

CLARKSVILLE CONNECTED UTILITIES

Independent Auditors' Report

And

Financial Statements

September 30, 2020 and 2019

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, 2020 and 2019 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.

In 2019, Clarksville Connected Utilities Other Post Employment Benefit Plan had not adopted Governmental 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.

In 2020, Clarksville Connected Utilities – Other Post Employment Benefit Plan has adopted Governmental Accounting Standards Board No. 75 – Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Therefore, this was not part of the basis for a qualified opinion.

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, 2020 and 2019, 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 March 26, 2021 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

March 26, 2021

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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, 2020, and have issued our report thereon dated March 26, 2021. 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
March 26, 2021

Clarksville Connected Utilities
Audit Management Letter
Fiscal Year 2020

Background

Clarksville Connected Utilities (CCU) 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. The Commission was 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, Rick Weaver, and Joshua Wilson.

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 operating revenues for fiscal year 2020 were \$23,249,208 which was 7.0% lower or \$1,741,508 less than the previous year. Operating expenses were also down \$590,335 (2.4%). The financials resulted in an approximate \$371,378 loss for the fiscal year after non operation revenues and expenses compared to positive earnings of \$698,187 for 2019. Rainfall during the previous year and early 2020 resulted in very high number supplemental energy kilowatt hours being supplied by Southwestern Power Administration at only \$9.40 a megawatt hour (MWh) compared to the more typical cost of \$60 a MWh. This caused the electric fuel adjustment rate to remain low when the cost for power was returning back to normal. CCU also was impacted by the COVID-19 pandemic in two ways. The Commission decided to place a moratorium on disconnects and late fees to the community for a number of months. The other impact was the temporary closing of businesses and the reduced consumer activity for a number of months in response to the pandemic. This impacted all three of CCU's primary business units, electric, water and wastewater.

About the Electric Utility

Electric revenues for 2020 were \$15,714,320 down \$2,105,074 (11.81%) across all customer categories of residential, commercial, and industrial. Electricity kilowatt hours sold during 2020 were 210,396,786 down 18,387,138 (8.0%) compared to 228,783,924 kilowatt hours the previous year. Another noteworthy statistic for the year was the peak demand for the electric utility was 46.3 megawatts (MW), down 1.8 MW from the previous year at 48.1 MW. The negative 2020 financial results were primarily caused by 10-year low in the electric fuel adjustment rate. The fuel adjustment rate is a six-month rolling average formula that adjusts up or down based upon the cost of delivered power. After many months of low-cost Southwestern Power Administration (SWPA) supplement energy driving the rate down, when the rains stopped in the summer of 2020 the cost of power increased back up to more normal levels. This caused an inverse relationship between our collections and expenses for a period of time. Another factor impacting revenues was COVID related actions with revenues from penalties being substantially lower than normal because of the moratorium on late fees and disconnects. This resulted in loss of \$349,348 for the year for this utility. For fiscal year 2020, CCU had over 48,516,000 kilowatts hours of supplemental versus the normal 20,000,000 hours of peaking energy from SWPA. Another contributor to the lower cost for power was the increase in solar generation being included in the portfolio as a lower kWh cost and capacity charges for the entire utility by approximately \$342,000.

Wholesale Power Providers

Clarksville's largest power provider, Oklahoma Municipal Power Authority (OMPA) furnished approximately 42% in terms of MWh's of our supply in 2020, down from 49% in 2019. 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. Ultimately, during the 2020 fiscal year, the cost of energy from OMPA ended up being \$59.11 (capacity plus energy, before transmission) compared to \$57.53 in 2019. This was \$1.88 per megawatt hour higher than the previous period.

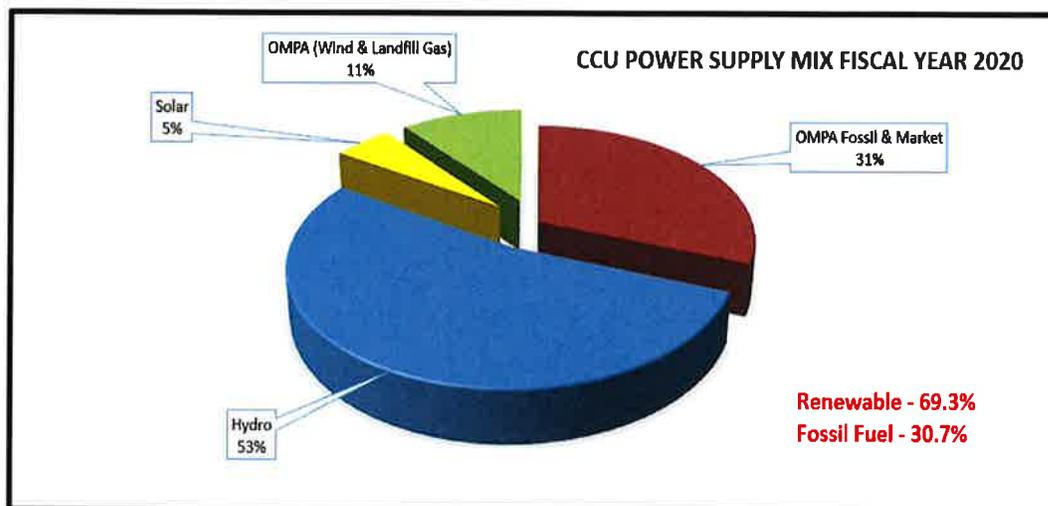
Clarksville Connected Utilities continues to receive hydro peaking power from the Southwestern Power Administration (SWPA) and supplemental energy. In 2020, this comprised approximately 31% of our supply in terms of MWh's, which far exceeded its generation output in recent history. This was a result of the 500-year rainfall mentioned previously and water flowing into and through the 23 SWPA hydro projects. Fiscal year 2020 netted a savings of approximately \$2.4 million compared to the normal whole price of energy because of the supplement power during the early portion of the fiscal year. However, during the summer months of 2020, the supplemental energy ended and the

cost for energy rose and OMPA returned to providing the non-supplemental energy for our requirements.

The third supplier, Independence County Hydroelectric, currently furnished approximately 23% of the supply in terms of MWh's in 2020 up 2.7% from 2019, 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 increase 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 2020, CCU had its second full year of solar generation from the Power Plant #I, a 5.2-Megawatt plant with Scenic Hill Solar (SHS). The projected output of this facility was estimated to be 9,400 MWh's for a 12-month period. Beginning in January of 2020, Power Plant #II came on line. It is projected to provide another 2,414 MWh's for the 9-month period in the 2020 fiscal year. The second facility coming on-line was a significant event for the community in that Clarksville was able to claim it was the first city in Arkansas whose municipal needs were met with 100% solar/renewable power. It was recognized by the Arkansas Department of Energy and Environment for this achievement by winning its Energy Excellence Award for 2020. The total solar generation for 2020 was 11917.74 in terms of MWh's and it totaled 5% of the supply.

The overall average cost per MWh for all of CCU supply was \$46.26 before the cost of transmission of \$7.04 a MWh for a total of delivered energy being \$53.30 a MWh. Another significant item to note for the current reporting period is the CCU power supply mix in FY 2020 was made up of 69.3% non-emitting/renewable energy versus 30.7% fossil fuel and market purchases. It is likely very few municipal utilities, especially in the mid-south, have a renewable power supply portfolio as high as CCU.



About the Water and Wastewater Utilities

In 2020, water had positive earnings of \$41,561 and wastewater ended up with loss of \$155,341. Water revenues were \$5,128,358 up by \$36,885 in 2020 (.72%) and Sewer revenues were \$2,106,065 up by \$26,216 (1.26%) in 2020 versus 2019. However, the revenues were lower than anticipated because of COVID related actions with revenues from penalties being substantially lower than normal because of the moratorium on late fees and disconnects. We also had heavy rains during the early part of the year which kept the cost of chemicals for treatment being high. Another significant impact was an increase in the depreciation expense charges for the water and wastewater. The depreciation for expenses for the water utility now fully accounts for the investment made for the new water supply intake on Spadra Creek from the \$6.6 million with Diamond Pipeline LLC mitigation settlement funds. For both utilities, CCU had some early retirements, which impacted the income statement. CCU experienced some early retirements in both of these utilities which causes the utility to book 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 so there is a period of payroll expense overlap. These events do place additional payroll expense pressure on the utilities as well. On the wastewater utility we had higher than typical engineering fees because we opted to conduct a cost of service study and a rate study during this period.

About the Broadband Utility/Fiber Optic Network

This was the first year CCU separated out the financials for the new fiber/broadband utility from the electric department. The total revenues were \$300,465. Most of the revenues were derived from having the local anchor institutions. These included the Clarksville public School District, University of the Ozarks, Johnson Regional Medical Center, Johnson County governmental offices and City of Clarksville facilities created a foundational annual revenue of around \$250,000. On the expense, side fiscal year 2020 was a year of heavy investment in the expansion of the CCU fiber optic network with construction of a Fiber-To-The-Home/Business (FTTx) network in Clarksville. The FTTx project was the next big step in expanding the network. The build out would allow CCU to provide ultra-high-speed internet capable of gigabit speeds and phone services to homes and local businesses. To that end, CCU hired Stephens Inc., as a financial consultant and Kutak Rock as a bond firm to consider the issuance of bond for the FTTx project in early 2019. The issue was completed the following May of 2019. CCU and ADB, the project Construction Manager/General Contractor (CM/GC), started the construction of the distribution network in September of 2019. The majority of the project ended up being completed by the summer of 2020. This was a significant accomplishment considering CCU originally anticipated this part of the project to take two (2) years. During the summer of 2020 fiber splicing crews began to fuse the distribution fibers and test the circuits for each of the 4 PON (Passive Optical Network) locations. This was

necessary in order to begin to make customer connections and turn up service individual circuits.

During the construction timeframe, CCU began taking orders from customers using our on-line system and the utility had over 1,100 orders for homes and businesses by September of 2020. CCU also worked out a special arrangement with the Clarksville Housing Authority to connect all 173 of their dwelling units. This meant that CCU had nearly a 30% take rate based upon approximately 4,500 potential customers in the Clarksville city limits. By September, the CM/GM contractor crews had completed 355 drops to the customers who had placed orders in the first few PON areas. By the end of the 3rd quarter of 2020, CCU's crews had completed approximately 25 installs. Our early installs were targeted at customers who were likely to be more patient with our staff as they worked through their learning curves related to turning customers up. We chose to have our employees to do the installs because we felt this was an important customer service touchpoint that we did not want to leave to a contractor. The challenges related to the installs, which has slowed installs down, was COVID events and the need to have the physical addressing be completed as well as accurate for each potential customer circuit for all 14 PON areas. COVID forced CCU to begin to rotate our install crews to lower the risk or exposure to staff and customers. Having the addressing fully defined was needed based upon the CDG Operating and Billing software (OSS/BSS) we are using to manage customers connectivity and for the data to be passed properly to the CCU Springbrook software so the broadband services could be consolidated on the bills with the electric, water and wastewater. This software allows the signal to be automatically recognized when the customer is installed. Plus, we will use it to manage the account remotely for trouble shooting connectivity issues reducing the need for truck roll to a customer location.

CCU believes the fiber project is off to a good start. That said, we anticipate operational losses for the first few years of our broadband utility as we turn up more customers and increase the revenues to better align with the expenses. From an accounting perspective we have created a separate income statement specifically for broadband. The long-term intent is for the broadband utility to become a stand-alone business unit just like the electric, water and wastewater utilities are. We originally anticipated the take rate to reach approximately 30% within the first three year. Based upon the activity at this point we are likely to have 40% or higher by the end of the third year. The broadband utility revenues from customers already connected were \$300,465 in 2020. CCU hopes to be approaching \$1 million in revenues for the broadband utility in the next year. Ultimately, this goal is depended upon how fast we can turn customers up and begin to bill them for the service.

Clarksville has received a significant amount of recognition for our efforts and our project is highly visible to other cities in the state. There are at least two other municipal utilities in Arkansas, Hope Water & Light and Siloam Springs, which are beginning down the same path as Clarksville regarding building a community owned fiber network. Currently, Paragould and Conway, have hybrid facilities made up of copper and fiber plants. One of the more recent development is the State of Arkansas began a grant program to inspire

additional investments by Internet Service Providers (ISP's) in this infrastructure targeted and communities with a minimum population of 500. In light of this, CCU has been in communication with some other cities in our area and those cities have expressed interest in partnering with Clarksville to build networks in their cities. The towns include Paris, Subiaco, Scranton, Coal Hill and Hartman. If successful in getting grant funding and the approval of the Commission, CCU would be in a position to provide services to these communities as well. CCU already has a precedent for this in that we provide wholesale water to several other communities in our area therefore we could provide a similar solution regard fiber/broadband as well.

When implemented, Clarksville will be one of only 230 communities in 33 states with a community 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 their community's long-term economic viability. In fact, nearly all believe this type of technology/infrastructure is now a utility, and it as important for long-term economic development growth 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 14 to 16) provide information regarding the activities of the Clarksville Connected & Utilities 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 19. These schedules provide a more detailed picture of the Company's revenues and expenses.

The Statement of Cash Flows (on pages 17 and 18) 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, 2020 are 4.11 and 3.67 respectively. This means, for example, that for every \$4.11 in current assets, the Company has \$1.00 in current liabilities. These ratios were 5.03 and 4.51 respectively for the year ended September 30, 2019.

Comparison of Financial Data	2020	2019	Net Change
Current Assets	14,825,195	15,663,337	(838,142)
Restricted Fund Assets	1,522,601	8,146,576	(6,623,975)
Net Capital Assets	58,052,119	51,138,724	6,913,395
Other Assets	3,175,509	3,161,371	14,138
Deferred Outflow of Resources	2,026,417	1,413,963	612,454
Total Assets	79,601,842	79,523,971	77,871
Current Liabilities	3,608,538	3,115,738	492,800
Net Long-Term Debt	11,350,552	11,547,955	(197,403)
Other Liabilities	2,987,027	2,566,241	420,786
Deferred Inflow of Resources	235,750	277,981	(42,231)
Total Liabilities	18,181,868	17,507,915	673,953
Net Assets Invested in Capital Assets, Net of Related Debt	46,511,568	39,400,769	7,110,799
Net Position Restricted	1,522,601	8,146,576	(6,623,975)
Net Position Unrestricted	13,385,805	14,468,711	(1,082,906)
Total Net Position	61,419,974	62,016,056	(596,082)
Operating Revenues	23,249,208	24,990,716	(1,741,508)
Direct Operating Expenses	20,128,827	20,601,700	(472,873)
General and Administrative Expenses	3,703,433	3,820,894	(117,461)
Non-Operating Revenues (Expenses)	211,674	130,065	81,069
Total Expenses	23,832,259	24,292,529	(460,270)
Income Before Contributions and Transfers	(371,378)	698,187	(1,069,565)
Contributions by Developers	-	-	-
Transfers to the City	(224,704)	(251,582)	26,878
Changes in Net Position	(596,082)	446,605	(1,042,687)
Ending Net Position	61,419,974	62,016,056	(596,082)
Cash Balance and Cash Equivalents	11,015,874	18,617,870	(7,601,996)

There was a decrease of \$596,082 in net position during the year to \$61,419,974. The \$11,015,874 cash balance at year-end was \$7,601,996 lower than 2019.

Overall, the 2020 net income before contributions and transfers of (\$371,378) is down \$1,069,565 when compared to 2019. Operating revenues are down \$1,741,509, power costs decreased \$863,670 and other expenses show a net increase of \$191,721.

Departmental Summary

Electric Department operating revenues of \$15,714,320 are down \$2,105,074 from 2019 revenues. The cost of power purchased decreased \$863,670 and other expenses increased \$246,399. This resulted in a \$1,487,804 decrease in electric net income for a loss of (\$349,348) for the year 2020.

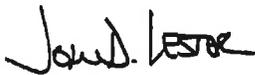
Water Department operating revenues increased \$36,885 to \$5,128,358. Expenses decreased \$169,579 and the net income of \$41,560 reflects an increase in earnings of \$206,465 for the year.

Sewer Department operating revenues of \$2,106,064 are up \$26,216. Expenses decreased \$93,808 and the net loss of \$155,342 reflects an increase in earnings of \$120,024 when compared to 2019.

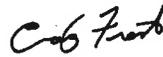
Broadband Department operating revenues of \$300,465. Expenses were \$208,714 and net income of \$91,751. This was the first year to measure broadband.

Construction projects completed during the year added \$334,095, \$452,919 and \$45,436 to the electric, water, and sewer systems, respectively.

Equipment additions for the current year totaled \$311,028.



John Lester
General Manager



Craig Frost
Finance Officer

CLARKSVILLE CONNECTED UTILITIES
Statements of Net Position
September 30, 2020 and 2019

ASSETS

	2020	2019
Current Assets		
Cash	\$ 9,493,273	\$ 10,471,294
Accounts Receivable net of allowance for doubtful accounts of \$65,334 for 2020 and \$65,527 for 2019	2,201,510	2,388,540
Unbilled Receivables	1,161,358	973,401
Accrued Interest Receivable	205,024	76,091
Inventories	1,592,725	1,612,678
Prepaid Expenses	171,305	141,333
Total Current Assets	14,825,195	15,663,337
 Restricted Assets		
Bond Funds	1,522,601	8,146,576
Total Restricted Assets	1,522,601	8,146,576
 Capital Assets		
Land	1,180,950	1,180,950
Buildings	2,786,653	2,769,450
Electric System	29,253,456	28,919,361
Water System	61,689,441	61,214,788
Sewer System	15,566,155	15,485,308
Broadband System	582,739	-
Transportation Equipment	2,350,661	2,164,462
Office Equipment	1,537,851	1,518,811
Generation Equipment	956,655	956,655
Other Equipment	3,526,193	3,495,278
Construction in Progress	14,352,868	5,678,238
	133,783,622	123,383,301
Less Accumulated Depreciation	(75,731,502)	(72,244,577)
Net Capital Assets	58,052,120	51,138,724
 Other Assets		
Investments - Electric Cooperative Certificates	175,509	161,371
Scenic Hills Solar Prepayment Deposit	3,000,000	3,000,000
Total Other Assets	3,175,509	3,161,371

See accompanying notes to financial statements.

CLARKSVILLE CONNECTED UTILITIES
Statements of Net Position (continued)
September 30, 2020 and 2019

	2020	2019
Deferred Outflow of Resources		
Deferred Outflow of Resources - Pension Contributions	615,005	587,948
Deferred Outflow of Resources - Pension Actuarial	754,598	826,015
Deferred Outflow of Resources - OPEB Actuarial	656,814	-
Total Deferred Outflow of Resources	2,026,417	1,413,963
Total Assets and Deferred Outflow of Resources	\$ 79,601,842	\$ 79,523,971

LIABILITIES AND NET POSITION

Current Liabilities		
Accounts Payable	\$ 2,237,454	\$ 1,372,091
Accounts Payable (Payable from restricted funds)	-	472,328
Accrued Expenses	1,064,728	957,677
Accrued Interest Payable (Payable from restricted funds)	116,356	123,642
Current Due on Long Term Debt (Payable from restricted funds)	190,000	190,000
Total Current Liabilities	3,608,538	3,115,738
Other Liabilities		
Early Retirement Payable	147,369	156,294
Meter Deposits	396,552	379,873
Net Other Postemployment Benefit Obligations	837,942	345,284
Net Pension Liability	1,605,165	1,684,790
Total Other Liabilities	2,987,028	2,566,241
Long-Term Debt, Net of Current Maturities	11,350,552	11,547,955
Deferred Inflow of Resources - Pension Actuarial	235,750	277,981
Total Liabilities and Deferred Inflow of Resources	18,181,868	17,507,915
Net Position		
Net Investment in Capital Assets, Net of Related Debt	46,511,568	39,400,769
Restricted	1,522,601	8,146,576
Unrestricted	13,385,805	14,468,711
Total Net Position	61,419,974	62,016,056
Total Liabilities and Net Position	\$ 79,601,842	\$ 79,523,971

See accompanying notes to financial statements.

CLARKSVILLE CONNECTED UTILITIES
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019
Operating Revenue		
Electric Revenue	\$ 15,714,320	\$ 17,819,394
Water Revenue	5,128,358	5,091,473
Sewer Revenue	2,106,065	2,079,849
Broadband Revenue	300,465	-
Total Operating Revenue	23,249,208	24,990,716
Direct Operating Expenses	(20,128,827)	(20,601,700)
Operating Revenue less Direct Operating Expenses	3,120,381	4,389,016
General and Administrative Expense	(3,703,433)	(3,820,894)
Operating Income (Loss)	(583,052)	568,122
Non-Operating Revenues (Expenses)		
Interest Income	282,545	210,721
Interest Expense	(70,871)	(80,656)
Total Non-Operating Revenues (Expenses)	211,674	130,065
Income before Contributions and Transfers	(371,378)	698,187
Transfers to the City of Clarksville	(224,704)	(251,582)
Changes in Net Position	(596,082)	446,605
Net Position - Beginning of Year	62,016,056	61,569,451
Net Position - End of Year	\$ 61,419,974	\$ 62,016,056

See accompanying notes to financial statements.

CLARKSVILLE CONNECTED UTILITIES
Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 23,248,281	\$ 25,105,184
Cash Paid to Employees, Payroll Taxes, and Employee Benefits, Net of Capitalized Labor	(5,553,097)	(5,027,619)
Cash Paid to Suppliers for Operations and General & Administrative Expenses	(14,296,303)	(15,917,069)
Net Cash Provided by Operating Activities	3,398,881	4,160,496
Cash Flows From Non-Capital Financing Activities:		
Increase (Decrease) in Meter Deposits	16,679	8,061
Net Cash Provided by Non-Capital Financing Activities	16,679	8,061
Cash Flows from Capital & Related Financing Activities:		
Payments on Debt Obligations	(190,000)	(825,268)
Proceeds from Series 2019 Utility Improvement Bonds	-	9,106,039
Interest Paid on Debt Obligations, Net of Capitalized Interest	(81,275)	(85,254)
Net Cash used for Financing Activities	(271,275)	8,195,517
Cash Flows from Investing Activities:		
Investment Income	153,612	171,690
Transfers to the City of Clarksville	(224,704)	(251,582)
Capital Expenditures	(10,675,189)	(3,895,755)
Net Cash Provided by Investing Activities	(10,746,281)	(3,975,647)
Net Increase (Decrease) in Cash	(7,601,996)	8,388,427
Cash at Beginning of Year	18,617,870	10,229,443
Cash at End of Year	\$ 11,015,874	\$ 18,617,870

See accompanying notes to financial statements.

CLARKSVILLE CONNECTED UTILITIES
Statements of Cash Flows (continued)
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of Earnings from Operations to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ (583,052)	\$ 568,122
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	3,487,452	3,245,400
Change in Operating Assets, Deferred Outflows of Resources and Liabilities:		
(Increase) Decrease in Accounts Receivables	187,030	(149,800)
(Increase) Decrease in Unbilled Receivables	(187,957)	(82,771)
(Increase) Decrease in Inventory	19,953	63,288
(Increase) Decrease in Prepaid Expenses	(29,972)	(16,315)
(Increase) Decrease in Certificates of Equity	(14,138)	(9,191)
(Increase) Decrease in Deferred Outflows-Pension Contributions	(27,057)	(123,171)
(Increase) Decrease in Deferred Outflows-Pension Actuarial	71,417	115,206
(Increase) Decrease in Deferred Outflows-OPEB Actuarial	(656,814)	-
Increase (Decrease) in Accounts Payable	663,091	(42,793)
Increase (Decrease) in Accrued Expenses	107,051	45,506
Increase (Decrease) in Early Retirement Payable	(8,925)	(30,168)
Increase (Decrease) in Accrued OPEB Liability	492,658	(42,566)
Increase (Decrease) in Net Pension Liability	(79,625)	(22,332)
Increase (Decrease) in Deferred Inflows-Pension Actuarial	(42,231)	20,371
 Net Cash Provided by Operating Activities	 <u>\$ 3,398,881</u>	 <u>\$ 3,538,786</u>
Non-Cash Investing, Capital & Financing Activities:		
Capital Assets Included in Accounts Payable at Year End	<u>\$ 216,170</u>	<u>\$ 486,226</u>
Cash Paid during the year for:		
Interest	<u>\$ 358,661</u>	<u>\$ 102,411</u>

See accompanying notes to financial statements.

CLARKSVILLE CONNECTED UTILITIES
DEPARTMENTAL INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2020

CLARKSVILLE CONNECTED UTILITIES
Departmental Statement of Revenues and Expenses
For the Year Ended September 30, 2020

	Electric	Water	Sewer	Broadband	Total
Operating Revenue					
Electric	\$ 15,714,320	\$ -	\$ -	\$ -	\$ 15,714,320
Water	-	5,128,358	-	-	5,128,358
Sewer	-	-	2,106,065	-	2,106,065
Broadband	-	-	-	300,465	300,465
Total Operating Revenue	<u>15,714,320</u>	<u>5,128,358</u>	<u>2,106,065</u>	<u>300,465</u>	<u>23,249,208</u>
Direct Operating Expenses	<u>(14,601,364)</u>	<u>(3,758,141)</u>	<u>(1,581,072)</u>	<u>(188,250)</u>	<u>(20,128,827)</u>
Operating Revenue less Direct Operating Expenses	1,112,956	1,370,217	524,993	112,215	3,120,381
General and Administrative Expenses	<u>(1,537,729)</u>	<u>(1,326,821)</u>	<u>(755,760)</u>	<u>(83,123)</u>	<u>(3,703,433)</u>
Operating Income (Loss)	<u>(424,773)</u>	<u>43,396</u>	<u>(230,767)</u>	<u>29,092</u>	<u>(583,052)</u>
Non-Operating Revenue (Expenses)					
Interest Income	75,425	76,650	75,426	55,044	282,545
Interest Expense	-	(78,485)	-	7,614	(70,871)
Total Non-Operating Revenue (Expenses)	<u>75,425</u>	<u>(1,835)</u>	<u>75,426</u>	<u>62,658</u>	<u>211,674</u>
Income (Loss) before contributions & transfers	<u>\$ (349,348)</u>	<u>\$ 41,561</u>	<u>\$ (155,341)</u>	<u>\$ 91,750</u>	<u>\$ (371,378)</u>

CLARKSVILLE CONNECTED UTILITIES
Schedule of Direct Operating Expenses
For the Year Ended September 30, 2020

	Electric	Water	Sewer	Broadband	Total
Bandwidth Purchased	\$ -	\$ -	\$ -	\$ 78,791	\$ 78,791
Depreciation	885,789	1,878,131	566,643	24,895	3,355,458
Education, Meetings, and Travel	4,508	281	1,110	9,988	15,887
Employee Benefits	208,653	153,305	94,025	53,309	509,292
Fuel	19,630	11,070	9,513	4,425	44,638
Generation Costs	51,546	-	-	-	51,546
Labor	896,070	764,495	576,342	287,375	2,524,282
Labor - Construction in Progress	(100,315)	(26,086)	(16,106)	(208,922)	(351,429)
Maintenance	156,839	62,657	31,499	4,600	255,595
Equip Exp. - Const. in Progress	(57,679)	(14,111)	(16,281)	(111,509)	(199,580)
Payroll Taxes	66,994	56,267	41,783	16,581	181,625
Pension Expense	106,244	95,278	95,278	24,518	321,318
Power Purchased	12,340,079	-	-	-	12,340,079
Supplies	-	439,278	34,428	-	473,706
Uniforms	12,848	6,753	6,604	4,199	30,404
Utilities	9,265	327,961	154,740	-	491,966
Use Tax	893	2,862	1,494	-	5,249
Total	<u>\$ 14,601,364</u>	<u>\$ 3,758,141</u>	<u>\$ 1,581,072</u>	<u>\$ 188,250</u>	<u>\$ 20,128,827</u>

CLARKSVILLE CONNECTED UTILITIES
Schedule of General and Administrative Expense
For the Year Ended September 30, 2020

	Electric	Water	Sewer	Broadband	Total
Advertising and Promotion	\$ 10,601	\$ 9,012	\$ 4,262	\$ 37	\$ 23,912
Bad Debts	52,938	10,313	5,500	-	68,751
Customer Online Payment Fees	16,360	16,360	7,903	-	40,623
Depreciation	28,054	28,054	28,054	-	84,162
Dues and Subscriptions	43,043	24,745	18,521	3,730	90,039
Education, Travel, and Meetings	16,306	16,495	8,246	3,060	44,107
Employee Benefits	81,010	80,100	39,134	5,969	206,213
Fuel	4,531	4,531	2,265	-	11,327
Insurance	98,082	96,180	48,090	-	242,352
Inventory Variances	1,464	1,519	725	(59)	3,649
Lab Fees and Tests	2,371	816	25,253	-	28,440
Labor	688,963	677,462	334,419	-	1,700,844
Maintenance	172,139	126,196	91,627	57,820	447,782
Miscellaneous	3,541	3,523	2,565	3,792	13,421
Office Supplies	23,925	23,891	11,938	464	60,218
Payroll Taxes	45,246	44,034	21,846	4,383	115,509
Pension	86,030	86,030	43,015	-	215,075
Professional Services	84,672	32,066	35,274	495	152,507
Supplies	18,815	23,397	15,327	-	57,539
Uniforms	7,153	7,153	3,576	-	17,882
Utilities	52,486	14,944	8,219	3,432	79,081
Total	<u>\$ 1,537,730</u>	<u>\$ 1,326,821</u>	<u>\$ 755,759</u>	<u>\$ 83,123</u>	<u>\$ 3,703,433</u>

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

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
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	(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>

Schedule 6

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

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
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

Notes to Financial Statements

September 30, 2020 and 2019

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, sewer, and broadband 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, 2020 and 2019

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 \$65,334 for the year ended September 30, 2020 and \$65,527 for year ending September 30, 2019. 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, 2020 and 2019 was \$277,386 and \$96,658, 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, 2020 and 2019

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, 2020 and 2019, there were no contributions in aid of construction.

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, 2020 and 2019. Plan investments are reported at fair market value.

Other Postemployment Benefit (OPEB) Plan

The Other Postemployment Benefit Plan 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 the September 30, 2020 actuarial report.

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).

CLARKSVILLE CONNECTED UTILITIES

Notes to Financial Statements

September 30, 2020 and 2019

The bank balances and carrying amounts of the Company’s deposits and short-term investments held as of September 30, 2020 were as follows:

Description	Bank Balance	Book Balance
Cash on Hand	\$ -	\$ 950
Demand Deposits	5,496,072	4,816,666
Certificates of Deposit	5,013,816	4,819,467
Federated Hermes Treasury Obligations Fund	191,123	191,123
FDIC Insured Cash Sweep Funds	1,187,668	1,187,668
Total	\$ 11,888,679	\$ 11,015,874

Money market mutual funds were held by the Company as of September 30, 2020 of \$191,123 in the Federated Hermes 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, but holds 100% of its holdings in U.S. Treasury Debt or U.S. Treasury Repurchase Agreements. This fund is rated AAA by Standard and Poor’s.

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, 2020, all deposits were either collateralized, FDIC insured, or held in qualifying government securities. As of September 30, 2020, the Company’s bank balances were \$11,888,679. As of September 30, 2020, the following collateral has been pledged for deposits over \$250,000:

Collateralized:

Collateral held by the pledging bank's trust	
department or agent in the Company's name	\$ 10,116,078
	\$ 10,116,078

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 \$1,522,601 as of September 30, 2020 and \$8,146,567 as of September 30, 2019.

CLARKSVILLE CONNECTED UTILITIES

Notes to Financial Statements

September 30, 2020 and 2019

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, 2020 and 2019. Amounts are presented in dollars and percent of total revenues. Accounts receivable from the following customers represent 39% of total accounts receivable as of September 30, 2020 and 40% of total accounts receivable as of September 30, 2019.

Customer	Year Ended 9/30/20		Year Ended 9/30/19	
	\$Gross Revenues	% of Total Revenues	\$Gross Revenues	% of Total Revenues
Tyson Foods	\$ 5,838,341	25%	\$ 6,079,034	24%
Hanesbrand Inc	\$ 1,616,992	7%	\$ 2,581,546	10%
Wal Mart Supercenter and Distribution Center	\$ 1,396,920	6%	\$ 1,553,964	6%
	<u>\$ 8,852,252</u>	<u>39%</u>	<u>\$ 10,214,544</u>	<u>40%</u>

CLARKSVILLE CONNECTED UTILITIES

Notes to Financial Statements

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The following tables set forth the major power suppliers for Clarksville Connected Utilities for the years ended September 30, 2020 and 2019. Amounts are presented in dollars and percent of total power purchased and of Direct Operating Expenses. Accounts payable to the following suppliers represent 57% of total accounts payable as of September 30, 2020 and 69% of total accounts payable as of September 30, 2019.

Supplier	Year Ended 9/30/2020		Year Ended 9/30/2019	
	\$ Power	% of Total	\$ Power	% of Total
	Purchases	Power	Purchases	Power
Independence County	\$ 2,536,236	21%	\$ 2,379,750	18%
Southwestern Power Administration	\$ 1,865,838	15%	\$ 1,827,909	14%
Oklahoma Municipal Power Association	\$ 5,720,458	46%	\$ 6,968,651	53%
Trillium HoldCo	\$ 143,339	1%	\$ -	0%
Scenic Hills Solar	\$ 517,167	4%	\$ 551,452	4%
Southwestern Power Pool	\$ 1,557,805	13%	\$ 1,475,987	11%
	\$ 12,340,841	100%	\$ 13,203,749	100%
<u>Total Power Purchased to</u>	\$ 12,340,841		\$ 13,203,749	
<u>Direct Operating Expenses</u>	\$ 20,353,348	61%	\$ 20,601,700	64%

CLARKSVILLE CONNECTED UTILITIES

Notes to Financial Statements

September 30, 2020 and 2019

NOTE 6 - CAPITAL ASSETS

	Balance 9/30/19	Additions	Deletions	Balance 9/30/20
Nondepreciable Assets				
Land - Electric	\$ 433,699	\$ -	\$ -	\$ 433,699
Land - Water	531,037	-	-	531,037
Land - Sewer	216,214	-	-	216,214
Constr in Progress-Electric	5,561,245	412,695	(5,833,241)	140,699
Constr in Progress-Water	98,165	667,032	(452,919)	312,278
Constr in Progress-Sewer	18,828	34,387	(46,414)	6,801
Constr in Progress-Broadband	-	13,937,778	(44,688)	13,893,090
Total Nondepreciable Assets	6,859,188	15,051,892	(6,377,262)	15,533,818
Depreciable Assets				
Office Building	1,230,758	11,839	-	1,242,597
Buildings - Electric	36,629	-	-	36,629
Warehouse	1,502,063	5,364	-	1,507,427
Electric System	28,919,361	334,095	-	29,253,456
Water System	61,214,788	474,653	-	61,689,441
Sewer System	15,485,308	80,847	-	15,566,155
Broadband System	-	582,739	-	582,739
Transportation Equipment	2,164,462	186,199	-	2,350,661
Generation Equipment	956,655	-	-	956,655
Office Equipment	1,518,811	19,040	-	1,537,851
Lab Equipment	79,184	-	-	79,184
Construction Equipment	965,985	2,847	-	968,832
Maintenance Equipment	1,909,700	20,699	-	1,930,399
Plant & Shop Equipment	540,409	7,896	(527)	547,778
Total Depreciable Assets	116,524,113	1,726,218	(527)	118,249,804
Total Assets at Historical Cost	123,383,301	16,778,110	(6,377,789)	133,783,622
Less: Accumulated Depreciation	(72,244,577)	(3,487,452)	527	(75,731,502)
Total Capital Assets, Net	\$ 51,138,724	\$ 13,290,658	\$ (6,377,262)	\$ 58,052,120

CLARKSVILLE CONNECTED UTILITIES

Notes to Financial Statements

September 30, 2020 and 2019

Depreciation expense was charged to departments as follows:

Direct Operating Expense - Electric	\$	885,789
Direct Operating Expense - Water		1,878,131
Direct Operating Expense - Sewer		566,643
Direct Operating Expense - Broadband		24,895
Direct Operating Expense - Generation Costs		47,833
General & Administrative Expense - Electric		28,053
General & Administrative Expense - Water		28,054
General & Administrative Expense - Sewer		28,054
Total Depreciation Expense	\$	<u>3,487,452</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, 2020 and 2019 was \$15,907 and \$5,938, respectively.

Future minimum lease payments for non-cancellable operating leases at September 30, 2020 were approximately:

2021	\$ 16,125
2022	14,174
2023	13,727
2024	<u>9,152</u>
Total	<u>\$ 53,178</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 2020 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.

CLARKSVILLE CONNECTED UTILITIES

Notes to Financial Statements

September 30, 2020 and 2019

	9/30/2019			9/30/2020	Due in
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>One Year</u>
Utility Revenue Construction Bonds Series 2013	\$2,635,000	\$ -	\$(190,000)	\$2,445,000	\$190,000
Utility Revenue Construction Bonds Series 2019	8,995,000	-	-	\$8,995,000	-
	<u>\$11,630,000</u>	<u>-</u>	<u>(190,000)</u>	<u>\$11,440,000</u>	
Unamortized Bond Premium	107,955	-	(7,403)	100,552	
	<u>\$11,737,955</u>	<u>\$ -</u>	<u>\$(197,403)</u>	<u>\$11,540,552</u>	<u>\$190,000</u>

The maturity schedule is as follows:

	Principal	Interest
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 - 2025	840,000	274,109
2025 - 2030	4,605,000	971,514
2030 - 2035	3,425,000	257,371
	<u>\$ 11,440,000</u>	<u>\$ 2,812,779</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, 2020 was \$224,704. The amount included in accounts receivable at September 30, 2020 from the City of Clarksville is \$18,547. 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.

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 2020 and 2019.

CLARKSVILLE CONNECTED UTILITIES

Notes to Financial Statements

September 30, 2020 and 2019

NOTE 11 – OTHER COMMITMENTS

On May 20, 2019, 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 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 \$9,768,051, including \$277,386 of capitalized interest. This project is being financed with funds from the Utility Revenue Bonds Series 2019 (See Note 8).

NOTE 12 - SUBSEQUENT EVENTS

Subsequent events have been reviewed through March 26, 2021 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 2020 and 2019 were \$105,870 and \$104,005.

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. The Other Post Employment Benefit Plan has no assets and is funded on a pay-as-you go basis.

CLARKSVILLE CONNECTED UTILITIES

Notes to Financial Statements

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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. 100% of the early retirement benefits are paid by the employer.

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

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

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

This benefit will end at age 62. Five retirees participated in this early retirement benefit in 2020 and five retirees participated in 2019. The expenditures for these retirees were \$86,087 and \$61,492 for the years ended September 30, 2020 and 2019.

- 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 2020 and 2019. The expenditures for this retiree were \$22,456 and \$22,456 for the years ended September 30, 2020 and 2019.

Sections 1) and 2) above are considered termination benefits and an estimated liability of \$147,456 has been accrued for future payments through March 30, 2023 and are measured at the actual amount expected to be paid.

- 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

CLARKSVILLE CONNECTED UTILITIES

Notes to Financial Statements

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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. Nine retirees participated in the health insurance coverage benefit as of September 30, 2020. Seven retirees participated as of September 30, 2019. The expenditures for the health insurance coverage for the retirees participating under this benefit option were \$57,278 in 2020 and \$32,811 in 2019. 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.

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, 2020 was \$11,373 and September 30, 2019 was \$10,923. 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

CLARKSVILLE CONNECTED UTILITIES

Notes to Financial Statements

September 30, 2020 and 2019

at their retirement date. An actuarial valuation prepared by Principal Financial Group, an independent actuary, for the measurement period of October 1, 2018 to September 30, 2019 has been used for the fiscal year ending September 30, 2020 reporting. Copies of this report may be obtained by contacting the Company. As allowed by Governmental Accounting Standards Board (GASB) Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, the actuarial valuation is prepared on a biennial basis. 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 adopted GASB No. 75 as of September 30, 2020. The Company had not adopted GASB No. 75 as of September 30, 2019.

There are no nonemployer contributing entities as defined by GASB 75 for this plan. There are no special funding situations as defined by GASB 75 for this plan.

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.

There have been no changes in plan provisions during the measurement period.

Plan Membership

Measurement Date	9/30/2019
Fiscal Year End	9/30/2020
Active Plan Members	67
Inactive Plan Members entitled to but not yet receiving benefits	0
Retired Plan Members currently receiving benefits	12
Total	<u>79</u>

A. Statement of Fiduciary Net Position

There are no plan assets.

CLARKSVILLE CONNECTED UTILITIES

Notes to Financial Statements

September 30, 2020 and 2019

B. State of Changes in Fiduciary Net Position and Net OPEB Liability

Statement of Changes in Fiduciary Net Position

Fiscal Year Ending	9/30/2020	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015	9/30/2014
Employer Contributions	\$ 68,651	\$ 43,734	\$ 33,615	\$ 25,364	\$ 20,134	\$ 21,258	\$ 21,230
Benefit Payments	(68,651)	(43,734)	(33,615)	(25,364)	(20,134)	(21,258)	(21,230)
Net Change	-	-	-	-	-	-	-
Fiduciary Net Position, Beginning of Period	-	-	-	-	-	-	-
Fiduciary Net Position, End of Period	<u>\$ -</u>						

Statement of Changes in Net OPEB Liability

Net OPEB Liability - Beginning of Year	\$345,284	\$396,696	\$439,263	\$475,053	\$506,747	\$541,429	\$578,051
Service Cost	-	15,109	15,109	15,109	15,679	15,679	15,679
Interest on Net OPEB Obligation	10,359	11,901	13,177	14,252	15,202	16,243	17,342
Changes in Actuarial Assumptions	550,950	(34,688)	(37,238)	(39,787)	(42,441)	(45,346)	(48,413)
Net Changes	561,309	(7,678)	(8,952)	(10,426)	(11,560)	(13,424)	(15,392)
Contributions and Payments	(68,651)	(43,734)	(33,615)	(25,364)	(20,134)	(21,258)	(21,230)
Increase (Decrease) in Net OPEB Liability	492,658	(51,412)	(42,567)	(35,790)	(31,694)	(34,682)	(36,622)
Net OPEB Liability - End of Year	<u>\$837,942</u>	<u>\$345,284</u>	<u>\$396,696</u>	<u>\$439,263</u>	<u>\$475,053</u>	<u>\$506,747</u>	<u>\$541,429</u>

Cost Method – The entry age actuarial cost method is used for this disclosure. Under this method, the present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings between entry age and assumed exit age. The portion of the present value allocated to a year is the service cost.

Projected benefits are based on projected salary and projected service.

In order to better reflect the anticipated experience of the plan, Principal Financial did a comprehensive review of the assumptions used in the valuation. As a result, we changed the following assumptions for the plan. We are now assuming that actives will receive pre-65 coverage and are now valuing the actives with retirement rates, changed the mortality assumption and the trend rates, and updated the premiums.

Long Term Rate of Return – None. No plan assets.

C. Sensitivity to Changes in Discount Rate

	1% Decrease	Discount Rate	1% Increase
	2.55%	3.55%	4.55%
Net OPEB Liability	\$ 907,680	\$ 837,942	\$ 774,952

CLARKSVILLE CONNECTED UTILITIES

Notes to Financial Statements

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D. Sensitivity to Changes in Healthcare Trend Rate

	1% Decrease	Trend Rate	1% Increase
Net OPEB Liability	\$ 772,578	\$ 837,942	\$ 913,148

E. Statement of OPEB Expenses for GASB 75 Reporting

The OPEB Expense for fiscal year ending 9/30/19 is \$34,688.

The OPEB Expense for fiscal year ending 9/30/20 is \$14,391.

F. Statement of Deferred Outflow and Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 148,922	\$ -
Effects of changes in assumptions	507,892	(1,117)
Net differences between expected and net investment income	-	-
Total deferred outflows and inflows of resources	<u>\$ 656,814</u>	<u>\$ (1,117)</u>

Amounts reported as deferred outflow and inflow of resources related to OPEB Expense will be recognized in the OPEB expense as follows:

Fiscal year ending	Amount to be
9/30	recognized
2020	\$ 124,289
2021	124,289
2022	124,289
2023	124,289
2024	121,334
Thereafter	37,207

G. Summary of Significant Accounting Policies of the OPEB Plan

Method Used to Value Investments - This plan is unfunded.

Net Fiduciary Position – The net position and changes in fiduciary position have been determined on the same basis for GASB 75 reporting purposes.

Contributions – The contributions for the period ending 9/30/2020 is \$68,651.

CLARKSVILLE CONNECTED UTILITIES

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Net OPEB Liability – The entry age actuarial cost method is used for this disclosure. Under this method, the present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings between entry age and assumed exit age. The portion of the present value allocated to a year is the service cost. Projected benefits are based on projected salary and projected service. The measurement period of 10/1/2018 to 9/30/2019 has been used for the fiscal year ending 9/30/2020 for GASB 75 reporting. The Net OPEB Liability reported for fiscal year ended 9/30/2019 was measured as of 9/30/2019.

Assumptions & Methods Prescribed by GASB – used to determine the total OPEB liability and discount rate

Municipal bond rate and basis – 3.55% Bloomberg Barclays Municipal GO Long Term (17+Y) Index rate for 20 year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher, as of the measurement date.

Cost Method – Entry age normal cost method, level dollar. Attribution is made on an individual basis, beginning with the first period in which the employee's service accrues OPEB benefit through all assumed exit ages, through retirement.

Participant group – The active, deferred vested and retiree census is as of 9/30/2019. No new participants join the group during the projection period.

Assumptions & Methods selected by actuary – used to determine the total OPEB liability and discount rate

Mortality - Based on Pri-2012 Total dataset base rate mortality table projected generationally using the Principal Mortality Improvement Scale (Principal 2015-10).

Base Rates

Before benefit payment period – Employee amount – weighted, male and female

During benefit payment period – Retiree amount-weighted, male and female

The Society of Actuaries is an actuarial organization that periodically reviews mortality data and publishes mortality tables and improvement scales. Pri-2012 is the baseline mortality rate table underlying the SOA Private Retirement Plans Mortality Tables Report published in October 2019.

Pri-2012 section 12.4 provided three approaches for designated beneficiaries in the calculation of join-and-survivor annuities. We believe Approach 1 is reasonable for this plan and has been selected due to data limitations in identifying contingent survivors. In addition, we believe beneficiary mortality isn't materially different while both participants are alive.

CLARKSVILLE CONNECTED UTILITIES

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Retirement Age

9/30/2019:

Age	Probability of Retirement
59	15%
60	20%
61-62	25%
63-64	10%
65	100%

9/30/2016: Age 65

Withdrawal

9/30/2019: 2003 Society of Actuaries Basic Plan Age Table, multiplied by 0.50.

We rely on a publicly published table due to the limited size of the plan. The SOA Basic Plan Age Table is the most recent withdrawal experience table published by the Society of Actuaries. A multiplier of 0.50 is applied to this table to reflect the results of the most recent experience analysis and anticipated future experience.

9/30/2016: None

Trend Rates - Trend rates are developed and reviewed annually based on discussions with various carriers and comprehensive review of available surveys. Medical and dental costs are assumed to increase according to the following schedule:

Year	Pre 65 Rate	Post 65 Rate
2019	6.75%	6.00%
2020	6.50%	5.75%
2021	6.25%	5.50%
2022	6.00%	5.25%
2023	5.75%	5.00%
2024	5.50%	4.75%
2025	5.25%	4.50%
2026	5.00%	4.50%
2027	4.75%	4.50%
2028+	4.50%	4.50%

Participation - 100% of future retirees are assumed to participate in the plan.

Claims Cost Analysis - Starting costs were based on premium rates provided by Clarksville Connected Utilities.

CLARKSVILLE CONNECTED UTILITIES

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Pre-65 Costs – The monthly premium rates are currently at \$475.13.

Post-65 costs – The monthly premium rates are the minimum of \$200 or the current rate based on the rate of each retiree.

Health Care Reform – The excise tax on high-cost plans is scheduled to be implemented in 2022. This provision states that plans with costs above certain thresholds will be subject to an excise tax of 40%. The thresholds for 2018 were \$10,200 for single coverage and \$27,500 for family coverage, but these thresholds are increased to \$11,850 and \$30,950, respectively, for retirees. The thresholds are increased by the consumer price index plus 1 percentage point in 2019 and 2020, and by the Consumer Price Index afterwards. The Consumer Price Index is assumed to be 2.0%. It is Principals' opinion that we will not be subject to this excise tax. Therefore, no adjustment has been made to the liability to account for the impact of this tax. However, if costs increase at higher than expected rates, then an adjustment will be made to the liability in the future valuations.

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

CLARKSVILLE CONNECTED UTILITIES

Notes to Financial Statements

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plan provisions during the measurement period. There have been no changes in plan provisions between the January 31, 2020 measurement date and the date this information was certified by Principal Financial Group on November 18, 2020.

Contributions

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

The actuarially determined employer contribution for the measurement period ending January 31, 2020 was \$587,948 and the expected employee contributions were \$83,895. The actuarially determined employer contribution for the upcoming measurement period ending January 31, 2021 is \$638,889 and the expected employee contributions are \$89,579. 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 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 be 11.67% of payroll throughout the projection period based on the 2/1/20 actuarial valuation report.

Amounts payable to the plan by the employer as of September 30, 2020 is \$615,005 and is recorded in accounts payable. This represents the employer contributions for the plan year ending February 1, 2021.

Allocated Insurance Contracts

Annuities were purchased for three members who retired during the measurement period. The amounts of the annuities purchased were \$555,782. 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

9/30/2020

Active plan members	58
Terminated vested	18
Disabled	0
Retirees	<u>0</u>
Total	<u>76</u>

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B. Net Pension Liability

The historical information required to be disclosed is as follows:

Actuarial Valuation Date	(1) Fiduciary's Net Position	(2) Total Pension Liability	(3) Net Pension Liability (2)-(1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) Net Pension Liability as % of Payroll (3)/(5)
02/01/20	\$ 6,866,993	\$ 8,472,158	\$ 1,605,165	81%	\$ 3,438,160	47%
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%

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

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accumulating sufficient assets to pay benefits when due. Generally, where there is a net pension liability, the smaller this percentage, the stronger the plan.

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

<u>Plan Year Ending</u>	(1) Actuarially Determined Contribution	(2) Actual Plan Contribution	(3) Difference (1)-(2)	(4) Annual Covered Payroll	(5) % Contributions as% Covered Payroll (2)/(4)
1/31/2020	\$ 587,948	\$ 587,948	\$ -	\$ 3,438,160	17%
1/31/2019	\$ 596,786	\$ 596,786	\$ -	\$ 3,220,409	19%
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%

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Assumptions

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

Measurement Date	1/31/2020
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	3.36%
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_2015_v2019 and Principal-selected assumption set published November 2019.

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 2020 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 3.36% is used. The municipal bond rate is from Bloomberg Barclays Municipal GO Long Term (17+ Y) Index for 20-

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year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher securities, as of the January 31, 2020 measurement date.

C. Schedule of Changes in Net Pension Liability

Measurement Period Ending	1/31/2020	1/31/2019	1/31/2018	1/31/2017	1/31/2016	1/31/2015
Fiscal Year Ending	9/30/2020	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015
Total Pension Liability						
Service cost	\$ 379,556	\$ 388,773	\$ 379,811	\$ 351,998	\$ 335,823	\$ 303,951
Interest	314,352	320,918	312,149	302,759	300,400	293,822
Benefit payments	(555,782)	(798,371)	(123,530)	(564,759)	(267,216)	(151,406)
Differences between expected and actual experience	(406)	(220,582)	(20,981)	74,376	66,855	(105,922)
Changes in assumptions	38,170	(4,430)	(4,835)	616,239	(20,685)	635,769
Changes in benefit terms	-	-	-	-	-	-
Net change in Total Pension Liability	175,890	(313,692)	542,614	780,613	415,177	976,214
Balance, beginning of period	8,296,268	8,609,960	8,067,346	7,286,733	6,871,556	5,895,352
Balance, end of period	\$ 8,472,158	\$ 8,296,268	\$ 8,609,960	\$ 8,067,346	\$ 7,286,733	\$ 6,871,566
Fiduciary Net Position						
Employee contributions	\$ 85,936	\$ 85,983	\$ 84,812	\$ 77,537	\$ 88,419	\$ 79,851
Employer contributions	587,948	596,786	473,615	451,996	819,213	978,957
Other contributions	-	-	-	-	-	-
Net investment income	170,807	224,330	185,689	223,519	254,428	174,941
Benefit payments	(555,782)	(798,371)	(123,530)	(564,759)	(267,216)	(151,406)
Administrative expenses	-	(8,000)	-	(4,000)	-	-
Other expenses	-	-	-	-	-	(450)
Other deductions	(33,394)	(172,439)	(55,640)	(51,372)	(28,386)	(80,552)
Net Change in Fiduciary Net Position	255,515	(71,711)	564,946	132,921	866,458	1,001,341
Balance, beginning of period	6,611,478	6,683,459	6,118,513	5,985,592	5,119,134	4,117,793
Balance, end of period	\$ 6,866,993	\$ 6,611,748	\$ 6,683,459	\$ 6,118,513	\$ 5,985,592	\$ 5,119,134
Net Pension Liability	\$ 1,605,165	\$ 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%	3.75%	4.25%	4.25%
Discount rate	3.75%	3.75%	3.75%	3.75%	4.25%	4.25%
Salary increase assumption	S5 + 2.0%	S5 + 2.0%	S5 + 2.0%	S5 + 2.0%	S5 + 2.5%	S5 + 2.5%
Retirement age assumption	NRA	NRA	NRA	NRA	NRA	NRA
Plan changes	none	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	\$ 2,976,148	\$ 1,605,165	\$ 437,415

D. Pension Expenses

The Pension Expenses for the fiscal years ended September 30, 2020 and 2019 are \$536,392 and \$694,214. Below are the components of pension expenses.

	9/30/2020	9/30/2019
Service cost	\$ 379,556	\$ 388,773
Interest cost	314,352	320,918
Contributions from employees	(85,936)	(85,983)
Expected investment income	(244,218)	(240,986)
Other expenses	-	8,000
Other deductions	33,394	172,439
Recognition of deferred outflows and inflows due to:		
Differences between expected and actual experience	(24,886)	(24,838)
Changes in assumptions	139,734	135,264
Differences between expected and actual investment earning	24,396	20,627
Total Pension Expense	<u>\$ 536,392</u>	<u>\$ 694,214</u>
 Rates used to determine pension expenses		
Discount Rate	3.75%	3.75%
Long Term Rate of Return	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

<u>Date</u>	<u>Type</u>	<u>Initial or</u> <u>Prior Year</u> <u>Balance</u>	<u>Current</u> <u>Amount</u> <u>Recognized</u>	<u>Deferred</u> <u>Balance</u>	<u>Upcoming</u> <u>Amount</u> <u>Recognized</u>	<u>Years</u> <u>Remaining</u>
9/30/2020	Experience	\$ (406)	\$ (48)	(358)	\$ (48)	7.46
9/30/2020	Assumption	38,170	4,470	33,700	4,470	7.54
9/30/2020	Investment Income	73,411	14,682	58,729	14,682	4.00
9/30/2019	Experience	(194,133)	(26,449)	(167,684)	(26,449)	6.34
9/30/2019	Assumption	(3,899)	(531)	(3,368)	(531)	6.34
9/30/2019	Investment Income	13,325	3,331	9,994	3,331	3.00
9/30/2018	Experience	(16,141)	(2,420)	(13,721)	(2,420)	5.67
9/30/2018	Assumption	(3,719)	(558)	(3,161)	(558)	5.66
9/30/2018	Investment Income	36,965	8,988	27,977	8,988	2.00
9/30/2017	Experience	49,248	8,376	40,872	8,376	4.88
9/30/2017	Assumption	408,051	69,396	338,655	69,396	4.88
9/30/2017	Investment Income	6,072	3,036	3,036	3,036	1.00
9/30/2016	Experience	38,131	7,181	30,950	7,181	4.31
9/30/2016	Assumption	(11,797)	(2,222)	(9,575)	(2,222)	4.31
9/30/2016	Investment Income	(5,641)	(5,641)	-	-	0.00
9/30/2015	Experience	(48,292)	(11,526)	(36,766)	(11,526)	3.19
9/30/2015	Assumption	289,864	69,179	220,685	69,179	3.19
	Total	<u>\$ 669,209</u>	<u>\$ 139,244</u>	<u>\$ 529,965</u>	<u>\$ 144,885</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
2021	\$144,885
2022	141,850
2023	132,862
2024	82,838
2025	44,442
Thereafter	(26,912)

Deferred Outflow of Resources – Pension Contribution

Pension contributions received after the measurement date of 1/31/2020 were \$615,005 as of the date of this report. Pension contributions received after the measurement date of 1/31/2019 were \$587,948.

F. Investments

Investment policy

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

	1/31/2020	1/31/2019
Principal Financial Group	\$ 6,516,056	\$ 6,188,848
Whole Life Insurance Reserves	<u>350,937</u>	<u>422,630</u>
Total Plan Assets	<u>\$ 6,866,993</u>	<u>\$ 6,611,478</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 (other than those related to separate accounts) under your contract and others like it are supported by the entire general account of Principal Life Insurance Company. A segment of the general account has been established to allow us to support your contract’s “best efforts” return. This segment includes a broadly diversified portfolio that primarily consists of intermediate-term, fixed income investments, such as public and private corporate bonds, commercial and residential mortgages, asset-backed securities, and U.S. government and agency-backed securities. Our obligations to you are set out in the contract. While you do not have an interest in the general account or the segment that was set up to

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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 %	6.03%	6.03%	3.65%	4.73%	4.41%
Annual Returns	2020	2019	2018	2017	2016
Total Return %	6.03%	8.65%	-3.33%	7.49%	5.25%

Portfolio Information

Composition as of 9/30/2020

	% of Assets
U.S. Bonds	55.80%
Non-U.S. Bonds	25.50%
Commercial Mortgages	16.90%
Other	1.50%
Cash	0.20%
Stocks	0.10%

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.

	9/30/2020	9/30/2019
Principal Financial Group	\$ 6,866,993	\$ 6,611,478

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 02/01/2019 to 01/31/2020 is 2.09% and 02/01/2018 to 01/31/2019 is .68%. 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.