Other	33	17	51	82

All numbers in tables are percentages rounded to the nearest whole number.

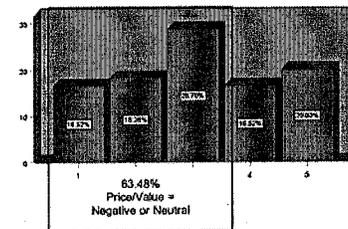
Question 26 asked respondents how likely they would be to switch to a new provider that had local ownership, better service, higher speed, and lower price. The Table below shows an NPI of 125 plus other results:

	5	4	(3+2+1)	NPI
Switching	52	21	27	125

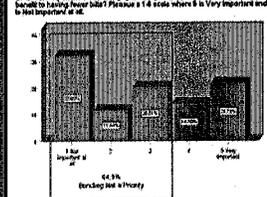
# Survey #2 Summary Results

- ▶ Internet provider perceptions and satisfaction
  - ▶ Value = Price you pay for the service you receive NPI = 57
    - ▶ All of the components of service are below 100:
      - ▶ Reliability = 95,
      - ▶ Speed = 94,
      - ▶ Customer service = 84
  - ▶ Validation from Survey #1
- ▶ Cable TV and bundling importance
  - ▶ Cable Provider 33% Share
  - ▶ Other or "NO" Provider 64.9
    - ▶ Satellite 25%
    - ▶ Cord Cutters or None = 40%
  - ▶ 34% already stream
  - ▶ Bundling NOT important

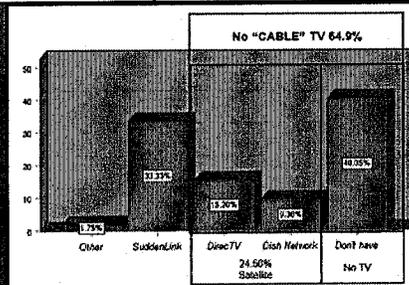
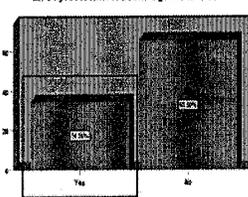
Q5. How do you rate your Internet service in the following areas? Overall value for the price you pay:



Q7a. How important is "bundling" your bill (Internet, cable TV, and phone) as a factor to having lower bills? Please use a 1-4 scale where 4 is Very important and 1 is Not important at all.

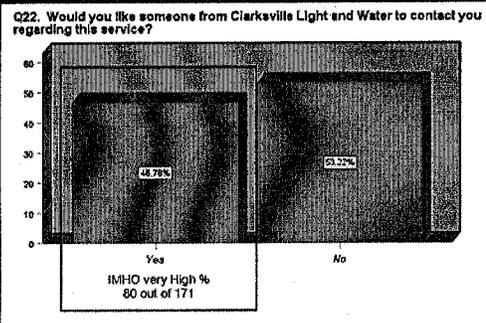


Q8. Do you subscribe to a streaming video service?

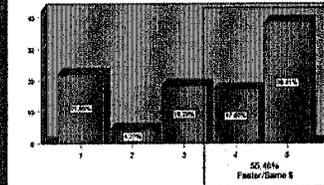


# More on the "Switching" question

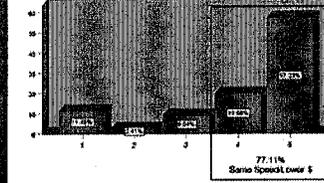
- ▶ What is the Motive?
  - ▶ Speed
  - ▶ Reliability
  - ▶ Price
  - ▶ WiFi in the house included
  - ▶ Local Service
- ▶ Would you want CLW to contact you?



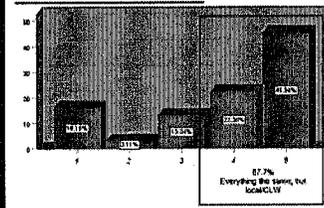
Q16. What would be the likelihood of you switching from your current provider(s) under the following conditions? The service was more reliable, 100 Mbps speed, but at the same price:



Q17. What would be the likelihood of you switching from your current provider(s) under the following conditions? The service was more reliable, the same speed, at a lower price:



Q20. What would be the likelihood of you switching from your current provider(s) under the following conditions? The service offering was the same, but from a local company like Clarksville Light & Water:



As the 2018 fiscal period ended, CLW has begun to take the additional steps, following the approval of the Commission to consider selecting a potential telecommunications construction management firm, research funding options, seek out legal counsel for a possible financing plan, and to begin a community wide Fiber to the Home construction project targeted to start during the second quarter of 2019. The network has the realistic potential to be a community and economic development driver as well as differentiator for Clarksville, Arkansas in the foreseeable future. It would parallel what the city electric utility meant for the city over 100 years ago.

## Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position (on pages 15 to 17) provide information regarding the activities of the Clarksville Light & Water Company as a whole. Net position represents the difference in what the Company owns (assets) and in what the Company owes (liabilities). These two statements report net position and changes in net position. Over time, increases or decreases in net position are one indication of the Company's financial health. Departmental schedules begin on page 20. These schedules provide a more detailed picture of the Company's revenues and expenses.

The Statement of Cash Flows (on pages 18 and 19) 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, 2018 are 4.43 and 3.95 respectively. This means, for example, that for every \$4.43 in current assets, the Company has \$1.00 in current liabilities. These ratios were 1.55 and 1.36 respectively for the year ended September 30, 2017.

Comparison of Financial Data	2018	2017	Net Change
Current Assets	14,561,539	13,104,259	1,457,280
Restricted Fund Assets	898,808	9,922,200	(9,023,392)
Net Capital Assets	50,155,091	47,298,850	2,856,241
Other Assets	3,152,247	143,056	3,009,191
Deferred Outflow of Resources	1,592,185	1,584,220	7,965
Total Assets	70,359,870	72,052,585	(1,692,715)
Current Liabilities	3,284,882	8,421,699	(5,136,817)
Net Long-Term Debt	2,635,000	3,460,003	(825,003)
Other Liabilities	2,762,581	2,849,747	(87,166)
Deferred Inflow of Resources	107,956	87,585	20,371
Total Liabilities	8,790,419	14,819,034	(6,028,615)
Net Assets Invested in Capital Assets, Net of Related Debt	46,695,088	42,500,831	4,194,257
Net Position Restricted	898,808	9,922,200	(9,023,392)
Net Position Unrestricted	13,975,555	4,810,520	9,165,035
Total Net Position	61,569,451	57,233,551	4,335,900
Operating Revenues	27,637,084	26,393,174	1,243,910
Direct Operating Expenses	23,648,323	22,320,851	1,327,472
General and Administrative Expenses	3,302,302	3,103,410	198,892
Non-Operating Revenues (Expenses)	(42,845)	(30,921)	(11,924)
Total Expenses	26,993,470	25,455,182	1,538,288
Income Before Contributions and Transfers	643,614	937,992	(294,378)
Contributions by Developers	3,966,793	2,523,477	1,443,316
Transfers to the City	(274,507)	(301,344)	26,837
Changes in Net Position	4,335,900	3,160,125	1,175,775
Ending Net Position	61,569,451	57,233,551	4,335,900
Cash Balance and Cash Equivalents	10,229,443	17,970,855	(7,741,412)

There was an increase of \$4,355,900 in net position during the year to \$61,569,451. There was a decrease in long-term debt in the amount of \$825,003. The \$10,229,443 cash balance at year-end was \$7,741,412 lower than 2017.

Overall, the 2018 net income before contributions and transfers of \$643,614 is down \$294,378 when compared to 2017. Operating revenues are up \$1,243,910, power costs increased \$833,779 and other expenses show a net increase of \$704,509.

**Departmental Summary**

Electric Department operating revenues of \$20,235,394 are up \$1,079,823 from 2017 revenues. The cost of power purchased increased \$833,779 and other expenses increased \$385,695. This resulted in a \$139,651 decrease in electric net income of \$182,658 for the year 2018.

Water Department operating revenues increased \$107,159 to \$5,177,265. Expenses increased \$220,667 and the net income of \$411,272 reflects a decrease in earnings of \$113,508 for the year.

Sewer Department operating revenues of \$2,224,425 are up \$56,928. Expenses increased \$98,147 and the net income of \$49,684 reflects a decrease in earnings of \$41,219 when compared to 2017.

Construction projects completed during the year added \$1,302,212, \$7,428,028 and \$153,339 to the electric, water, and sewer systems, respectively.

Equipment additions for the current year totaled \$213,266.



**John Lester**  
**General Manager**



**Jeanette Small**  
**Finance Officer**

**CLARKSVILLE LIGHT & WATER COMPANY**

**Statements of Net Position  
September 30, 2018 and 2017**

ASSETS

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash	\$ 9,330,635	\$ 8,048,655
Accounts Receivable net of allowance for doubtful accounts of \$65,000 for 2018 and \$65,000 for 2017	2,309,701	2,159,901
Unbilled Receivables	1,166,708	1,083,937
Accrued Interest Receivable	37,060	47,358
Inventories	1,569,314	1,632,602
Prepaid Expenses	148,121	131,806
Total Current Assets	<u>14,561,539</u>	<u>13,104,259</u>
Restricted Assets		
Bond Funds	258,805	263,252
Certificates of Deposits Pledged as Collateral on Loans	640,003	5,000,000
Diamond Pipeline Escrow Funds	-	4,658,948
Total Restricted Assets	<u>898,808</u>	<u>9,922,200</u>
Capital Assets		
Land	1,179,222	1,178,305
Buildings	2,737,458	2,719,225
Electric System	27,803,085	26,500,873
Water System	60,975,284	53,547,256
Sewer System	15,351,390	15,198,051
Transportation Equipment	2,016,417	2,003,174
Office Equipment	1,434,087	1,403,244
Generation Equipment	956,655	956,655
Other Equipment	3,232,918	3,063,739
Construction in Progress	3,307,601	6,321,954
	<u>118,994,117</u>	<u>112,892,476</u>
Less Accumulated Depreciation	<u>(68,839,026)</u>	<u>(65,593,626)</u>
Net Capital Assets	<u>50,155,091</u>	<u>47,298,850</u>
Other Assets		
Investments - Electric Cooperative Certificates	152,247	143,056
Scenic Hills Solar Prepayment Deposit	3,000,000	-
Total Other Assets	<u>3,152,247</u>	<u>143,056</u>

See accompanying notes to financial statements.

**CLARKSVILLE LIGHT & WATER COMPANY**  
**Statements of Net Position (continued)**  
**September 30, 2018 and 2017**

Deferred Outflow of Resources		
Deferred Outflow of Resources - Pension Contributions	596,786	473,615
Deferred Outflow of Resources - Pension Actuarial	995,399	1,110,605
Total Deferred Outflow of Resources	<u>1,592,185</u>	<u>1,584,220</u>
 Total Assets and Deferred Outflow of Resources	 <u>\$ 70,359,870</u>	 <u>\$ 72,052,585</u>

LIABILITIES AND NET POSITION

	<u>2018</u>	<u>2017</u>
Current Liabilities		
Accounts Payable	\$ 1,534,411	\$ 2,240,075
Accrued Expenses	897,746	852,240
Accrued Interest Payable (Payable from restricted funds)	27,722	28,926
Current Due on Long Term Debt (Payable from restricted funds)	825,003	1,338,016
Diamond Pipeline Advance Contribution	-	3,962,442
Total Current Liabilities	<u>3,284,882</u>	<u>8,421,699</u>
Other Liabilities		
Early Retirement Payable	67,301	97,469
Meter Deposits	371,812	363,912
Net OPEB Obligation	396,697	439,263
Net Pension Liability	1,926,771	1,949,103
Total Other Liabilities	<u>2,762,581</u>	<u>2,849,747</u>
 Long-Term Debt, Net of Current Maturities	 <u>2,635,000</u>	 <u>3,460,003</u>
 Deferred Inflow of Resources - Pension Actuarial	 <u>107,956</u>	 <u>87,585</u>
 Total Liabilities and Deferred Inflow of Resources	 <u>8,790,419</u>	 <u>14,819,034</u>
Net Position		
Net Investment in Capital Assets, Net of Related Debt	46,695,088	42,500,831
Restricted	898,808	9,922,200
Unrestricted	13,975,555	4,810,520
Total Net Position	<u>61,569,451</u>	<u>57,233,551</u>
 Total Liabilities and Net Position	 <u>\$ 70,359,870</u>	 <u>\$ 72,052,585</u>

See accompanying notes to financial statements.

**CLARKSVILLE LIGHT & WATER COMPANY**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended September 30, 2018 and 2017**

	2018	2017
Operating Revenue		
Electric Revenue	\$ 20,235,394	\$ 19,155,571
Water Revenue	5,177,265	5,070,106
Sewer Revenue	2,224,425	2,167,497
Total Operating Revenue	27,637,084	26,393,174
Direct Operating Expenses	(23,648,323)	(22,320,851)
Operating Revenue less Direct Operating Expenses	3,988,761	4,072,323
General and Administrative Expense	(3,302,302)	(3,103,410)
Operating Income (Loss)	686,459	968,913
 Non-Operating Revenues (Expenses)		
Interest Income	58,362	47,302
Interest Expense	(101,207)	(117,247)
Gain on Sale of Assets	-	39,024
Total Non-Operating Revenues (Expenses)	(42,845)	(30,921)
Income before Contributions and Transfers	643,614	937,992
Contributions in Aid of Construction/Other	3,966,793	2,523,477
Transfers to the City	(274,507)	(301,344)
Changes in Net Position	4,335,900	3,160,125
Net Position - Beginning of Year	57,233,551	54,073,426
Net Position - End of Year	\$ 61,569,451	\$ 57,233,551

See accompanying notes to financial statements.

**CLARKSVILLE LIGHT & WATER COMPANY**  
**Statements of Cash Flows**  
**Years Ended September 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 27,404,513	\$ 27,030,995
Cash Paid to Employees, Payroll Taxes, and Employee Benefits, Net of Capitalized Labor	(4,872,012)	(4,475,706)
Cash Paid to Suppliers for Operations and General & Administrative Expenses	(18,875,378)	(17,915,018)
Net Cash Provided by Operating Activities	<u>3,657,123</u>	<u>4,640,271</u>
 Cash Flows From Non-Capital Financing Activities:		
Increase (Decrease) in Meter Deposits	7,900	5,868
Increase (Decrease) in Advanced Payment	4,351	27,328
Net Cash Provided by Non-Capital Financing Activities	<u>12,251</u>	<u>33,196</u>
 Cash Flows from Capital & Related Financing Activities:		
Payments on Debt Obligations	(1,338,016)	(1,432,255)
Interest Paid on Debt Obligations, Net of Capitalized Interest	(102,411)	(118,149)
Net Cash used for Financing Activities	<u>(1,440,427)</u>	<u>(1,550,404)</u>
 Cash Flows from Investing Activities:		
Investment Income	68,660	28,940
Scenic Hills Solar Prepayment Deposit	(3,000,000)	-
Gain on Sale of Assets	-	39,024
Transfers to the City of Clarksville	(274,507)	(301,344)
Capital Expenditures	(6,764,512)	(4,861,603)
Net Cash Provided by Investing Activities	<u>(9,970,359)</u>	<u>(5,094,983)</u>
 Net Increase (Decrease) in Cash	(7,741,412)	(1,971,920)
Cash at Beginning of Year	17,970,855	19,942,775
Cash at End of Year	<u>\$ 10,229,443</u>	<u>\$ 17,970,855</u>

See accompanying notes to financial statements.

**CLARKSVILLE LIGHT & WATER COMPANY**  
**Statements of Cash Flows (continued)**  
**Years Ended September 30, 2018 and 2017**

	2018	2017
Reconciliation of Earnings from Operations to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 686,459	\$ 968,913
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	3,245,400	3,251,979
Change in Operating Assets, Deferred Outflows of Resources and Liabilities:		
(Increase) Decrease in Accounts Receivables	(149,800)	566,826
(Increase) Decrease in Unbilled Receivables	(82,771)	70,995
(Increase) Decrease in Inventory	63,288	(143,205)
(Increase) Decrease in Prepaid Expenses	(16,315)	(17,431)
(Increase) Decrease in Certificates of Equity	(9,191)	(5,840)
(Increase) Decrease in Deferred Outflows-Pension Contributions	(123,171)	(21,619)
(Increase) Decrease in Deferred Outflows-Pension Actuarial	115,206	(543,355)
Increase (Decrease) in Accounts Payable	(42,793)	(103,221)
Increase (Decrease) in Accrued Expenses	45,506	37,003
Increase (Decrease) in Early Retirement Payable	(30,168)	(18,928)
Increase (Decrease) in Accrued OPEB Liability	(42,566)	(35,790)
Increase (Decrease) in Net Pension Liability	(22,332)	647,692
Increase (Decrease) in Deferred Inflows-Pension Actuarial	20,371	(13,748)
Net Cash Provided by Operating Activities	\$ 3,657,123	\$ 4,640,271
Non-Cash Investing, Capital & Financing Activities:		
Capital Assets Included in Accounts Payable at Year End	\$ 86,725	\$ 749,596
Capital Assets Contributed	-	-
	\$ 86,725	\$ 749,596
Cash Paid during the year for:		
Interest	\$ 102,411	\$ 118,149

See accompanying notes to financial statements.

**CLARKSVILLE LIGHT AND WATER COMPANY**  
**DEPARTMENTAL INFORMATION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

**CLARKSVILLE LIGHT & WATER COMPANY**  
**Departmental Statement of Revenues and Expenses**  
**For the Year Ended September 30, 2018**

	Electric	Water	Sewer	Total
Operating Revenue				
Electric	\$ 20,235,394	\$ -	\$ -	\$ 20,235,394
Water	-	5,177,265	-	5,177,265
Sewer	-	-	2,224,425	2,224,425
Total Operating Revenue	<u>20,235,394</u>	<u>5,177,265</u>	<u>2,224,425</u>	<u>27,637,084</u>
Direct Operating Expenses	<u>(18,635,015)</u>	<u>(3,473,290)</u>	<u>(1,540,018)</u>	<u>(23,648,323)</u>
Operating Revenue less				
Direct Operating Expenses	1,600,379	1,703,975	684,407	3,988,761
General and Administrative				
Expenses	<u>(1,437,386)</u>	<u>(1,210,845)</u>	<u>(654,071)</u>	<u>(3,302,302)</u>
Operating Income (Loss)	<u>162,993</u>	<u>493,130</u>	<u>30,336</u>	<u>686,459</u>
Non-Operating				
Revenue (Expenses)				
Interest Income	19,665	19,349	19,348	58,362
Interest Expense	-	(101,207)	-	(101,207)
Total Non-Operating				
Revenue (Expenses)	<u>19,665</u>	<u>(81,858)</u>	<u>19,348</u>	<u>(42,845)</u>
Income (Loss) before				
contributions & transfers	<u>\$ 182,658</u>	<u>\$ 411,272</u>	<u>\$ 49,684</u>	<u>\$ 643,614</u>

**CLARKSVILLE LIGHT & WATER COMPANY**  
**Schedule of Direct Operating Expenses**  
**For the Year Ended September 30, 2018**

	Electric	Water	Sewer	Total
Bandwidth Purchased	\$ 24,444	\$ -	\$ -	\$ 24,444
Depreciation	887,317	1,706,734	521,165	3,115,216
Education, Meetings, and Travel	10,292	4,163	3,053	17,508
Employee Benefits	180,055	130,857	106,115	417,027
Fuel	29,333	17,560	12,950	59,843
Generation Costs	51,859	-	-	51,859
Labor	1,003,364	748,256	586,068	2,337,688
Labor - Construction in Progress	(320,341)	(52,313)	(40,080)	(412,734)
Maintenance	203,579	115,684	37,612	356,875
Equip Expense - Construction in Progress	(253,631)	(36,939)	(39,157)	(329,727)
Payroll Taxes	67,432	49,016	40,391	156,839
Pension Expense	135,637	108,294	107,980	351,911
Power Purchased	16,590,418	-	-	16,590,418
Supplies	-	332,033	56,166	388,199
Uniforms	12,854	5,143	4,854	22,851
Utilities	9,253	341,126	141,547	491,926
Use Tax	3,150	3,676	1,354	8,180
Total	<u>\$ 18,635,015</u>	<u>\$ 3,473,290</u>	<u>\$ 1,540,018</u>	<u>\$ 23,648,323</u>

**CLARKSVILLE LIGHT & WATER COMPANY**  
**Schedule of General and Administrative Expense**  
**For the Year Ended September 30, 2018**

	Electric	Water	Sewer	Total
Advertising and Promotion	\$ 2,829	\$ 2,146	\$ 1,184	\$ 6,159
Bad Debts	42,514	7,789	4,374	54,677
Customer Online Payment Fees	15,122	15,122	7,550	37,794
Depreciation	27,451	27,451	27,451	82,353
Dues and Subscriptions	24,972	5,654	8,553	39,179
Education, Travel, and Meetings	24,283	22,205	11,082	57,570
Employee Benefits	70,233	69,833	34,980	175,046
Fuel	6,258	6,259	3,129	15,646
Insurance	73,422	71,453	37,753	182,628
Inventory Variances	52,204	3,721	1,457	57,382
Lab Fees and Tests	1,753	547	18,011	20,311
Labor	592,612	581,760	286,811	1,461,183
Maintenance	174,241	146,525	87,783	408,549
Miscellaneous	14,993	4,623	3,119	22,735
Office Supplies	14,185	14,140	7,103	35,428
Payroll Taxes	47,684	45,552	21,449	114,685
Pension	93,415	94,168	47,366	234,949
Professional Services	82,452	46,638	15,255	144,345
Supplies	15,563	20,802	15,965	52,330
Uniforms	5,757	5,747	2,873	14,377
Utilities	55,443	18,710	10,823	84,976
Total	<u>\$ 1,437,386</u>	<u>\$ 1,210,845</u>	<u>\$ 654,071</u>	<u>\$ 3,302,302</u>

**CLARKSVILLE LIGHT AND WATER COMPANY**  
**DEPARTMENTAL INFORMATION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**CLARKSVILLE LIGHT & WATER COMPANY**  
**Departmental Statement of Revenues and Expenses**  
**For the Year Ended September 30, 2017**

	Electric	Water	Sewer	Total
Operating Revenue				
Electric	\$ 19,155,571	\$ -	\$ -	\$ 19,155,571
Water	-	5,070,106	-	5,070,106
Sewer	-	-	2,167,497	2,167,497
Total Operating Revenue	<u>19,155,571</u>	<u>5,070,106</u>	<u>2,167,497</u>	<u>26,393,174</u>
Direct Operating Expenses	<u>(17,561,127)</u>	<u>(3,264,435)</u>	<u>(1,495,289)</u>	<u>(22,320,851)</u>
Operating Revenue less				
Direct Operating Expenses	1,594,444	1,805,671	672,208	4,072,323
General and Administrative				
Expenses	<u>(1,289,570)</u>	<u>(1,181,078)</u>	<u>(632,762)</u>	<u>(3,103,410)</u>
Operating Income (Loss)	<u>304,874</u>	<u>624,593</u>	<u>39,446</u>	<u>968,913</u>
Non-Operating				
Revenue (Expenses)				
Interest Income	15,768	15,768	15,767	47,303
Interest Expense	-	(117,247)	-	(117,247)
Gain on Sale of Assets	<u>1,667</u>	<u>1,666</u>	<u>35,690</u>	<u>39,023</u>
Total Non-Operating				
Revenue (Expenses)	<u>17,435</u>	<u>(99,813)</u>	<u>51,457</u>	<u>(30,921)</u>
Income (Loss) before				
contributions & transfers	<u>\$ 322,309</u>	<u>\$ 524,780</u>	<u>\$ 90,903</u>	<u>\$ 937,992</u>

**CLARKSVILLE LIGHT & WATER COMPANY**  
**Schedule of Direct Operating Expenses**  
**For the Year Ended September 30, 2017**

	Electric	Water	Sewer	Total
Depreciation	\$ 917,278	\$ 1,658,806	\$ 521,744	\$ 3,097,828
Education, Meetings, and Travel	5,583	5,398	5,586	16,567
Employee Benefits	138,707	128,965	111,210	378,882
Fuel	21,706	14,432	9,331	45,469
Generation Costs	50,902	-	-	50,902
Labor	929,279	732,589	559,027	2,220,895
Labor - Construction in Progress	(354,790)	(54,977)	(45,903)	(455,670)
Maintenance	146,890	79,816	26,381	253,087
Equip Expense - Construction in Progress	(252,177)	(36,873)	(36,024)	(325,074)
Payroll Taxes	65,863	51,748	39,180	156,791
Pension Expense	123,770	100,516	117,268	341,554
Power Purchased	15,756,639	-	-	15,756,639
Supplies	-	262,566	55,530	318,096
Uniforms	9,844	4,278	3,286	17,408
Utilities	224	315,400	127,666	443,290
Use Tax	1,409	1,771	1,007	4,187
Total	<u>\$ 17,561,127</u>	<u>\$ 3,264,435</u>	<u>\$ 1,495,289</u>	<u>\$ 22,320,851</u>

**CLARKSVILLE LIGHT & WATER COMPANY**  
**Schedule of General and Administrative Expense**  
**For the Year Ended September 30, 2017**

	Electric	Water	Sewer	Total
Advertising and Promotion	\$ 1,171	\$ 1,123	\$ 585	\$ 2,879
Bad Debts	38,772	7,553	4,028	50,353
Contract Labor	3,189	3,085	1,504	7,778
Depreciation	35,440	35,439	35,439	106,318
Dues and Subscriptions	23,114	6,235	8,767	38,116
Education, Travel, and Meetings	8,976	8,504	4,362	21,842
Employee Benefits	84,441	84,522	37,145	206,108
Fuel	4,919	4,919	2,459	12,297
Insurance	81,142	81,128	40,568	202,838
Inventory Variances	5,634	4,449	2,025	12,108
Lab Fees and Tests	1,370	279	12,963	14,612
Labor	560,912	556,947	276,987	1,394,846
Maintenance	150,272	148,640	86,047	384,959
Miscellaneous	21,709	12,551	6,700	40,960
Office Supplies	22,572	21,105	10,141	53,818
Payroll Taxes	41,147	40,265	19,478	100,890
Pension	84,336	79,105	37,590	201,031
Professional Services	43,170	28,975	13,102	85,247
Services to City	3,657	3,068	1,827	8,552
Supplies	14,473	25,357	15,648	55,478
Uniforms	5,530	5,530	2,765	13,825
Utilities	53,624	22,299	12,632	88,555
Total	<u>\$ 1,289,570</u>	<u>\$ 1,181,078</u>	<u>\$ 632,762</u>	<u>\$ 3,103,410</u>

# CLARKSVILLE LIGHT & WATER COMPANY

## Notes to Financial Statements

September 30, 2018 and 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **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 Company 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.

#### **Basis of Accounting**

The Company is accounted for as an enterprise fund, which is considered a proprietary fund type. Enterprise funds account for activities that are financed and operated in a manner similar to private business enterprises or for which periodic determination of revenues, expenses and net income is desirable. These funds render services to the general public on a user-charge basis. Enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Operating revenues and expenses are distinguished from other revenues (expenses) items. Operating revenues generally result from providing services in connection with the Company's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues (expenses), but remain a major component of the overall revenues and expenses of the Company.

The Clarksville Light & Water Company incurs direct departmental expenses as well as indirect general and administrative expenses in the daily operations of the Company. Direct expenses are charged to the department to which they relate. Indirect general and administrative expenses are charged to the departments based on a predetermined percentage rate.

#### **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.

# CLARKSVILLE LIGHT & WATER COMPANY

## Notes to Financial Statements

September 30, 2018 and 2017

### Cash and Cash Equivalents

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

### Receivables and Uncollectible Accounts

Significant receivables include amounts due from customers primarily for utility services. The allowance for uncollectible accounts was \$65,000 for the year ended September 30, 2018 and \$65,000 for year ending September 30, 2017. The allowance of uncollectible accounts is based on historical trends and the periodic aging of accounts receivable.

### Inventory Valuation

Material and supplies inventories are stated at the lower of average cost or market.

### Capital Assets and Depreciation

Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from five to sixty-six years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, but are charged to expense as incurred. Acquisitions of property and equipment in excess of \$1,000 and with a useful life over one year are capitalized at cost or fair market value at the time of the donation.

### Capitalized Interest

The Company capitalizes interest costs as part of the cost of constructing various electric, water, and sewer projects when material. There was no interest capitalized for the years ended September 30, 2018 and 2017.

### Equity Classifications

The Company classifies net position into the following three components:

Net Investments in Capital Assets, Net of Related Debt – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position – Consists of amounts which have external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations imposed by law.

# CLARKSVILLE LIGHT & WATER COMPANY

## Notes to Financial Statements

September 30, 2018 and 2017

Unrestricted Net Position – Consists of net assets that do not meet the definition of “Invested in Capital Assets, Net of Related Debt” or “Restricted Net Position”.

### Income Taxes

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

### Contributions

For the years ended September 30, 2018 and 2017, contributions in aid of construction totaled \$3,966,793 and \$2,523,477, respectively. This consisted of cash transferred from the Diamond Pipeline Escrow Funds to the Clarksville Light & Water to pay current year costs of constructing water intake improvements. See Note 11.

### Compensated Absences

The Company policies permit most employees to accumulate vacation and sick leave benefits based on length of service that may be realized as paid time off or, in limited circumstances, as a cash payment. The expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. There was a change in the vacation and sick leave policies as of June 20, 2011 that combined these policies into a paid time off policy. The employee's sick leave as of the time of the change was converted to a Medical Leave Bank which can be used in certain circumstances. Employees with over 240 hours in the Medical Leave Bank may receive payment for the excess at the time of termination of employment at 50% of regular pay rate.

### Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions/deductions from the Plans' fiduciary net position have been determined on the basis as reported by Principal Financial Group. The measurement dates of the Plan are January 31, 2018 and 2017. Plan investments are reported at fair market value.

**CLARKSVILLE LIGHT & WATER COMPANY**

**Notes to Financial Statements**

**September 30, 2018 and 2017**

**NOTE 2 - CASH AND INVESTMENTS**

**Deposits and Investments**

All monies received by the Company shall be deposited by it in such a depository or depositories, as may be lawfully designated by the Board of Commissioners; subject 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 and short term investments held as of September 30, 2018 were as follows:

<u>Description</u>	<u>Bank Balance</u>	<u>Book Balance</u>
Cash on Hand	\$ -	\$ 750
Demand Deposits	6,056,803	5,351,559
Certificates of Deposit	4,795,638	4,762,141
Money Market Mutual Funds	114,994	114,994
	<u>\$ 10,967,435</u>	<u>\$ 10,229,444</u>

Money market mutual funds were held by the Company as of September 30, 2018 of \$114,994 in the Federated Treasury Obligations Fund in the Bond Fund held at Citizens Bank of Batesville. This fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. This fund is rated AAA by Standard and Poors. Money market mutual funds were held by the Company as of September 30, 2017 of \$3,962,442 in FDIC Insured Sweep funds held in the Diamond Pipeline Fund at Bancorp South. There were no funds held in this account as of September 30, 2018.

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

**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, 2018, the Company's bank balances were \$10,967,435. As of September 30, 2018, the following collateral has been pledged for deposits over \$250,000:

Collateralized:

Collateral held by the pledging bank's trust	
department or agent in the Company's name	<u>\$ 10,717,435</u>
	<u>\$ 10,717,435</u>

# **CLARKSVILLE LIGHT & WATER COMPANY**

## **Notes to Financial Statements**

**September 30, 2018 and 2017**

### **NOTE 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. Funds in the Diamond Pipeline Escrow Fund were used in 2018 for improvements to water intake improvements. These restricted funds were used in total before any unrestricted funds were used for this project. Total restricted funds as of September 30, 2018 were \$898,808.

### **NOTE 4 – CONCENTRATIONS OF CREDIT RISK**

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of trade receivables with a variety of customers. Concentrations of credit risk with respect to accounts receivable are limited due to the Company's customer base being made up of a large number of customers, thus spreading the trade credit risk. The Company generally does not require collateral other than the required customer deposit to support accounts receivables.

**CLARKSVILLE LIGHT & WATER COMPANY**

**Notes to Financial Statements**

**September 30, 2018 and 2017**

**NOTE 5 - MAJOR CUSTOMERS AND SUPPLIERS**

The following table set forth the major customers for Clarksville Light & Water Company for the years ended September 30, 2018 and 2017. Amounts are presented in dollars and percent of total revenues. Accounts receivable from the following customers represent 49% of total accounts receivable as of September 30, 2018 and 49% of total accounts receivable as of September 30, 2017.

Customer	Year Ended 9/30/2018		Year Ended 9/30/2017	
	\$ Gross Revenues	% of Total Revenues	\$ Gross Revenues	% of Total Revenues
Tyson Foods	\$ 6,598,499	24%	\$ 6,135,256	26%
Hanesbrand, Inc.	\$ 3,321,455	12%	\$ 3,657,953	16%
Wal Mart Supercenter and Distribution Center	\$ 1,756,118	6%	\$ 1,691,429	6%
<b>Totals</b>	<b>\$ 11,676,072</b>	<b>42%</b>	<b>\$ 11,484,638</b>	<b>48%</b>

The following tables set forth the major power suppliers for Clarksville Light & Water Company for the years ended September 30, 2018 and 2017. Amounts are presented in dollars and percent of total power purchased and of Direct Operating Expenses. Accounts payable to the following suppliers represent 90% of total accounts payable as of September 30, 2018 and 64% of total accounts payable as of September 30, 2017.

Supplier	Year Ended 9/30/2018		Year Ended 9/30/2017	
	\$ Power Purchases	% of Total Power	\$ Power Purchases	% of Total Power
Independence County Southwestern Power Administration	\$ 2,400,973	14%	\$ 2,019,984	13%
Oklahoma Municipal Power Association	\$ 1,759,864	11%	\$ 1,907,744	12%
Scenic Hills Solar	\$ 11,809,527	71%	\$ 11,828,911	75%
Southwestern Power Pool	\$ 482,889	3%	\$ -	0%
	\$ 137,165	1%	\$ -	0%
	<b>\$ 16,590,418</b>	<b>100%</b>	<b>\$ 15,756,639</b>	<b>100%</b>
<b>Total Power Purchased to Direct Operating Expenses</b>	<b>\$ 16,590,418</b>	<b>70%</b>	<b>\$ 15,756,639</b>	<b>71%</b>
	<b>\$ 23,648,323</b>		<b>\$ 22,320,851</b>	

**CLARKSVILLE LIGHT & WATER COMPANY**

**Notes to Financial Statements**

**September 30, 2018 and 2017**

**NOTE 6 - CAPITAL ASSETS**

	Balance 9/30/17	Additions	Deletions	Balance 9/30/18
<b>Nondepreciable Assets</b>				
Land - Electric	\$ 432,594	\$ 917	\$ -	\$ 433,511
Land - Water	529,497	-	-	529,497
Land - Sewer	216,214	-	-	216,214
Construction in Progress - Electric	3,056,621	4,568,244	(4,320,443)	3,304,422
Construction in Progress - Water	3,242,217	4,175,269	(7,414,307)	3,179
Construction in Progress - Sewer	23,116	112,802	(135,918)	-
<b>Total Nondepreciable Assets</b>	<b>7,500,259</b>	<b>8,857,232</b>	<b>(11,870,668)</b>	<b>4,486,823</b>
<b>Depreciable Assets</b>				
Office Building	1,212,526	18,233	-	1,230,759
Buildings - Electric	36,629	-	-	36,629
Warehouse	1,470,071	-	-	1,470,071
Electric System	26,500,873	1,302,212	-	27,803,085
Water System	53,547,255	7,428,029	-	60,975,284
Sewer System	15,198,051	153,339	-	15,351,390
Transportation Equipment	2,003,174	13,242	-	2,016,416
Generation Equipment	956,656	-	-	956,656
Office Equipment	1,403,243	30,843	-	1,434,086
Lab Equipment	74,278	-	-	74,278
Construction Equipment	849,669	1,944	-	851,613
Maintenance Equipment	1,628,333	151,484	-	1,779,817
Plant & Shop Equipment	511,458	15,752	-	527,210
<b>Total Depreciable Assets</b>	<b>105,392,216</b>	<b>9,115,078</b>	<b>-</b>	<b>114,507,294</b>
<b>Total Assets at Historical Cost</b>	<b>112,892,475</b>	<b>17,972,310</b>	<b>(11,870,668)</b>	<b>118,994,117</b>
<b>Less: Accumulated Depreciation</b>	<b>(65,593,626)</b>	<b>(3,245,400)</b>	<b>-</b>	<b>(68,839,026)</b>
<b>Total Capital Assets, Net</b>	<b>\$ 47,298,849</b>	<b>\$ 14,726,910</b>	<b>\$ (11,870,668)</b>	<b>\$ 50,155,091</b>

# CLARKSVILLE LIGHT & WATER COMPANY

## Notes to Financial Statements

September 30, 2018 and 2017

Depreciation expense was charged to departments as follows:

Direct Operating Expense - Electric	\$	887,317
Direct Operating Expense - Water		1,706,733
Direct Operating Expense - Sewer		521,164
Direct Operating Expense - Electric		47,833
General & Administrative Expense - Electric		27,451
General & Administrative Expense - Water		27,451
General & Administrative Expense - Sewer		27,451
Total Depreciation Expense	\$	<u>3,245,400</u>

### NOTE 7 – OPERATING LEASES

Clarksville Light & Water Company leases office equipment under operating leases expiring at various dates. Lease expense incurred under these operating leases for the years ending September 30, 2018 and 2017 was \$2,625 and \$2,136, respectively.

Future minimum lease payments for non-cancellable operating leases at September 30, 2018 were approximately:

2019	\$	2,625
2020		2,625
2021		2,625
2022		489
2023		-
	\$	<u>8,364</u>

### NOTE 8 – LONG TERM DEBT

On June 25, 2013, the City of Clarksville, Arkansas issued \$4,220,000 in Utility Revenue Construction Bonds Series 2013 with interest rates ranging from 1.0% to 3.6% for construction of improvements to the water and sewer systems secured by a pledge of the revenues of Clarksville Light & Water Company. Final maturity is in 2032.

On March 5, 2014, the City of Clarksville, Arkansas issued a Water and Sewer Improvement Note for up to \$5,000,000 to finance the cost of constructing improvements to the water and sewer systems, including, but not limited to, improvements to the water treatment plant. The note held by Centennial Bank has a variable interest rate which is initially 1.18% and is collateralized by one certificate of deposit with Centennial Bank totaling \$1,074,993 and a mortgage on the improvements constructed with the proceeds of the loan. The variable rate is .98% per annum above the applicable CD rate on the municipal funds held on deposit with Centennial Bank. Interest only payments shall be paid monthly commencing April 1, 2014 and monthly thereafter for twelve months. Commencing April 1, 2015

**CLARKSVILLE LIGHT & WATER COMPANY**

**Notes to Financial Statements**

**September 30, 2018 and 2017**

monthly payments of principal and interest shall be payable in equal monthly installments of \$106,696 amortized so that the final installment payment will be payable on February 26, 2019.

	<u>9/30/2017</u> Balance	<u>Increases</u>	<u>Decreases</u>	<u>9/30/2018</u> Balance	<u>Due in</u> <u>One Year</u>
Utility Revenue Construction Bonds Series 2013	\$ 3,000,000	\$ -	\$ (180,000)	\$ 2,820,000	\$ 185,000
Water and Sewer Improvement Note	1,798,019	-	(1,158,016)	640,003	640,003
	<u>\$ 4,798,019</u>	<u>\$ -</u>	<u>\$ (1,338,016)</u>	<u>\$ 3,460,003</u>	<u>\$ 825,003</u>

The maturity schedule is as follows:

	Principal	Interest
2018 - 2019	825,003	85,254
2019 - 2020	190,000	79,240
2020 - 2021	190,000	75,440
2021 - 2022	195,000	71,260
2022 - 2023	200,000	66,580
2024 - 2028	1,085,000	244,080
2029 - 2033	775,000	58,500
	<u>\$ 3,460,003</u>	<u>\$ 680,354</u>

**NOTE 9 - RELATED PARTIES**

The Company provides utility services to the City of Clarksville, Arkansas. The Clarksville Light & Water Company and the City of Clarksville mutually agreed upon a rate at which the City would be billed for utility services. On a monthly basis utility services provided to the City are recorded as revenue. The City transfers cash from the Company in the amount of their utility bill to pay for their utilities. The transfer recorded as a distribution of equity for the year ended September 30, 2018 was \$274,507. The amount included in accounts receivable at September 30, 2018 from the City of Clarksville is \$17,982. The transfer recorded as a distribution of equity for the year ended September 30, 2017 was \$301,344. The amount included in accounts receivable at September 30, 2017 from the City of Clarksville is \$22,230. The Company also provides other services to the city which are expensed as services to the City. These expenses for September 30, 2018 and 2017 were \$0 and \$8,552, respectively.

# CLARKSVILLE LIGHT & WATER COMPANY

## Notes to Financial Statements

September 30, 2018 and 2017

### NOTE 10 – RISK MANAGEMENT

The Company is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omission; injuries to employees; natural disasters; and employee health, dental and accident benefits. Commercial insurance and state pool coverage is purchased for claims arising from such matters other than business interruption. Settled claims have not exceeded coverage in any of the three preceding years and there has been no significant reduction in coverage in fiscal years 2018 and 2017.

### NOTE 11 – OTHER COMMITMENTS

On August 17, 2016, Clarksville Light & Water Company entered in to a settlement agreement with Diamond Pipeline LLC for \$6,600,000 with additional funding up to \$8,000,000 possible to construct water intake improvements which would result in the water intake structures to be built upstream from the proposed pipeline crossing on Spadra Creek and Piney Bay. Currently, the water intake structures are downstream of the proposed pipeline crossing. The project was completed in July of 2018 with a total cost of \$6,597,733.

On October 1, 2017, Clarksville Light & Water Company entered into an agreement with Scenic Hill Solar III, LLC for the construction, operation and maintenance of a solar electric generating facility (the “facility”) by Scenic Hill Solar III on real property owned by Clarksville Light & Water Company. On December 8, 2017, the Company and Scenic Hill Solar III, LLC entered into an amended power purchase agreement whereby Clarksville Light & Water Company will purchase all power generated by the facility. This agreement also sets forth the terms and conditions for Clarksville Light & Water Company’s option to purchase the facility. As part of this agreement, on December 20, 2017, the Company has made a \$3,000,000 deposit toward the purchase price of the facility. As of December 23, 2017, the Scenic Hill Solar III facility was interconnected to and operating with the Clarksville Light & Water Company electric power system.

### NOTE 12 - SUBSEQUENT EVENTS

Subsequent events have been reviewed through January 28, 2019 which is the date that the financial statements were available to be issued.

### NOTE 13 - DEFINED CONTRIBUTION PLAN

The Clarksville Light & Water Company 457(b) Plan 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 paid time off or back pay. The plan was administered by July Business Services until November 16, 2017 when the assets were transferred to Lincoln Financial Group.

# CLARKSVILLE LIGHT & WATER COMPANY

## Notes to Financial Statements

September 30, 2018 and 2017

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 years 2018 and 2017 were \$113,167 and \$87,050.

### NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS

The Company sponsors and administers an informal early retirement benefit and a single-employer defined benefit healthcare plan. The Company does not issue stand-alone financial statements of the plan; however, all required information is presented in this report.

#### Early Retirement

The primary purpose of this early retirement policy is to bridge the gap from retirement to Social Security eligibility (age 62), and Medicare eligibility (age 65). Early retirement is in addition to (separate from) any benefits available from the pension plan. Disability retirement, which is covered by its own provisions, is excluded from parts (1), (2), and (3) below. The Clarksville Light & Water Commission may amend or rescind this policy at its sole discretion without liability to any active employee.

- 1) Employees, age 59 or older, with a minimum of 10 years of service, may elect early 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.

The early retirement 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

This benefit will end at age 62. Currently two retirees are participating in this early retirement benefit. The expenditures for these retirees were \$33,278 and \$12,243 for the years ended September 30, 2018 and 2017.

# CLARKSVILLE LIGHT & WATER COMPANY

## Notes to Financial Statements

September 30, 2018 and 2017

- 2) An employee who has reached the age of 55, with at least 25 years of service and whose position will not be backfilled, the following benefit will be available:
- Annual Wages at Retirement (computed as regular hourly rate x 2080 hours)
  - Benefit Factor (defined as 1.50%)
  - Years of Service at Date of Retirement

This benefit will end at age 62. One retiree participated in the position elimination early retirement benefit during 2018 while two participated during 2017. The expenditures for these retirees were \$22,456 and \$55,657 for the years ended September 30, 2018 and 2017.

Sections 1) and 2) above are considered termination benefits and an estimated liability of \$67,301 has been accrued for future payments.

- 3) Health insurance coverage to Medicare eligibility at age 65 will be provided for the retiree. The retiree 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 the health insurance policy, the benefit payable to the retiree will be the amount paid for single coverage at the time of the change. The benefit will end at age 65, or earlier if Medicare eligibility occurs before age 65. Four retirees participated in the health insurance coverage benefit as of September 30, 2018. Three retirees participated as of September 30, 2017. The expenditures for the health insurance coverage for the retirees participating under this benefit option were \$22,952 in 2018 and \$14,997 in 2017. The accrued liability for the health insurance coverage benefit is discussed below under Accounting Disclosure Report for Other Postemployment Benefits.

### **Extended Medical Coverage**

For those retirees who qualify, Clarksville Light & Water will provide a benefit payable to the retiree equal to Medicare Supplement F Standard Plan coverage, not to exceed \$200 per month. This benefit has been discontinued as of October 1, 2013. The only retirees that qualify for this benefit are those individuals who were already receiving this benefit or were qualified to receive it at retirement, but have not yet used the benefits as of the discontinuance date. Supplemental medical insurance is defined as the medical insurance coverage that helps pay Medicare co-payments and deductibles.

In order to qualify for this benefit an employee must have completed 15 years or more of continual service and retired from the Company at the age of 59 or older. Therefore, if an employee terminates for any reason prior to reaching retirement age he is disqualified.

Benefits are not retroactive and will not begin until proof of supplemental medical insurance coverage is furnished to the Company. Early retirees may apply to the Company for this benefit at the time they become Medicare eligible. This benefit does not apply to the spouse of retiree, nor would any benefit transfer to an heir at the time of death. This benefit terminates when and if the qualified retiree elects not

# CLARKSVILLE LIGHT & WATER COMPANY

## Notes to Financial Statements

September 30, 2018 and 2017

to carry supplemental medical insurance as defined in this policy. Currently, five retirees are participating in the extended medical coverage benefit. The amount paid to retirees for extended medical coverage benefit for years ended September 30, 2018 was \$10,367 and September 30, 2016 was \$10,367. The accrued liability for the extended medical coverage benefit is discussed below under Accounting Disclosure Report for Other Postemployment Benefits.

### **Accounting Disclosure Report for Other Postemployment Benefits**

The Early Retirement benefit part 3) and the Extended Medical Coverage benefit listed above meets the definition of a single employer Postemployment Benefit Plans Other Than Pension Plans and require additional actuarial disclosures. The Extended Medical Coverage benefit was discontinued as of October 1, 2013 except for those retirees already receiving benefits or qualified to receive benefits at their retirement date. An actuarial valuation was prepared by an independent actuary as of September 30, 2016. Copies of this report may be obtained by contacting the Company. As allowed by Governmental Accounting Standards Board (GASB) Statement No. 45 – Accounting and Financial Reporting by Employer for Postemployment Benefit Plans Other Than Pension Plans, the actuarial valuation is prepared on a triennial basis. A stand-alone financial statement is not issued for this plan.

Employees may be compensated in variety of forms in exchange for their services. In addition to a salary, employees earn benefits over their years of service that will not be received until after their employment with the Company ends. The most common type of postemployment benefits is a pension, but other postemployment benefits (OPEB) are those benefits other than pensions such as health insurance. OPEB are a part of the compensation that employees earn each year, even though these benefits are not received until after employment has ended. Therefore, the cost of these future benefits is a part of the cost of providing services today.

The Governmental Accounting Standards Board (GASB) Statement No. 45 – Accounting and Financial Reporting by Employer for Postemployment Benefit Plans Other Than Pension Plans published standards for the accounting of postemployment benefits other than pension. This statement establishes uniform accounting and financial reporting standards for state and local governments related to postemployment benefits other than pensions. The Company has recorded a Net OPEB Obligation to estimate their long term financial obligation related to OPEB.

GASB allows the use of several actuarial cost methods for the valuation. The results communicated below have been calculated by Principal Financial Group using the Unit Credit method. They believe the Unit Credit method provides the most logical correlation between accruing and expensing of the plan benefits. It should be noted that the Unit Credit method is the only method allowed under the Financial Accounting Standards Board's (FASB) Statement No. 106.

The Accrued Actual Liability (AAL) is the present value of all future expected postemployment medical payments that are attributable to past service. The Annual Required Contribution (ARC) is the annual expense recognition of the postemployment benefit plan cost for the fiscal year and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL). The unfunded actuarial liability at transition is amortized

**CLARKSVILLE LIGHT & WATER COMPANY**

**Notes to Financial Statements**

**September 30, 2018 and 2017**

over 30 years using level dollar method, which is the maximum allowed by GASB 45. The Net OPEB Obligation (NOO) is the cumulative difference between the ARC and the Company's contributions to the plan.

Net OPEB Obligation (NOO)	9/30/2018	9/30/2017	9/30/2016	9/30/2015	9/30/2014
Net OPEB Obligation - Beginning of Year	\$ 439,263	\$ 475,053	\$ 506,747	\$ 541,429	\$ 578,051
Annual Required Contribution	15,109	15,109	15,679	15,679	15,679
Interest on Net OPEB Obligation	13,177	14,252	15,202	16,243	17,342
Adjustment of Annual Required Contribution	(37,238)	(39,787)	(42,441)	(45,346)	(48,413)
Annual OPEB Cost (Expense)	(8,952)	(10,426)	(11,560)	(13,424)	(15,392)
Contributions and Payments	(33,615)	(25,364)	(20,134)	(21,258)	(21,230)
Increase (Decrease) in New OPEB Obligation	(42,567)	(35,790)	(31,694)	(34,682)	(36,622)
Net OPEB Obligation - End of Year	<u>\$ 396,696</u>	<u>\$ 439,263</u>	<u>\$ 475,053</u>	<u>\$ 506,747</u>	<u>\$ 541,429</u>

Weighted average assumptions used to determine NOO and Annual Required Contributions:

Discount rate	3.00%
Expected long-term return on plan assets	N/A
Rate of compensation increase	N/A

Required plan disclosures are as follows as per the triennial actuarial valuation prepared September 30, 2016:

	9/30/2016	9/30/2013
Comparison of AAL to plan assets	Unfunded Plan	Unfunded Plan
Actuarial Accrued Liability (AAL)	\$ 175,122	\$ 181,718
Fair Value of Plan Assets	-	-

Weighted-average assumptions used to determine AAL

Discount rate	3.00%
Rate of compensation increase	N/A
Trend rate	1.00%

The Company has no assets and does not plan to make contributions to this plan during the upcoming fiscal year other than the payment of current benefits. The plan has been historically financed on a pay-as-you-go basis. The period closes as of year-end. There are no expected refunds from the postretirement plan.

**CLARKSVILLE LIGHT & WATER COMPANY**

**Notes to Financial Statements**

**September 30, 2018 and 2017**

The following benefits are expected to be paid over the next ten fiscal years as per the triennial actuarial valuation prepared September 30, 2016:

2017	\$20,500
2018	\$21,200
2019	\$21,800
2020	\$22,300
2021	\$16,300
Years 2022 - 2026	\$56,700

These amounts are based on current data assumptions, and reflect expected future service.

Annual Required Contribution  
Beginning 10/1/2017 and Ending 9/30/2018

Components of Annual Required Contribution (ARC) Unfunded Plan

Service Cost	\$ -
Amortization of transition Obligation	14,669
Interest Cost	440
Annual Required Contribution (ARC)	<u>\$ 15,109</u>

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2)-(1)	Funded Ratio (1)/(2)	Annual Covered Payroll	UAAL As a % of Payroll (3)/(5)
9/30/2016	\$-	\$ 175,122	\$ 175,122	0%	N/A	N/A
9/30/2013	\$-	\$ 181,718	\$ 181,718	0%	N/A	N/A

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

# CLARKSVILLE LIGHT & WATER COMPANY

## Notes to Financial Statements

September 30, 2018 and 2017

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 the valuation and the historical pattern of sharing of 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 following are additional actuarial assumptions that were used to value your September 30, 2016 Actuarial Accrued Liability and the September 30, 2017 Annual Required Contribution.

### **Mortality Rates**

Total dataset mortality rates from RP-2006 (underlying baseline table from SOA RP—2014 study based on experience data for private pension plans as of 2006, the central year of experience data 2004-2008.

### **Mortality Improvement (MI)**

PFG2012-10 MI scale: this scale is based on the RPEC\_2014v\_2016 model reflecting historical U.S. mortality data to 2014, published by the SOA in October 2016. Due to the 2-year stepback, last historical graduated data year in the scale is 2012. The following user-selected assumptions that differ from committee-selected assumption set are applied to the updated model:

- Convergence periods (horizontal and diagonal) assumed equal and 10 years in length
- Long-term mortality improvement is the sex-distinct and age-based assumption calibrated to the annual improvement averages, for the period 2010-2088 published in the Social Security Administration Trustees Report 2014. There is no change to LTR assumptions after a review of the 2015 and 2016 Social Security Administrations Trustees Reports.

During benefit payment period – Above table with generational MI scale, annuitant, male and female.  
Before benefit payment period – Above table with generational MI scale, non-annuitant, male and female.

### **Retirement Age**

Age 65.

### **Marriage**

Based on actual data.

### **Premiums**

Based on actual premium rates and vary by participant.

# CLARKSVILLE LIGHT & WATER COMPANY

## Notes to Financial Statements

September 30, 2018 and 2017

### Premium Trend

Year	Premiums	Year	Premiums
2017	7.00%	2021	6.00%
2018	6.75%	2022	5.50%
2019	6.50%	2023	5.00%
2020	6.25%	2024+	4.50%

### NOTE 15 – CLARKSVILLE LIGHT & WATER COMPANY RETIREMENT PLAN WITH LIFE INSURANCE

#### A. General Information about the Pension Plan

##### Plan Description

The Clarksville Light & Water Company Retirement Plan with Life Insurance is a single-employer defined benefit plan sponsored by the Clarksville Light & Water Company. The Plan is governed by the Clarksville Light & Water Company Commission of the City of Clarksville, Arkansas which may amend plan provisions, and which is responsible for the management of plan assets. The Clarksville Light & Water Company Commission has delegated the authority to manage plan assets to Principal Financial Group. No changes have occurred in the Plan between the measurement date and the financial statement date that have a significant effect on net pension liability. The Plan does not issue an audited stand-alone financial report.

##### Eligibility and Benefits Provided

The Plan covers substantially all full-time employees who attained age 21 and have completed at least one year of service in which at least 1,000 hours were worked. 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. An early retirement benefit is available for employees who have attained age 55 and completed 10 years of vesting service at a reduced benefit amount depending on the number of years the early retirement date precedes the normal retirement date. The Plan also provides for a death benefit of the greater of a survivor annuity death benefit or whole life insurance death benefit. This reflects the provisions of the plan dated January 31, 2014. There have been no changes in plan provisions during the measurement period. There have been no changes in plan provisions between the January 31, 2018 measurement date and the date this information was certified by Principal Financial Group on October 17, 2018.

# CLARKSVILLE LIGHT & WATER COMPANY

## Notes to Financial Statements

September 30, 2018 and 2017

### Contributions

The basis for determining contributions is an actuarially determined contribution rate that is calculated each year in the plan's Actuarial Valuation Report. The actuarially determined contribution rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with additional amounts to finance any unfunded accrued liability and plan administrative expenses. Employees are currently required to contribute 2.50% of salary.

The actuarially determined employer contribution for the measurement period ending January 31, 2018 was \$569,857 and the expected employee contributions were \$86,208. The actuarially determined employer contribution for the upcoming measurement period ending January 31, 2019 is \$596,786 and the expected employee contributions are \$87,975. The actuarially determined employer contribution for the measurement period ending January 31, 2017 was \$451,996 and the expected employee contributions were \$86,662.

### Allocated Insurance Contracts

Annuities were purchased for one member who retired during the measurement period. The amounts of the annuities purchased were \$123,530. The obligation for the payment of retirement benefits for this member has been transferred to the annuity contracts. The plan has no further obligation for this member.

### Employees Covered

9/30/2018

Active plan members	60
Inactive plan members entitled to but not yet receiving benefits	16
Disabled plan members entitled to benefits	0
Retired plan members or beneficiaries currently receiving benefits	<u>0</u>
Total	<u>76</u>

**CLARKSVILLE LIGHT & WATER COMPANY**

**Notes to Financial Statements**

**September 30, 2018 and 2017**

**B. Net Pension Liability**

The historical information required to be disclosed is as follows:

Actuarial Valuation Date	(1) Fiduciary's Net Position	(2) Total Pension Liability	(3) Net Pension Liability (2)-(1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) Net Pension Liability as % of Payroll (3)/(5)
02/01/18	\$ 6,683,189	\$ 8,609,960	\$ 1,926,771	78%	\$ 3,378,654	57%
02/01/17	\$ 6,118,243	\$ 8,067,346	\$ 1,949,103	76%	\$ 3,309,601	59%
02/01/16	\$ 5,985,322	\$ 7,286,733	\$ 1,301,411	82%	\$ 3,310,615	39%
02/01/15	\$ 5,119,134	\$ 6,871,556	\$ 1,752,422	74%	\$ 3,114,072	56%
02/01/14	\$ 4,117,792	\$ 5,895,347	\$ 1,777,555	70%	\$ 3,296,874	54%
02/01/13	\$ 3,623,125	\$ 5,426,419	\$ 1,803,294	67%	\$ 3,381,052	53%
02/01/12	\$ 3,102,083	\$ 4,982,048	\$ 1,879,965	62%	\$ 3,209,305	59%
2/1/2011	\$ 2,675,247	\$ 4,102,192	\$ 1,429,945	65%	\$ 2,877,693	50%
2/1/2010	\$ 2,705,782	\$ 4,209,686	\$ 1,503,904	64%	\$ 2,667,122	56%

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 total pension liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, total pension liability, and net pension liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the total pension 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 & WATER COMPANY

## Notes to Financial Statements

**September 30, 2018 and 2017**

Trends in the net pension liability and annual covered payroll are both affected by inflation. Expressing the net pension 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 a net pension liability, the smaller this percentage, the stronger the plan.

Annual required employer contributions for the Plan as reported by the Principal Financial Group are reported as follows:

<u>Plan Year Ending</u>	(1) Actuarially Determined Contribution	(2) Actual Plan Contribution	(3) Difference (1)-(2)	(4) Annual Covered Payroll	% Contributions as% Covered Payroll (2)/(4)
1/31/2018	\$ 569,857	\$ 473,615	\$ (96,242)	\$ 3,378,654	14%
1/31/2017	\$ 451,996	\$ 451,996	\$ -	\$ 3,309,601	14%
1/31/2016	\$ 422,124	\$ 819,213	\$ 397,089	\$ 3,310,615	25%
1/31/2015	\$ 262,529	\$ 984,986	\$ 722,457	\$ 3,114,072	32%
1/31/2014	\$ 319,213	\$ 319,213	\$ -	\$ 3,296,874	10%
1/31/2013	\$ 326,027	\$ 326,027	\$ -	\$ 3,381,052	10%
1/31/2012	\$ 253,745	\$ 253,745	\$ -	\$ 3,209,305	8%
1/31/2011	\$ 244,601	\$ 244,601	\$ -	\$ 2,877,693	8%
1/31/2010	\$ 228,329	\$ 228,329	\$ -	\$ 2,667,122	9%

# CLARKSVILLE LIGHT & WATER COMPANY

## Notes to Financial Statements

September 30, 2018 and 2017

### Assumptions

The Net Pension Liability is measured as the total pension liability less the pension plan's fiduciary net position.

Valuation Date	1/31/2018
Measurement Date	1/31/2018
Actuarial Cost Method	Entry Age Cost Method, Level Percentage of Pay
Actuarial Assumptions	
Inflation Rate	2.00%
Payroll Growth	2.00%
Projected Salary Increase	3.88-6.18%
Municipal Bond Rate	3.91%
Mortality Table	RP-2006 from SOA RP-2014 Study based on experience data for 2004-2008 years. The Principal Improvement scale is based on the SOA MI model RPEC_2014_v2017 and Principal-selected assumption set published November 2017.

The beginning of period total pension liability was determined using the same assumptions and methods, with the exception of the changes noted below.

### Long-term return on plan assets

The interest rate is developed as a long-term expected geometric return on plan assets. Arithmetic expected return is calculated as the weighted average of broad asset classes' arithmetic returns of the plan's target asset allocation, and then converted to the geometric under lognormal distribution assumptions.

### Discount Rate

The discount rate used to determine the end of period Total Pension Liability is 3.75%.

The plan's fiduciary net position and benefit payments were projected to determine if the plan's fiduciary net position was greater than or equal to the expected benefit payments for each period from 2017 to 2105. Benefit payments after 2105 are projected to be \$0.

The long-term rate of return of 3.75% is used to calculate the actuarial present value of projected payments for each future period when the projected Fiduciary Net Position is greater than the projected expected benefit payments. Otherwise, a municipal bond rate of 3.91% is used. The municipal bond rate is from Barclays Municipal GO Long Term (17+ Y) Index, which includes 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher securities, as of the January 31, 2018 measurement date. The discount rate is a single rate that incorporates the long-term rate of return and municipal bond rate as described.

**CLARKSVILLE LIGHT & WATER COMPANY**

**Notes to Financial Statements**

**September 30, 2018 and 2017**

**C. Schedule of Changes in Net Pension Liability**

<b>Measurement Period Ending</b>	<b>1/31/2018</b>	<b>1/31/2017</b>	<b>1/31/2016</b>	<b>1/31/2015</b>
<b>Fiscal Year Ending</b>	<b>9/30/2018</b>	<b>9/30/2017</b>	<b>9/30/2016</b>	<b>9/30/2015</b>
<b>Total Pension Liability</b>				
Service cost	379,811	351,998	335,823	303,951
Interest	312,149	302,759	300,400	293,822
Benefit payments	(123,530)	(564,759)	(267,216)	(151,406)
Differences between expected and actual experience	(20,981)	74,376	66,855	(105,922)
Changes in assumptions	(4,835)	616,239	(20,685)	635,769
Changes in benefit terms	-	-	-	-
<b>Net change in Total Pension Liability</b>	<b>542,614</b>	<b>780,613</b>	<b>415,177</b>	<b>976,214</b>
<b>Balance, beginning of period</b>	<b>8,067,346</b>	<b>7,286,733</b>	<b>6,871,556</b>	<b>5,895,352</b>
<b>Balance, end of period</b>	<b>8,609,960</b>	<b>8,067,346</b>	<b>7,286,733</b>	<b>6,871,566</b>
<b>Fiduciary Net Position</b>				
Employee contributions	84,812	77,537	88,419	79,851
Employer contributions	473,615	451,996	819,213	978,957
Other contributions	-	-	-	-
Net investment income	185,689	223,519	254,428	174,941
Benefit payments	(123,530)	(564,759)	(267,216)	(151,406)
Administrative expenses	-	(4,000)	-	-
Other expenses	-	-	-	(450)
Other deductions	(55,640)	(51,372)	(28,386)	(80,552)
<b>Net Change in Fiduciary Net Position</b>	<b>564,946</b>	<b>132,921</b>	<b>866,458</b>	<b>1,001,341</b>
<b>Balance, beginning of period</b>	<b>6,118,513</b>	<b>5,985,592</b>	<b>5,119,134</b>	<b>4,117,793</b>
<b>Balance, end of period</b>	<b>6,683,459</b>	<b>6,118,513</b>	<b>5,985,592</b>	<b>5,119,134</b>
<b>Net Pension Liability</b>	<b>1,926,501</b>	<b>1,948,833</b>	<b>1,301,141</b>	<b>1,752,432</b>
<b>End of Period Assumptions</b>				
Long-term rate of return	3.75%	3.75%	4.25%	4.25%
Discount rate	3.75%	3.75%	4.25%	4.25%
Salary increase assumption	S5 + 2.0%	S5 + 2.0%	S5 + 2.5%	S5 + 2.5%
Retirement age assumption	NRA	NRA	NRA	NRA
Plan changes	none	none	none	none

**CLARKSVILLE LIGHT & WATER COMPANY**

**Notes to Financial Statements**

**September 30, 2018 and 2017**

Sensitivity to Changes in Discount Rate	1% decrease 2.75%	Discount Rate 3.75%	1% increase 4.75%
<b>Net Pension Liability</b>	\$ 3,314,086	\$ 1,926,771	\$ 744,391

**D. Pension Expenses**

The Pension Expenses for the fiscal years ended September 30, 2018 and 2017 are \$586,860 and \$542,585. Below are the components of pension expenses.

Components of Pension Expense	9/30/2018	9/30/2017
Service cost	\$ 379,811	\$ 351,998
Interest cost	312,149	302,759
Contributions from employees	(84,812)	(77,537)
Expected investment income	(230,630)	(238,699)
Other expenses	-	-
Other deductions	55,640	55,372
Recognition of deferred outflows and inflows due to:		
Differences between expected and actual experience	1,611	4,031
Changes in assumptions	135,795	136,353
Differences between expected and actual investment earnings	17,296	8,308
<b>Total Pension Expense</b>	<u>\$ 586,860</u>	<u>\$ 542,585</u>
 Rates used to determine pension expenses		
Discount Rate	3.75%	4.25%

**CLARKSVILLE LIGHT & WATER COMPANY**

**Notes to Financial Statements**

**September 30, 2018 and 2017**

**E. Deferred Outflows and Inflows of Resources Related to Pensions**

Recognition of Deferred Outflows and Inflows - Actuarial

<u>Date</u> <u>Established</u>	<u>Type</u>	<u>Initial or</u> <u>Prior Year</u> <u>Balance</u>	<u>Current</u> <u>Amount</u> <u>Recognized</u>	<u>Deferred</u> <u>Balance</u>	<u>Upcoming</u> <u>Amount</u> <u>Recognized</u>	<u>Years</u> <u>Remaining</u>
9/30/2018	Experience	\$ (20,981)	\$ (2,420)	\$ (18,561)	\$ (2,420)	7.67
9/30/2018	Assumption	(4,835)	(558)	(4,277)	(558)	7.66
9/30/2018	Investment Income	44,941	8,988	35,953	8,988	4.00
9/30/2017	Experience	\$ 66,000	\$ 8,376	57,624	\$ 8,376	6.88
9/30/2017	Assumption	546,843	69,396	477,447	69,396	6.88
9/30/2017	Investment Income	12,144	3,036	9,108	3,036	3.00
9/30/2016	Experience	52,493	7,181	45,312	7,181	6.31
9/30/2016	Assumption	(16,241)	(2,222)	(14,019)	(2,222)	6.31
9/30/2016	Investment Income	(16,921)	(5,640)	(11,281)	(5,640)	2.00
9/30/2015	Experience	(71,344)	(11,526)	(59,818)	(11,526)	5.19
9/30/2015	Assumption	428,222	69,179	359,043	69,179	5.19
9/30/2015	Investment Income	21,824	10,912	10,912	10,912	1.00
	<b>Total</b>	<u><u>\$ 1,042,145</u></u>	<u><u>\$ 154,702</u></u>	<u><u>\$ 887,443</u></u>	<u><u>\$ 154,702</u></u>	

Amounts reported as deferred outflows and inflows of resources related to changes in assumptions and differences between expected and actual experience will be recognized in the pension expense as follows:

<u>Fiscal Year</u> <u>ending 09/30</u>	<u>Amount to be</u> <u>Recognized</u>
2019	\$154,702
2020	143,789
2021	149,430
2022	146,395
2023	137,406
Thereafter	\$155,721

**CLARKSVILLE LIGHT & WATER COMPANY**

**Notes to Financial Statements**

**September 30, 2018 and 2017**

Deferred Outflow of Resources – Pension Contribution

Pension contributions received after the measurement date of 1/31/2018 were \$596,786. Pension contributions received after the measurement date of 1/31/2017 were \$473,615.

**F. Investments**

**Investment policy**

A general listing of plan assets as of the measurement dates is shown below.

	1/31/2018	1/31/2017
Principal Financial Group	\$ 6,275,280	\$ 5,695,792
Whole Life Insurance Reserves	407,909	422,451
Total Plan Assets	<u>\$ 6,683,189</u>	<u>\$ 6,118,243</u>

Plan funds are held in the General Account of the Principal Life Insurance Company, according to the terms of the Deposit Administration Group Annuity Contract #103297, and in whole life insurance reserves. Investment policies, strategies, and allocations within the General Account are made by Principal Life. The Deposit Administration contract guarantees expense charges, annuity purchase rates, and minimum crediting rates.

The investment strategy as stated by Principal Life Insurance Company of the General Investment Account is as follows. “Our promises under your contract are supported by the entire general account of Principal Life Insurance Company. A segment of the general account has been established to allow us to support your contract’s “best efforts” return. This segment includes a broadly diversified portfolio that primarily consists of intermediate-term, fixed income investments, such as public and private corporate bonds, commercial and residential mortgages, asset-backed securities, and U.S. government and agency-backed securities. Our obligations to you are set out in the contract. While you do not have an interest in the general account or the segment that was set up to specifically support your contract, it is important that you know about the operation of this segment as it directly affects the return under your contract.”

Long Term Returns	Year to Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-3.59%	-2.68%	2.53%	3.22%	5.33%
Annual Returns	2017	2016	2015	2014	2013
Total Return %	7.49%	5.25%	-0.06%	6.87%	-0.25%

# CLARKSVILLE LIGHT & WATER COMPANY

## Notes to Financial Statements

September 30, 2018 and 2017

### Portfolio Information

Composition as of 6/30/2018

	% of Assets
U.S. Bonds	55.70%
Non-U.S. Bonds	23.30%
Commercial Mortgages	17.20%
Cash	2.30%
Other	1.50%

### Concentrations

As of the measurement dates, the following are investments (other than US Government and US Government guaranteed obligations) in any one organization that represents 5 percent or more of the pension plan's fiduciary net position.

	9/30/2018	9/30/2017
Principal Financial Group	\$ 6,683,189	\$ 5,695,792

### Method used to value investments

Investments are valued as of the measurement date. Investments in separate accounts held at The Principal Financial Group are commingled pools, rather than individual securities and are valued at fair market value.

Investments in the General Investment Account at The Principal Financial Group are valued at contract value, per GASB Statement 31 paragraph 8. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to pay benefit or administrative expenses.

### Money-weighted Rate of Return

The money-weighted rate of return is calculated as a rate of return on pension plan investments incorporating the actual timing and amount of cash flows. This return is calculated net of investment expenses. The annual money-weighted rate of return on plan investments for the measurement period of 02/01/2017 to 01/31/2018 is 3.49% and 02/01/2016 to 01/31/2017 is 4.37%. The actual date and amount of each contribution benefit payment, and administrative expense payment was used in the calculation of the money-weighted rate of return.