

CLARKSVILLE CONNECTED UTILITIES
Independent Auditors' Report
And
Financial Statements
September 30, 2019 and 2018

CLARKSVILLE CONNECTED UTILITIES
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Clarksville Connected Utilities
City of Clarksville
Clarksville, Arkansas

Report on Financial Statements

We have audited the accompanying financial statements of Clarksville Connected Utilities, a component unit of the City of Clarksville, Arkansas, as of and for the years ended September 30, 2019 and 2018 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 Connected Utilities 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.

The Clarksville Connected Utilities Other Post Employment Benefit Plan has not adopted Governmental

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Accounting Standards Board No. 75 – Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Therefore, we were unable to obtain sufficient appropriate audit evidence regarding the Net OPEB Obligation 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 Connected Utilities, a component unit of the City of Clarksville, Arkansas, as of September 30, 2019 and 2018, 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 11 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 Connected Utilities, 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 Connected Utilities. 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 February 7, 2020 on our consideration of the Clarksville Connected Utilities' 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 Connected Utilities' internal control over financial reporting and compliance.

King Jacobs & Lorfing, CPAs, PA

King Jacobs & Lorfing, CPAs, PA

February 7, 2020

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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 Connected Utilities
City of Clarksville
Clarksville, Arkansas

We have audited the financial statements and the related notes of the Clarksville Connected Utilities, a component unit of the City of Clarksville, Arkansas, as of and for the year ended September 30, 2019, and have issued our report thereon dated February 7, 2020. 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 Connected Utilities', 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 Connected Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Clarksville Connected Utilities' 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 Connected Utilities', 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 & Lorfing, CPAs, PA

King Jacobs & Lorfing, CPAs, PA

February 7, 2020



Management Discussion and Analysis 2019

Clarksville Connected Utilities

Background

Clarksville Connected Utilities is owned by the City of Clarksville, Arkansas and operates under a Commission form of governance. 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. CCU's current governing structure was established in 1947 when the City Council appointed the Commission to act as an agency of the City, charged with the responsibility of administering the utility in the best interest of the citizens of Clarksville. That tradition continues today with Clarksville Connected Utilities and the current commissioners are: Eddie Lindsey, Margot McCleod, Bendex Stephenson, Christel Thompson, and Joshua Wilson.

It is important to note that during the first quarter of 2019 the Commission and then by confirmation vote of the City Council, the utility rebranded itself changing the name and the logo from Clarksville Light & Water to Clarksville Connected Utilities. Given the forward leaning things the utility has done over the last few years with solar power and the fiber optic network, many believed a more contemporary name and look was warranted. Consequently, the utility engaged a marketing firm in Little Rock, Arkansas named Stone Ward to develop the new brand. The result of the process was the new name and a formal marketing plan for the fiber broadband utility.

Customers

Clarksville Connected Utilities presently serves approximately 4,500 residences and businesses within the Clarksville city limits, providing electricity, water, wastewater treatment services, and broadband services. CCU has now become an internet services provider (ISP) 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 Connected Utilities total annual revenues for fiscal year 2019 were \$24,990,716 which was 9.58 % lower or \$2,646,368 less than the previous year. Expenses were also down \$2,528,032 (10%). Even with the reduction in the revenues

the net income for fiscal year 2019 was positive \$698,187 after the audit adjustments. The positive 2019 financial results were primarily caused by of 500-year flooding weather patterns in our region. This rainfall resulted in very high number of kilowatt hours of Southwestern Power Administration supplemental energy generation being supplied for the fiscal year at very low energy prices compared to the normal wholesale power cost.

ABOUT THE ELECTRIC UTILITY

Electric revenues for 2019 were \$17,819,394 down \$2,415,999 (11.9%) across all customer categories of residential, commercial, and industrial accounts. Electricity kilowatt hours sold during 2019 were 233,113,098 down 4.5 % compared to 243,516,173 kilowatt hours the previous year. This resulted in net income of \$1,138,445 for the year for this utility. The number of kilowatt hours were down for a couple of reasons. The summer temperatures were relatively mild and ABB/Baldor ended its production locally at the end of December 2018. Hanes Brand also reduced its local production. This lowered the CCU load over the last 9 months of our fiscal year. For fiscal year 2019 CCU had over 45,191,500 kilowatts hours of supplemental vs the normal 22,953,000 hours of peaking energy from SWPA. The other contributor to the lower expense line item during the fiscal year was CCU altered its power transmission contract by moving from the Southwestern Power Administration Point-To-Point (PTP) transmission service to a Network Integrated Transmission Service (NITS) with the Southwest Power Pool the Regional Transmission Organization (RTO). This change in service reduced CCU transmission expenses by over \$1 Million.

Wholesale Power Providers

Clarksville's largest power provider Oklahoma Municipal Power Authority (OMPA) furnished approximately 49% of our supply in 2019, down from 63.1% in 2018. In addition to the purchase of energy, OMPA provides ancillary services to Clarksville Connected Utilities 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 Connected Utilities continues to receive hydro peaking power from the Southwestern Power Administration (SWPA) and supplemental energy. In 2019 this comprised approximately 27.4% of our supply, which far exceeded its generation output in recent history. This was a result of the 500-year rainfall mentioned previously and water flowing into and through the 23 SWPA hydro projects. Fiscal year 2019 netted a savings of approximately \$2 million dollars compared to the normal whole price of energy because of the supplement power. CCU also changed its relationship with SWPA in 2019 regarding transmission. Historically CCU has had two contracts with SWPA for

power supply and transmission. During the latter part of 2018 we changed our transmission contract from a “Point to Point (PTP)” type service from SWPA to a “Network Integrated Transmission Service (NITS)” with the Southwest Power Pool (SPP). The reason for the move was related to changing market conditions to transmission service whereas ultimately the cost of transmission would be lowered. The original savings was estimated to be between \$400,000 a year savings to upwards of \$800,000 a year. The reality was the actual savings netted over \$1 Million over a 12-month period. This was a 40% drop in the transmission expense. All of these savings were passed to the CCU customers via the electric fuel adjustment formula.

The third supplier, Independence County Hydroelectric, currently furnished approximately 20% of the supply in 2019 up 1% from 2018, of Clarksville Connected Utilities 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 improvement. This provider also likely had increased output because of the rains and SWPA releasing water into the White River. A renegotiated contract extending the support included performance benchmarks built into the contract to incent the provider to keep up production levels.

During fiscal year 2019 CCU experienced a full year of generation from Power Plant #I, a 5.2-Megawatt plant with Scenic Hill Solar (SHS). The projected output of this facility was estimated to be 11,000 MWh’s for a 12-month period. The actual output of PP#I for FY 2019 the production was 10,029-Megawatt hours. This is not surprising considering the overcast and rainy conditions we experienced in 2019. During the summer of 2019 CCU, with the support of the local economic development group and city elected officials, opted to add more solar generation to the CCU energy mix. In 2017 OMPA granted permission for CCU to add solar to our portfolio inspiring the first power plant. When they gave Clarksville the ability to add the capacity, they approved up to 7 MW +/- 5%. It was with this in mind that CCU entered into another agreement with Scenic Hill Solar (SHS) to add 2 more Megawatts of solar to our portfolio. The construction of the second facility (PP #II) commenced in October of 2019 and was scheduled to be energized before the end of year 2019. Beginning in 2020 CCU will have 7.2 MW of solar capacity and generation in its portfolio.

Ultimately during the 2019 fiscal year, the cost of energy from OMPA ended up being \$57.53 compared to \$58.62 in 2018. This was \$1.09 per megawatt hour lower than the previous period. The overall average cost per megawatt hour for all of CCU supply was \$47.08. This was the lowest cost per unit CCU has experienced since 2012. It is also worthy to note, in FY 2019 the total percentage of non-emitting energy used by CCU made up over 60% of its total supply. The resources included hydro, wind, solar and landfill gas as part of its supply.

ABOUT THE WATER AND WASTEWATER UTILITIES

The water and sewer utilities have been financially performing consistently for the last few years following the expansion of the water treatment plant and connecting the city of Scranton. This year both utilities ended up with losses. Water revenues were \$5,091,472 down by \$85,792 in 2019 (-1.6%) and Sewer revenues were \$ 2,079,849 down by \$ 144,576 (-6.5%) in 2018 vs. 2017. Wet weather conditions likely contributed to the reduction in revenues for both water and wastewater. The wet weather along with some early retirement of staff in these two utilities contributed to a reduction in sales and an increase in expenses. Typically, when we have heavy rains consumers use less water and in turn the cost for treatment increases. At the same time the cost for chemicals increased for FY 2019 because of the turbid conditions and the inflow and infiltration in the sewer collection system. For example, despite the water utility having sold 56,348,427 less gallons, a reduction of 3%, there was an increase in chemical expenses of over \$20,000 for water treatment. Another contributor to the unit sales reduction was likely reduced production by Hanes Brand a local industrial customer. For both utilities, CCU had some early retirements, which impacted the income statement. When CCU has early retirements, it has a practice of booking the expense of outstanding Paid Time Off (PTO) and some of the retirement benefits in their entirety during the subject fiscal year. This happened with retirements in both utilities. At the same time, CCU also works to put staff in place to allow for adequate time for training to take place. This does temporarily place additional payroll expense pressure on the utilities as well.

ABOUT THE BROADBAND UTILITY/FIBER OPTIC NETWORK

CCU has been steadily growing and expanding a 100% optical fiber network since 2015. Fiscal year 2019 was the culmination of the previous steps because the CCU Commission chose to expand the network capabilities even further to begin building a Fiber-To-The-Home/Business (FTTx) network in Clarksville. The previous steps included building a core seventeen plus (17+) mile core of fiber cable with 288 strands. Then CCU provided services to itself including secure, highly reliable, and highspeed communications for utility SCADA and its internal business operations. Then additional steps were taken to 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 the City of Clarksville facilities. The FTTx project was the final step, which will allow CCU to provider ultra-high-speed internet capable of gigabit speeds and phone services to homes and local businesses. CCU had connected over a dozen beta customers and the market research and business case indicted the high likelihood of success for expanding to this level. To that end, CCU hired Stephens Inc., as a financial consultant and Kutak Rock as a bond firm to consider the issuance of bonds for the FTTx project. CCU also interviewed and selected a Construction Manager/General Contractor for the project. In April of 2019 the Commission and then the Clarksville City Council approved the steps to issue bonds for the fiber project. The bonds would be valued at approximately \$9 million with \$7 million going to the fiber expansion, \$1.5 million to upgrade water treatment plant ozone generator units, and \$500,000 being used for electric distribution upgrades. The issue was completed the

following month. CCU and its CM/GC continued the planning process during the summer of 2019 and the construction of the fiber project started in September of 2019. The distribution network is expected to be complete in the early second quarter of 2020 and some of the 14 PON (Passive Optical Network) location will be available to make customer connection in the first quarter of 2020. In fact, CCU has implemented web pages to promote and allow customers to order service and by the end of 2019 there were over 450 orders for service. These orders would comprise approximately 10% of the 4,500 potential homes and businesses in Clarksville. CCU anticipated the take rate to reach approximately 30% within the first three years and the possibility for 50% by the end of year five is also very likely. The current revenues from customers already connected are projected to be approximately \$240,000 annually, mostly with local anchor institutions already taking service. An additional 450 residential customers and business customers would contribute an additional \$230,000 the following year. Going forward CCU will be considering this network a new utility. It will begin to separate the revenues and expenses accordingly and report them as a new business unit with the unified utility of Clarksville Connected Utilities.

This final step in the development of a fiber network will make Clarksville, Arkansas a very unique community. Only two other cities in Arkansas currently provide internet type services. Clarksville will be the third and the only one to have an all optical network. The other two, Paragould and Conway, have hybrid facilities made up of copper and fiber plants. In fact, Clarksville will be one of only 230 communities in 33 states with a publicly owned fiber network offering at least 1 gigabit services. Additionally, CCU will also be included as one of just over two dozen communities in 6 states with a municipal network delivering 10 gigabit services. Most of these communities have chosen to build such a network because they felt it was critical to its long-term economic viability. In fact, nearly all believe this type of technology is now a utility and is just as critical for the long-term development and viability as electric and water utilities were for their cities 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 12 to 14) 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 17. These schedules provide a more detailed picture of the Company's revenues and expenses.

The Statement of Cash Flows (on pages 15 and 16) 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, 2019 are 5.03 and 4.51 respectively. This means, for example, that for every \$5.03 in current assets, the Company has \$1.00 in current liabilities. These ratios were 4.43 and 3.95 respectively for the year ended September 30, 2018.

Comparison of Financial Data	2019	2018	Net Change
Current Assets	15,663,337	14,561,539	1,101,798
Restricted Fund Assets	8,146,576	898,808	7,247,768
Net Capital Assets	51,138,724	50,155,091	983,633
Other Assets	3,161,371	3,152,247	9,124
Deferred Outflow of Resources	1,413,963	1,572,185	(178,222)
Total Assets	79,523,971	70,359,870	9,164,101
Current Liabilities	3,115,738	3,284,882	(169,144)
Net Long-Term Debt	11,547,955	2,635,000	8,912,955
Other Liabilities	2,566,241	2,762,581	(196,340)
Deferred Inflow of Resources	277,981	107,956	170,025
Total Liabilities	17,507,915	8,790,419	(8,717,496)
Net Assets Invested in Capital Assets, Net of Related Debt	39,400,769	46,695,088	(7,294,319)
Net Position Restricted	8,146,576	898,808	7,247,768
Net Position Unrestricted	14,468,711	13,975,555	493,156
Total Net Position	62,016,058	61,569,451	446,605
Operating Revenues	24,990,716	27,637,084	(2,646,368)
Direct Operating Expenses	20,601,700	23,648,323	(3,046,623)
General and Administrative Expenses	3,820,894	3,302,302	518,592
Non-Operating Revenues (Expenses)	130,065	(42,845)	172,910
Total Expenses	24,292,529	26,993,470	(2,700,941)
Income Before Contributions and Transfers	698,187	643,614	54,573
Contributions by Developers	-0-	3,966,793	(3,966,793)
Transfers to the City	(251,582)	(274,507)	22,925
Changes in Net Position	446,605	4,335,900	(3,889,295)
Ending Net Position	62,106,056	61,569,451	536,605
Cash Balance and Cash Equivalents	18,617,870	10,229,443	8,388,427

There was an increase of \$536,605 in net position during the year to \$62,106,056. There was an increase in long-term debt in the amount of \$8,912,955 due to the 2019 Revenue Bond Issue primarily for the Fiber Project. The \$18,617,870 cash balance at year-end was \$8,388,427 higher than 2018.

Overall, the 2019 net income before contributions and transfers of \$698,187 is up \$54,573 when compared to 2018. Operating revenues are down \$2,646,368, power costs decreased \$3,386,669 and other expenses show a net increase of \$685,728.

Departmental Summary

Electric Department operating revenues of \$17,819,394 are down \$2,416,000 from 2018 revenues. The cost of power purchased decreased \$3,386,669 and other expenses increased \$14,872. This resulted in a \$955,797 increase in electric net income of \$1,138,455 for the year 2019.

Water Department operating revenues decreased \$85,792 to \$5,091,473. Expenses increased \$490,383 and the net loss of \$164,903 reflects a decrease in earnings of \$576,175 for the year.

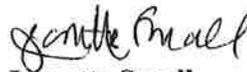
Sewer Department operating revenues of \$2,079,849 are down \$144,576. Expenses increased \$180,473 and the net loss of \$275,365 reflects a decrease in earnings of \$325,049 when compared to 2018.

Construction projects completed during the year added \$1,116,276, \$239,503 and \$137,689 to the electric, water, and sewer systems, respectively. Warehouse additions totaled \$31,992.

Equipment additions for the current year totaled \$495,130.



John Lester
General Manager



Jeanette Small
Finance Officer

CLARKSVILLE CONNECTED UTILITIES
Statements of Net Position
September 30, 2019 and 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash	\$ 10,471,294	\$ 9,330,635
Accounts Receivable net of allowance for doubtful accounts of \$65,527 for 2019 and \$65,000 for 2018	2,388,540	2,309,701
Unbilled Receivables	973,401	1,166,708
Accrued Interest Receivable	76,091	37,060
Inventories	1,612,678	1,569,314
Prepaid Expenses	141,333	148,121
Total Current Assets	<u>15,663,337</u>	<u>14,561,539</u>
Restricted Assets		
Bond Funds	8,146,576	258,805
Certificates of Deposits Pledged as Collateral on Loans	-	640,003
Total Restricted Assets	<u>8,146,576</u>	<u>898,808</u>
Capital Assets		
Land	1,180,950	1,179,222
Buildings	2,769,450	2,737,458
Electric System	28,919,361	27,803,085
Water System	61,214,788	60,975,284
Sewer System	15,485,308	15,351,390
Transportation Equipment	2,164,462	2,016,417
Office Equipment	1,518,811	1,434,087
Generation Equipment	956,655	956,655
Other Equipment	3,495,278	3,232,918
Construction in Progress	5,678,238	3,307,601
	<u>123,383,301</u>	<u>118,994,117</u>
Less Accumulated Depreciation	(72,244,577)	(68,839,026)
Net Capital Assets	<u>51,138,724</u>	<u>50,155,091</u>
Other Assets		
Investments - Electric Cooperative Certificates	161,371	152,247
Scenic Hills Solar Prepayment Deposit	3,000,000	3,000,000
Total Other Assets	<u>3,161,371</u>	<u>3,152,247</u>

See accompanying notes to financial statements.

CLARKSVILLE CONNECTED UTILITIES
Statements of Net Position (continued)
September 30, 2019 and 2018

Deferred Outflow of Resources		
Deferred Outflow of Resources - Pension Contributions	587,948	596,786
Deferred Outflow of Resources - Pension Actuarial	826,015	995,399
Total Deferred Outflow of Resources	<u>1,413,963</u>	<u>1,592,185</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 79,523,971</u>	<u>\$ 70,359,870</u>

LIABILITIES AND NET POSITION

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Accounts Payable	\$ 1,372,091	\$ 1,534,411
Accounts Payable (Payable from restricted funds)	472,328	-
Accrued Expenses	957,677	897,746
Accrued Interest Payable (Payable from restricted funds)	123,642	27,722
Current Due on Long Term Debt (Payable from restricted funds)	190,000	825,003
Total Current Liabilities	<u>3,115,738</u>	<u>3,284,882</u>
Other Liabilities		
Early Retirement Payable	156,294	67,301
Meter Deposits	379,873	371,812
Net Other Postemployment Benefit Obligations	345,284	396,697
Net Pension Liability	1,684,790	1,926,771
Total Other Liabilities	<u>2,566,241</u>	<u>2,762,581</u>
Long-Term Debt, Net of Current Maturities	<u>11,547,955</u>	<u>2,635,000</u>
Deferred Inflow of Resources - Pension Actuarial	<u>277,981</u>	<u>107,956</u>
Total Liabilities and Deferred Inflow of Resources	<u>17,507,915</u>	<u>8,790,419</u>
Net Position		
Net Investment in Capital Assets, Net of Related Debt	39,400,769	46,695,088
Restricted	8,146,576	898,808
Unrestricted	14,468,711	13,975,555
Total Net Position	<u>62,016,056</u>	<u>61,569,451</u>
Total Liabilities and Net Position	<u>\$ 79,523,971</u>	<u>\$ 70,359,870</u>

See accompanying notes to financial statements.

CLARKSVILLE CONNECTED UTILITIES
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2019 and 2018

	2019	2018
Operating Revenue		
Electric Revenue	\$ 17,819,394	\$ 20,235,394
Water Revenue	5,091,473	5,177,265
Sewer Revenue	2,079,849	2,224,425
Total Operating Revenue	24,990,716	27,637,084
Direct Operating Expenses	(20,601,700)	(23,648,323)
Operating Revenue less Direct Operating Expenses	4,389,016	3,988,761
General and Administrative Expense	(3,820,894)	(3,302,302)
Operating Income (Loss)	568,122	686,459
Non-Operating Revenues (Expenses)		
Interest Income	210,721	58,362
Interest Expense	(80,656)	(101,207)
Total Non-Operating Revenues (Expenses)	130,065	(42,845)
Income before Contributions and Transfers	698,187	643,614
Contributions in Aid of Construction/Other	-	3,966,793
Transfers to the City of Clarksville	(251,582)	(274,507)
Changes in Net Position	446,605	4,335,900
Net Position - Beginning of Year	61,659,451	57,233,551
Net Position - End of Year	\$ 62,106,056	\$ 61,569,451

See accompanying notes to financial statements.

CLARKSVILLE CONNECTED UTILITIES
Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 25,105,184	\$ 27,404,513
Cash Paid to Employees, Payroll Taxes, and Employee Benefits, Net of Capitalized Labor	(5,027,619)	(4,872,012)
Cash Paid to Suppliers for Operations and General & Administrative Expenses	(15,917,069)	(18,875,378)
Net Cash Provided by Operating Activities	4,160,496	3,657,123
Cash Flows From Non-Capital Financing Activities:		
Increase (Decrease) in Meter Deposits	8,061	7,900
Increase (Decrease) in Advanced Payment Diamond Pipeline	-	4,351
Net Cash Provided by Non-Capital Financing Activities	8,061	12,251
Cash Flows from Capital & Related Financing Activities:		
Payments on Debt Obligations	(825,268)	(1,338,016)
Proceeds from Series 2019 Utility Improvement Bonds	9,106,039	-
Interest Paid on Debt Obligations, Net of Capitalized Interest	(85,254)	(102,411)
Net Cash used for Financing Activities	8,195,517	(1,440,427)
Cash Flows from Investing Activities:		
Investment Income	171,690	68,660
Scenic Hills Solar Prepayment Deposit	-	(3,000,000)
Transfers to the City of Clarksville	(251,582)	(274,507)
Capital Expenditures	(3,895,755)	(6,764,512)
Net Cash Provided by Investing Activities	(3,975,647)	(9,970,359)
Net Increase (Decrease) in Cash	8,388,427	(7,741,412)
Cash at Beginning of Year	10,229,443	17,970,855
Cash at End of Year	\$ 18,617,870	\$ 10,229,443

See accompanying notes to financial statements.

CLARKSVILLE CONNECTED UTILITIES
Statements of Cash Flows (continued)
Years Ended September 30, 2019 and 2018

	2019	2018
Reconciliation of Earnings from Operations to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 568,122	\$ 686,459
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	3,409,322	3,245,400
Change in Operating Assets, Deferred Outflows of Resources and Liabilities:		
(Increase) Decrease in Accounts Receivables	(78,839)	(149,800)
(Increase) Decrease in Unbilled Receivables	193,307	(82,771)
(Increase) Decrease in Inventory	(43,364)	63,288
(Increase) Decrease in Prepaid Expenses	6,788	(16,315)
(Increase) Decrease in Certificates of Equity	(9,124)	(9,191)
(Increase) Decrease in Deferred Outflows-Pension Contributions	8,838	(123,171)
(Increase) Decrease in Deferred Outflows-Pension Actuarial	169,384	115,206
Increase (Decrease) in Accounts Payable	(89,493)	(42,793)
Increase (Decrease) in Accrued Expenses	59,931	45,506
Increase (Decrease) in Early Retirement Payable	88,993	(30,168)
Increase (Decrease) in Accrued OPEB Liability	(51,413)	(42,566)
Increase (Decrease) in Net Pension Liability	(241,981)	(22,332)
Increase (Decrease) in Deferred Inflows-Pension Actuarial	170,025	20,371
Net Cash Provided by Operating Activities	\$ 4,160,496	\$ 3,657,123
Non-Cash Investing, Capital & Financing Activities:		
Capital Assets Included in Accounts Payable at Year End	\$ 486,226	\$ 86,725
Cash Paid during the year for:		
Interest	\$ 85,254	\$ 102,411

See accompanying notes to financial statements.

CLARKSVILLE CONNECTED UTILITIES
DEPARTMENTAL INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2019

CLARKSVILLE CONNECTED UTILITIES
Departmental Statement of Revenues and Expenses
For the Year Ended September 30, 2019

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenue				
Electric	\$ 17,819,394	\$ -	\$ -	\$ 17,819,394
Water	-	5,091,473	-	5,091,473
Sewer	-	-	2,079,849	2,079,849
Total Operating Revenue	<u>17,819,394</u>	<u>5,091,473</u>	<u>2,079,849</u>	<u>24,990,716</u>
Direct Operating Expenses	<u>(15,096,742)</u>	<u>(3,859,139)</u>	<u>(1,645,819)</u>	<u>(20,601,700)</u>
Operating Revenue less Direct Operating Expenses	2,722,652	1,232,334	434,030	4,389,016
General and Administrative Expenses	<u>(1,690,546)</u>	<u>(1,367,604)</u>	<u>(762,744)</u>	<u>(3,820,894)</u>
Operating Income (Loss)	<u>1,032,106</u>	<u>(135,270)</u>	<u>(328,714)</u>	<u>568,122</u>
Non-Operating Revenue (Expenses)				
Interest Income	103,265	54,107	53,349	210,721
Interest Expense	<u>3,084</u>	<u>(83,740)</u>	<u>-</u>	<u>(80,656)</u>
Total Non-Operating Revenue (Expenses)	<u>106,349</u>	<u>(29,633)</u>	<u>53,349</u>	<u>130,065</u>
Income (Loss) before contributions & transfers	<u>\$ 1,138,455</u>	<u>\$ (164,903)</u>	<u>\$ (275,365)</u>	<u>\$ 698,187</u>

CLARKSVILLE CONNECTED UTILITIES
Schedule of Direct Operating Expenses
For the Year Ended September 30, 2019

	Electric	Water	Sewer	Total
Bandwidth Purchased	\$ 28,904	\$ -	\$ -	\$ 28,904
Depreciation	871,144	1,870,493	534,779	3,276,416
Education, Meetings, and Travel	7,732	6,069	4,945	18,746
Employee Benefits	156,008	162,755	152,959	471,722
Fuel	27,375	13,618	13,419	54,412
Generation Costs	51,614	-	-	51,614
Labor	1,017,817	820,455	578,385	2,416,657
Labor - Construction in Progress	(371,261)	(21,489)	(21,430)	(414,180)
Maintenance	118,159	132,916	30,480	281,555
Equip Expense - Construction in Progress	(255,633)	(13,317)	(15,986)	(284,936)
Payroll Taxes	74,915	59,605	41,801	176,321
Pension Expense	142,402	137,953	127,341	407,696
Power Purchased	13,203,749	-	-	13,203,749
Supplies	-	352,366	52,355	404,721
Uniforms	11,886	6,179	4,534	22,599
Utilities	9,279	320,523	136,481	466,283
Use Tax	2,652	11,013	5,756	19,421
Total	<u>\$ 15,096,742</u>	<u>\$ 3,859,139</u>	<u>\$ 1,645,819</u>	<u>\$ 20,601,700</u>

CLARKSVILLE CONNECTED UTILITIES
Schedule of General and Administrative Expense
For the Year Ended September 30, 2019

	Electric	Water	Sewer	Total
Advertising and Promotion	\$ 18,203	\$ 15,056	\$ 7,514	\$ 40,773
Bad Debts	56,980	11,100	5,920	74,000
Customer Online Payment Fees	16,347	15,259	7,901	39,507
Depreciation	28,357	28,357	28,357	85,071
Dues and Subscriptions	31,955	14,393	13,598	59,946
Education, Travel, and Meetings	21,880	19,499	9,933	51,312
Employee Benefits	108,334	105,224	51,906	265,464
Fuel	6,505	6,505	3,253	16,263
Insurance	87,045	87,045	43,523	217,613
Inventory Variances	5,285	3,384	1,021	9,690
Lab Fees and Tests	10,909	140	24,210	35,259
Labor	621,500	610,349	300,992	1,532,841
Maintenance	206,563	170,982	125,159	502,704
Miscellaneous	7,778	5,802	4,663	18,243
Office Supplies	22,002	23,068	10,426	55,496
Payroll Taxes	42,287	41,302	20,166	103,755
Pension	114,607	114,607	57,304	286,518
Professional Services	195,234	36,952	11,286	243,472
Supplies	24,115	31,631	19,974	75,720
Uniforms	7,377	7,313	3,657	18,347
Utilities	57,283	19,636	11,981	88,900
Total	<u>\$ 1,690,546</u>	<u>\$ 1,367,604</u>	<u>\$ 762,744</u>	<u>\$ 3,820,894</u>

CLARKSVILLE CONNECTED UTILITIES
DEPARTMENTAL INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2018

CLARKSVILLE CONNECTED UTILITIES
Departmental Statement of Revenues and Expenses
For the Year Ended September 30, 2018

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
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	<u>-</u>	<u>(101,207)</u>	<u>-</u>	<u>(101,207)</u>
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 CONNECTED UTILITIES
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 CONNECTED UTILITIES
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 CONNECTED UTILITIES
Notes to Financial Statements
September 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Clarksville Connected Utilities 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.

Clarksville Connected Utilities 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 CONNECTED UTILITIES
Notes to Financial Statements
September 30, 2019 and 2018

Cash and Cash Equivalents

For purposes of the statement of cash flows, Clarksville Connected Utilities 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 \$65,527 for the year ended September 30, 2019 and \$65,000 for year ending September 30, 2018. 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 acquisition.

Capitalized Interest

The Company capitalizes interest costs as part of the cost of constructing various electric, water, and sewer projects when material. Capitalized interest for the years ended September 30, 2019 and 2018 was \$96,658 and \$0, respectively.

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 CONNECTED UTILITIES
Notes to Financial Statements
September 30, 2019 and 2018

Unrestricted Net Position – Consists of net assets that do not meet the definition of “Investment 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, 2019 and 2018, contributions in aid of construction totaled \$0 and \$3,966,793, respectively. This consisted of cash transferred from the Diamond Pipeline Escrow Funds to Clarksville Connected Utilities 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.

Other Postemployment Benefit (OPEB) Plan

The Other Postemployment Benefit Plan has not adopted Governmental Accounting Standards Board No. 75 – Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The OPEB Liability is based on a rollforward of the December 31, 2016 actuarial report which is based on Governmental Accounting Standards Board Statement No. 45 – Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions. GASB No. 45 was superseded by GASB No. 75.

CLARKSVILLE CONNECTED UTILITIES
Notes to Financial Statements
September 30, 2019 and 2018

NOTE 2 - CASH AND INVESTMENTS

Deposits and Investments

All monies received by the Company shall be deposited 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 (FDIC).

The bank balances and carrying amounts of the Company's deposits and short-term investments held as of September 30, 2019 were as follows:

<u>Description</u>	<u>Bank Balance</u>	<u>Book Balance</u>
Cash on Hand	\$ -	\$ 950
Demand Deposits	6,584,204	5,794,687
Certificates of Deposit	4,882,979	4,819,467
Money Market Mutual Funds	8,002,766	8,002,766
	<u>\$ 19,469,949</u>	<u>\$ 18,617,870</u>

Money market mutual funds were held by the Company as of September 30, 2019 of \$197,591 in the Federated Treasury Obligations Fund in the Bond Fund held at Citizens Bank of Batesville. This fund is not insured or guaranteed by FDIC 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, 2019 of \$7,805,175 in FDIC Insured Cash Sweep (ICS) funds through Promontory Interfinancial Network, LLC.

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, 2019, all deposits were either collateralized, FDIC insured, or held in qualifying government securities. As of September 30, 2019, the Company's bank balances were \$19,469,949. As of September 30, 2019, the following collateral has been pledged for deposits over \$250,000:

CLARKSVILLE CONNECTED UTILITIES
Notes to Financial Statements
September 30, 2019 and 2018

Collateralized:

Collateral held by the pledging bank's trust	\$ 11,073,373
department or agent in the Company's name	<u>\$ 11,073,373</u>

NOTE 3 - RESTRICTED FUNDS

When both restricted and unrestricted resources are available for use, generally it is the Company's policy to use restricted resources first and to transfer unrestricted funds as needed. Total restricted funds were \$8,146,567 as of September 30, 2019 and \$898,808 as of September 30, 2018.

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.

NOTE 5 - MAJOR CUSTOMERS AND SUPPLIERS

The following table set forth the major customers for Clarksville Connected Utilities for the years ended September 30, 2019 and 2018. Amounts are presented in dollars and percent of total revenues. Accounts receivable from the following customers represent 32% of total accounts receivable as of September 30, 2019 and 49% of total accounts receivable as of September 30, 2018.

Customer	Year Ended 9/30/19		Year Ended 9/30/18	
	\$Gross Revenues	% of Total Revenues	\$Gross Revenues	% of Total Revenues
Tyson Foods	\$ 6,079,034	24%	\$ 6,598,499	24%
Hanesbrand Inc	\$ 2,581,546	10%	\$ 3,321,455	12%
Wal Mart Supercenter and Distribution Center	\$ 1,553,964	6%	\$ 1,756,118	6%
	<u>\$ 10,214,544</u>	<u>40%</u>	<u>\$ 11,676,072</u>	<u>42%</u>

CLARKSVILLE CONNECTED UTILITIES

Notes to Financial Statements

September 30, 2019 and 2018

The following tables set forth the major power suppliers for Clarksville Connected Utilities for the years ended September 30, 2019 and 2018. Amounts are presented in dollars and percent of total power purchased and of Direct Operating Expenses. Accounts payable to the following suppliers represent 69% of total accounts payable as of September 30, 2019 and 90% of total accounts payable as of September 30, 2018.

Supplier	Year Ended 9/30/2019		Year Ended 9/30/2018	
	\$ Power Purchases	% of Total Power	\$ Power Purchases	% of Total Power
Independence County Southwestern Power Administration	\$ 2,379,750	18%	\$ 2,400,973	14%
Oklahoma Municipal Power Association	\$ 6,968,651	53%	\$ 11,809,527	71%
Scenic Hills Solar	\$ 551,452	4%	\$ 482,889	3%
Southwestern Power Pool	\$ 1,475,987	11%	\$ 137,165	1%
	<u>\$ 13,203,749</u>	<u>100%</u>	<u>\$ 16,590,418</u>	<u>100%</u>
<u>Total Power Purchased to Direct Operating Expenses</u>	<u>\$ 13,203,749</u>	64%	<u>\$ 16,590,418</u>	70%
	\$ 20,601,700		\$ 23,648,323	

CLARKSVILLE CONNECTED UTILITIES
Notes to Financial Statements
September 30, 2019 and 2018

NOTE 6 - CAPITAL ASSETS

	Balance 9/30/18	Additions	Deletions	Balance 9/30/19
Nondepreciable Assets				
Land - Electric	\$ 433,511	\$ 188	\$ -	\$ 433,699
Land - Water	529,497	1,539	-	531,036
Land - Sewer	216,214	-	-	216,214
Construction in Progress - Electric	3,304,422	3,362,430	(1,105,607)	5,561,245
Construction in Progress - Water	3,179	321,651	(226,665)	98,165
Construction in Progress - Sewer	-	58,488	(39,660)	18,828
Total Nondepreciable Assets	4,486,823	3,744,296	(1,371,932)	6,859,187
Depreciable Assets				
Office Building	1,230,759	-	-	1,230,759
Buildings - Electric	36,629	-	-	36,629
Warehouse	1,470,071	31,992	-	1,502,063
Electric System	27,803,085	1,116,276	-	28,919,361
Water System	60,975,284	239,503	-	61,214,787
Sewer System	15,351,390	137,689	(3,770)	15,485,309
Transportation Equipment	2,016,416	148,045	-	2,164,461
Generation Equipment	956,656	-	-	956,656
Office Equipment	1,434,086	84,725	-	1,518,811
Lab Equipment	74,278	4,906	-	79,184
Construction Equipment	851,613	114,372	-	965,985
Maintenance Equipment	1,779,817	129,883	-	1,909,700
Plant & Shop Equipment	527,210	13,199	-	540,409
Total Depreciable Assets	114,507,294	2,020,590	(3,770)	116,524,114
Total Assets at Historical Cost	118,994,117	5,764,886	(1,375,702)	123,383,301
Less: Accumulated Depreciation	(68,839,026)	(3,409,322)	3,770	(72,244,577)
Total Capital Assets, Net	\$ 50,155,091	\$ 2,355,564	\$ (1,371,932)	\$ 51,138,724

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Depreciation expense was charged to departments as follows:

Direct Operating Expense - Electric	\$	871,144
Direct Operating Expense - Water		1,870,494
Direct Operating Expense - Sewer		534,779
Direct Operating Expense - Generation Costs		47,833
General & Administrative Expense - Electric		28,358
General & Administrative Expense - Water		28,357
General & Administrative Expense - Sewer		28,357
Total Depreciation Expense	\$	<u>3,409,322</u>

NOTE 7 – OPERATING LEASES

Clarksville Connected Utilities leases office equipment under operating leases expiring at various dates. Lease expense incurred under these operating leases for the years ending September 30, 2019 and 2018 was \$5,938 and \$2,625, respectively.

Future minimum lease payments for non-cancellable operating leases at September 30, 2019 were approximately:

2020	\$ 12,790
2021	12,790
2022	11,679
2023	11,308
2024	7,539
	<u>\$ 56,106</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 Connected Utilities. Final maturity is in 2032.

On May 21, 2019, the City of Clarksville, Arkansas issued \$8,995,000 in Utility Revenue Improvement Bonds Series 2019 with interest rates ranging from 3.0% to 3.125% for construction of improvements to the electric, water, and fiber optic systems secured by a pledge of the revenues of Clarksville Connected Utilities. Final maturity is in 2034.

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

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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 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>9/30/2018</u> Balance	<u>Increases</u>	<u>Decreases</u>	<u>9/30/2019</u> Balance	<u>Due in</u> <u>One Year</u>
Utility Revenue Construction Bonds Series 2013	\$ 2,820,000	\$ -	\$ (185,000)	\$ 2,635,000	\$ 190,000
Utility Revenue Construction Bonds Series 2019	-	8,995,000	-	8,995,000	-
Water and Sewer Improvement Note	640,003	-	(640,003)	-	-
	<u>3,460,003</u>	<u>8,995,000</u>	<u>(825,003)</u>	<u>11,630,000</u>	
Unamortized Bond Premium		111,039	(3,084)	107,955	
	<u>\$ 3,460,003</u>	<u>\$ 9,106,039</u>	<u>\$ (828,087)</u>	<u>\$ 11,737,955</u>	<u>\$ 190,000</u>

The maturity schedule is as follows:

	Principal	Interest
2019 - 2020	190,000	358,661
2020 - 2021	190,000	347,309
2021 - 2022	770,000	343,129
2022 - 2023	795,000	321,199
2023 - 2024	815,000	298,148
2024 - 2029	4,465,000	1,108,244
2029 - 2034	4,405,000	397,750
	<u>\$ 11,630,000</u>	<u>\$ 3,174,440</u>

NOTE 9 - RELATED PARTIES

Clarksville Connected Utilities 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, 2019 was \$251,582. The amount included in accounts receivable at September 30, 2019 from the City of Clarksville is \$18,916. 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.

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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 2019 and 2018.

NOTE 11 – OTHER COMMITMENTS

On August 17, 2016, Clarksville Connected Utilities 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 Connected Utilities 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 Connected Utilities. On December 8, 2017, the Company and Scenic Hill Solar III, LLC entered into an amended power purchase agreement whereby Clarksville Connected Utilities will purchase all power generated by the facility. This agreement also sets forth the terms and conditions for Clarksville Connected Utilities’ 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 Connected Utilities electric power system.

On May 20, 2019, Clarksville Connected Utilities entered into an additional 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 Connected Utilities. On May 20, 2019, the Company and Scenic Hill Solar III, LLC also entered into a power purchase agreement whereby Clarksville Connected Utilities will purchase all power generated by the facility. This agreement also sets forth the terms and conditions for Clarksville Connected Utilities’ option to purchase the facility. As of December 30, 2019, this facility was interconnected to and operating with the Clarksville Connected Utilities electric power system.

Clarksville Connected Utilities has entered into a contract with ADB for construction management services of the Fiber-to-the-Home project. Cost incurred to date on this project is \$1,811,457, including \$96,658 of capitalized interest. This project is being financed with funds from the Utility Revenue Bonds Series 2109 (See Note 8).

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NOTE 12 - SUBSEQUENT EVENTS

Subsequent events have been reviewed through February 7, 2020 which is the date that the financial statements were available to be issued.

NOTE 13 - DEFINED CONTRIBUTION PLAN

The Clarksville Connected Utilities 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 Lincoln Financial Group. 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 2019 and 2018 were \$104,005 and \$113,167.

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 Connected Utilities 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)

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- Benefit Factor (defined as 1.25%)
- Years of Service at Date of Retirement

This benefit will end at age 62. Five retirees participated in this early retirement benefit in 2019 and five retirees participated in 2018. The expenditures for these retirees were \$61,492 and \$61,492 for the years ended September 30, 2019 and 2018.

- 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 2019 and 2018. The expenditures for this retiree was \$22,456 and \$22,456 for the years ended September 30, 2019 and 2018.

Sections 1) and 2) above are considered termination benefits and an estimated liability of \$156,294 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. Seven retirees participated in the health insurance coverage benefit as of September 30, 2019. Four retirees participated as of September 30, 2018. The expenditures for the health insurance coverage for the retirees participating under this benefit option were \$32,811 in 2019 and \$22,952 in 2018. 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 Connected Utilities 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.

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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 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, 2019 was \$10,923 and September 30, 2018 was \$10,662. 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

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 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 Principal Financial Group, an independent actuary, as of the measurement date 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 for Postemployment Benefit Plans Other Than Pension Plans, the actuarial valuation is prepared on a triennial basis. Based on these assumptions, the September 30, 2019 estimates are based on a rollforward amount from the September 30, 2016 actuary report. A stand-alone financial statement is not issued for this plan.

The Governmental Accounting Standards Board (GASB) Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans published standards for the accounting of postemployment benefits other than pension and supersedes GASB No. 45. This statement establishes uniform accounting and financial reporting standards for state and local governments related to postemployment benefits other than pensions for fiscal years beginning after June 15, 2017. The Company has not adopted GASB No. 75 as of September 30, 2019. An actuarial report has been prepared with a measurement date of September 30, 2019 that will be used as the reporting measurement for the September 30, 2020 statements. Due to changes in assumptions in the September 30, 2020 GASB 75 report, the estimated Net OPEB Liability is expected to increase a material amount in the near term of approximately \$492,000.

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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 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)	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015	9/30/2014
Net OPEB Obligation - Beginning of Year	\$ 396,696	\$ 439,263	\$ 475,053	\$ 506,747	\$ 541,429	\$ 578,051
Annual Required Contribution	15,109	15,109	15,109	15,679	15,679	15,679
Interest on Net OPEB Obligation	11,901	13,177	14,252	15,202	16,243	17,342
Adjustment of Annual Required Contribution	(34,688)	(37,238)	(39,787)	(42,441)	(45,346)	(48,413)
Annual OPEB Cost (Expense)	(7,678)	(8,952)	(10,426)	(11,560)	(13,424)	(15,392)
Contributions and Payments	(43,734)	(33,615)	(25,364)	(20,134)	(21,258)	(21,230)
Increase (Decrease) in New OPEB Obligation	(51,412)	(42,567)	(35,790)	(31,694)	(34,682)	(36,622)
Net OPEB Obligation - End of Year	<u>\$ 345,284</u>	<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 December 31, 2016:

	12/31/2016	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%

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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.

The following benefits are expected to be paid over the next ten fiscal years as per the triennial actuarial valuation prepared December 31, 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 10/1/2018 and Ending 9/30/2019

Components of Annual Required Contribution (ARC) Unfunded Plan

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

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2)-(1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) UAAL As a % of Payroll (3)/(5)
12/31/2016	\$-	\$ 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

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the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 the 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.

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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 CONNECTED UTILITIES RETIREMENT PLAN WITH LIFE INSURANCE

A. General Information about the Pension Plan

Plan Description

The Clarksville Connected Utilities Retirement Plan with Life Insurance is a single-employer defined benefit plan sponsored by Clarksville Connected Utilities. The Plan is governed by the Clarksville Connected Utilities Commission of the City of Clarksville, Arkansas which may amend plan provisions, and which is responsible for the management of plan assets. The Clarksville Connected Utilities 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, 2019 measurement date and the date this information was certified by Principal Financial Group on November 27, 2019.

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

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plan administrative expenses. Employees are currently required to contribute 2.50% of salary and plan assumptions projects this rate in the future.

The actuarially determined employer contribution for the measurement period ending January 31, 2019 was \$596,786 and the expected employee contributions were \$87,975. The actuarially determined employer contribution for the upcoming measurement period ending January 31, 2020 is \$587,948 and the expected employee contributions are \$83,895. 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 plan funding policy assumes 100% of the estimated actuarially determined contribution amount is contributed midway during each projection period. Employer normal cost is assumed to continue at 8.81% of payroll throughout the projection period based on the 2/1/19 actuarial valuation report.

Allocated Insurance Contracts

Annuities were purchased for three members who retired during the measurement period. The amounts of the annuities purchased were \$798,371. The obligation for the payment of retirement benefits for these members has been transferred to the annuity contracts. The plan has no further obligation for these members.

Employees Covered

9/30/2019

Active plan members	57
Terminated vested	18
Disabled	0
Retirees	<u>0</u>
Total	<u>75</u>

B. Net Pension Liability

The historical information required to be disclosed is as follows:

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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)
02/01/19	\$ 6,621,103	\$ 8,296,268	\$ 1,675,165	80%	\$ 3,220,409	52%
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.

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:

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<u>Plan Year Ending</u>	(1) Actuarially Determined Contribution	(2) Actual Plan Contribution	(3) Difference (1)-(2)	(4) Annual Covered Payroll	(5) % Contributions as% Covered Payroll (2)/(4)
1/31/2019	\$ 596,786	\$ 587,948	\$ (8,838)	\$ 3,220,409	18%
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%

Assumptions

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

Valuation Date	1/31/2019
Measurement Date	1/31/2019
Actuarial Cost Method	Entry Age Cost Method, Level Percentage of Pay
Actuarial Assumptions	
Inflation Rate	2.25%
Payroll Growth	2.25%
Projected Salary Increase	3.88-6.18%
Municipal Bond Rate	3.96%
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_v2018 and Principal-selected assumption set published October 2018.

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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.

Interest Rate for Employee Accumulations

The interest rate on employee accumulations is 5% as defined in the plan document.

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 2019 to 2104. Benefit payments after 2104 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 3.96% is used. The municipal bond rate is from Bloomberg Barclays Municipal GO Long Term (17+ Y) Index for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher securities, as of the January 31, 2019 measurement date.

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C. Schedule of Changes in Net Pension Liability

Measurement Period Ending	1/31/2019	1/31/2018	1/31/2017	1/31/2016	1/31/2015
Fiscal Year Ending	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015
Total Pension Liability					
Service cost	388,773	379,811	351,998	335,823	303,951
Interest	320,918	312,149	302,759	300,400	293,822
Benefit payments	(798,371)	(123,530)	(564,759)	(267,216)	(151,406)
Differences between expected and actual experience	(220,582)	(20,981)	74,376	66,855	(105,922)
Changes in assumptions	(4,430)	(4,835)	616,239	(20,685)	635,769
Changes in benefit terms	-	-	-	-	-
Net change in Total Pension Liability	(313,692)	542,614	780,613	415,177	976,214
Balance, beginning of period	8,609,960	8,067,346	7,286,733	6,871,556	5,895,352
Balance, end of period	8,296,268	8,609,960	8,067,346	7,286,733	6,871,566
Fiduciary Net Position					
Employee contributions	85,983	84,812	77,537	88,419	79,851
Employer contributions	596,786	473,615	451,996	819,213	978,957
Other contributions	-	-	-	-	-
Net investment income	224,330	185,689	223,519	254,428	174,941
Benefit payments	(798,371)	(123,530)	(564,759)	(267,216)	(151,406)
Administrative expenses	(8,000)	-	(4,000)	-	-
Other expenses	-	-	-	-	(450)
Other deductions	(172,439)	(55,640)	(51,372)	(28,386)	(80,552)
Net Change in Fiduciary Net Position	(71,711)	564,946	132,921	866,458	1,001,341
Balance, beginning of period	6,683,459	6,118,513	5,985,592	5,119,134	4,117,793
Balance, end of period	6,611,748	6,683,459	6,118,513	5,985,592	5,119,134
Net Pension Liability	1,684,520	1,926,501	1,948,833	1,301,141	1,752,432
End of Period Assumptions					
Long-term rate of return	3.75%	3.75%	3.75%	4.25%	4.25%
Discount rate	3.75%	3.75%	3.75%	4.25%	4.25%
Salary increase assumption	S5 + 2.0%	S5 + 2.0%	S5 + 2.0%	S5 + 2.5%	S5 + 2.5%
Retirement age assumption	NRA	NRA	NRA	NRA	NRA
Plan changes	none	none	none	none	none

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Sensitivity to Changes in Discount Rate	1% decrease	Discount Rate	1% increase
	2.75%	3.75%	4.75%
Net Pension Liability	\$ 3,032,376	\$ 1,684,790	\$ 536,159

D. Pension Expenses

The Pension Expenses for the fiscal years ended September 30, 2019 and 2018 are \$694,214 and \$586,860. Below are the components of pension expenses.

Components of Pension Expense	9/30/2019	9/30/2018
Service cost	\$ 388,773	\$ 379,811
Interest cost	320,918	312,149
Contributions from employees	(85,983)	(84,812)
Expected investment income	(240,986)	(230,630)
Other expenses	8,000	-
Other deductions	172,439	55,640
Recognition of deferred outflows and inflows due to:		
Differences between expected and actual experience	(24,838)	1,611
Changes in assumptions	135,264	135,795
Differences between expected and actual investment earning	20,627	17,296
Total Pension Expense	<u>\$ 694,214</u>	<u>\$ 586,860</u>
 Rates used to determine pension expenses		
Discount Rate	3.75%	3.75%

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E. Deferred Outflows and Inflows of Resources Related to Pensions

Recognition of Deferred Outflows and Inflows - Actuarial

Date Established	Type	Initial or Prior Year Balance	Current Amount Recognized	Deferred Balance	Upcoming Amount Recognized	Years Remaining
9/30/2019	Experience	\$ (220,582)	\$ (26,449)	(194,133)	\$ (26,449)	7.34
9/30/2019	Assumption	(4,430)	\$ (531)	(3,899)	\$ (531)	7.34
9/30/2019	Investment Income	16,656	\$ 3,331	13,325	\$ 3,331	4.00
9/30/2018	Experience	(18,561)	(2,420)	(16,141)	(2,420)	6.67
9/30/2018	Assumption	(4,277)	(558)	(3,719)	(558)	6.66
9/30/2018	Investment Income	35,953	8,988	26,965	8,988	3.00
9/30/2017	Experience	57,624	8,376	49,248	8,376	5.88
9/30/2017	Assumption	477,447	69,396	408,051	69,396	5.88
9/30/2017	Investment Income	9,108	3,036	6,072	3,036	2.00
9/30/2016	Experience	45,312	7,181	38,131	7,181	5.31
9/30/2016	Assumption	(14,019)	(2,222)	(11,797)	(2,222)	5.31
9/30/2016	Investment Income	(11,281)	(5,640)	(5,641)	(5,641)	1.00
9/30/2015	Experience	(59,818)	(11,526)	(48,292)	(11,526)	4.19
9/30/2015	Assumption	359,043	69,179	289,864	69,179	4.19
9/30/2015	Investment Income	10,912	10,912	-	-	0.00
	Total	<u>\$ 679,087</u>	<u>\$ 131,053</u>	<u>\$ 548,034</u>	<u>\$ 120,140</u>	

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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:

Fiscal Year ending 09/30	Amount to be Recognized
2020	\$120,140
2021	125,781
2022	122,749
2023	113,758
2024	63,733
Thereafter	\$1,876

Deferred Outflow of Resources – Pension Contribution

Pension contributions received after the measurement date of 1/31/2019 were \$0 as of the date of this report. Pension contributions received after the measurement date of 1/31/2018 were \$596,786.

F. Investments

Investment policy

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

	1/31/2019	1/31/2018
Principal Financial Group	\$ 6,188,848	\$ 6,275,280
Whole Life Insurance Reserves	<u>422,630</u>	<u>407,909</u>
Total Plan Assets	<u>\$ 6,611,478</u>	<u>\$ 6,683,189</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

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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 %	8.51%	8.80%	2.94%	3.75%	5.05%

Annual Returns	2018	2017	2016	2015	2014
Total Return %	-3.30%	7.49%	5.25%	-0.60%	6.87%

Portfolio Information

Composition as of 6/30/2018

	% of Assets
U.S. Bonds	54.20%
Non-U.S. Bonds	25.10%
Commercial Mortgages	18.60%
Other	1.80%
Cash	0.30%

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.

	9/30/2019	9/30/2018
Principal Financial Group	\$ 6,611,478	\$ 6,683,189

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.

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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 02/01/2018 to 01/31/2019 is .68% and 02/01/2017 to 01/31/2018 is 3.49%. 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.