

Clarksville Connected Utilities

**Financial Statements
and
Supplementary Information
September 30, 2022**

(With Independent Auditor's Report Thereon)

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Clarksville, Arkansas
Clarksville Connected Utilities
Clarksville, Arkansas

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of the business-type activities of **Clarksville Connected Utilities (CCU)**, a component unit of the City of Clarksville, Arkansas, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise CCU's basic financial statements as listed in the table of contents.

In our opinion, except for the effects as described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of CCU as of September 30, 2022, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

The Clarksville Connected Utilities Retirement Plan with Lincoln Financial, 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. Also, we were unable to obtain appropriate audit evidence to support the fixed assets balances recorded due to capitalization policies being used over the years. Consequently, we were unable to rely on the recorded fixed asset balances.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CCU's and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Honorable Mayor and City Council
City of Clarksville, Arkansas
Clarksville Connected Utilities

Responsibilities of Management for the Financial Statements

CCU's 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CCU's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CCU's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CCU's ability to continue as a going concern for a reasonable period of time.

To the Honorable Mayor and City Council
City of Clarksville, Arkansas
Clarksville Connected Utilities

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

As discussed in Note 1, the financial statements present only CCU and do not purport to, and do not, present fairly the financial position of the City of Clarksville, Arkansas, and the changes in their financial position, or, where applicable, their cash flows in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise CCU's basic financial statements. The Departmental Statement of Revenues and Expenses, Schedule of Direct Operating Expenses, and the Schedule of General and Administrative Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information identified in the paragraph above is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information mentioned in the paragraph above is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

To the Honorable Mayor and City Council
City of Clarksville, Arkansas
Clarksville Connected Utilities

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated October 19, 2023 on our consideration of CCU's internal control over financial reporting and 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 of 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 CCU's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The word "Landmark" is written in a cursive style, and "PLC" is written in a simpler, blocky font.

Fort Smith, Arkansas
October 19, 2023

MANAGEMENT'S DISCUSSION & ANALYSIS
Year ended September 30, 2022

Background

Clarksville Connected Utilities (CCU) is owned by the City of Clarksville, Arkansas and operates under a Commission form of government. 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 a Commission to act as an agency of the City, charged with the responsibility of administering the utility in the best interest of the citizens of Clarksville. The current structure has changed and CCU is a department of the City of Clarksville Arkansas.

Customers

CCU serves approximately 4,500 residences and businesses within the Clarksville city limits, providing electricity, water, and wastewater treatment and broadband services. CCU has become an internet service (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

CCU's total annual operating revenues for fiscal year 2022 were \$28,104,382 which was 14.4% higher or \$3,539,339 than the previous year.

Electric revenues for 2022 were \$18,982,418 up 15% or a total of \$2,496,076 in residential, commercial, and industrial accounts. Electricity kilowatt hours sold during 2022 were 218,476,872 up 2.66% as compared to 212,809,039 kilowatt hours the previous year.

Water revenues were \$5,519,880 up \$205,890 (3.88%) and sewer revenues were \$2,173,195 up by \$78,115 (3.73%) in 2022 vs. 2021. Water sold during 2022 was to 1.9 billion gallons up from 1.8 billion gallons in 2021.

Broadband revenues for the fiscal year were \$1,428,889 and were up significantly \$759,258 compared to \$669,631 in 2021 related to the growth of the relatively new department which continues to expand.

ABOUT THE ELECTRIC UTILITY

Wholesale Power Providers

CCU's largest power provider Oklahoma Municipal Power Authority (OMPA) furnished approximately 59% of MWh, down from 47% in 2021, of power purchases. In addition to the purchase of energy, OMPA provides ancillary services 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.

CCU continues to receive hydro peaking power from the Southwestern Power Administration (SWPA) and supplemental energy, comprising approximately 10% in 2022, compared to 14% in 2021.

Independence County Hydroelectric furnished approximately 18% of the supply down 4% from 22% of power purchased. These 'run of the river' units near Batesville, Arkansas continues to produce power more reliably compared to previous years.

Fuel Adjustment/Rates

Electric rates are established in reference to a base rate for the cost of a kilowatt-hour of power purchased. When the cost of power differs from that base rate, the difference goes into the calculation of a fuel adjustment to be applied to each customer's bill. The fuel adjustment is calculated on a six-month moving average basis. This means that it will take six months for CCU to recover the difference in the base cost of power and in what was actually paid to purchase that power. Historically, this time gap can and has resulted in significant swings in the Company's reported net income. The difference between the 2022 and 2021 results are a perfect example of this. Additionally, substantial cash reserves are required to finance this delay in cost recovery. The CCU board has requested that management engage an engineering firm to review the current rate structure to determine if there are changes that should be made to reduce this volatility and in a way that simplifies the structure.

ABOUT THE WATER UTILITY

CCU's existing water treatment plant capacity is capable of 16 MGD. In addition, when the last major expansion took place many of the larger components of the expansion were sized for 24 MGD. If demand grows the plant can achieve that higher production capacity with a few additional investments. Another milestone in the supply was the US Army Corp of Engineers changed the CCU permit to allow the utility to withdraw up to 24 MGD from its primary intake at Piney Bay if emergency drought conditions do not exist.

ABOUT THE BROADBAND UTILITY/FIBER OPTIC NETWORK

The relatively new fiber/broadband utility installs drops to residential and business customers offering internet and also phone services (VOIP). By the end of the fiscal year, CCU had installed approximately 1,350 locations, which was equal to 43.9% connected take rate for the service. This includes 1,177 homes and over 173 businesses.

Long term, this network can differentiate Clarksville, Arkansas and position the community to win high tech service and manufacturing jobs. It also allows small business access to the global marketplace and permits individuals to work from home while enjoying the benefits of living in a small town that is affordable and has a high quality of life.

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 10 to 12) provide information regarding the activities of Clarksville Connected Utilities 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 42. These schedules provide a more detailed picture of the Company's revenues and expenses.

The Statement of Cash Flows (on pages 13 and 14) 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 like 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, 2022, are 2.87 and 2.51 respectively. This means, for example, that for every \$2.87 in current assets, the Company has \$1.00 in current liabilities. These ratios were 2.59 and 2.30 respectively for the year ended September 30, 2021.

Comparison of Financial Data	2022	2021	Net Change
Current Assets	14,244,305	14,463,676	219,371
Restricted Fund Assets	589,820	646,062	(56,242)
Net Capital Assets	54,979,604	57,642,368	(2,662,764)
Other Assets	3,305,800	3,751,437	(445,637)
Deferred Outflow of Resources	2,453,766	2,125,594	328,172
Total Assets & Deferred Outflows	75,573,295	78,629,137	(3,055,842)
Current Liabilities	5,074,112	5,591,547	(517,435)
Net Long-Term Debt	9,770,747	10,573,150	(802,403)
Other Liabilities	4,266,230	3,537,771	728,459
Deferred Inflow of Resources	287,335	216,415	70,920
Total Liabilities & Deferred Inflows	19,398,424	19,918,883	(520,459)

Net Assets Invested in Capital Assets, Net of Related Debt	44,303,615	46,184,842	(1,881,227)
Net Position Restricted	589,853	646,097	(56,244)
Net Position Unrestricted	11,281,403	11,479,313	(197,910)
Total Net Position	56,174,871	58,710,252	(2,535,381)
Operating Revenues	28,104,382	24,565,043	3,539,339
Direct Operating Expenses	25,357,809	21,461,813	3,895,996
General and Administrative Expenses	4,226,579	4,126,746	99,833
Non-Operating Revenues (Expenses)	(317,853)	41,074	(358,927)
Total Expenses (Direct & Indirect)	29,584,388	25,588,559	3,995,829
Income Before Contributions and Transfers	(1,797,859)	(982,442)	(815,417)
Transfers to the City	(224,108)	(232,363)	8,255
Changes in Net Position	(2,021,967)	(1,214,805)	(807,162)
Ending Net Position	56,174,871	58,710,252	(2,535,381)
Cash Balance and Cash Equivalents	7,956,447	9,485,611	(1,529,164)

There was a decrease of \$2,535,381 in net position during the year to \$56,174,871 and a decrease in long-term debt in the amount of \$802,403. The \$7,956,447 cash balance was \$1,529,164 lower than 2021.

Overall, the 2022 net loss before contributions and transfers of \$1,797,859 is down \$815,417 when compared to 2021. Operating revenues are up \$3,539,339, and power costs increased \$2,587,207.



Roger Brooks
General Manager



Jeanette Small
Chief Financial Officer

Basic Financial Statements

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Statement of Net Position
September 30, 2022

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS

Cash and cash equivalents	\$ 3,433,132
Certificates of deposit	3,933,495
Accounts receivable, net of allowance for doubtful accounts of \$141,865	3,145,687
Unbilled receivables	1,693,976
Accrued interest receivable	4,656
Inventory	1,838,818
Prepaid expenses	<u>194,541</u>

Total Current Assets	<u>14,244,305</u>
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RESTRICTED CASH

Bond funds	<u>589,820</u>
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FIXED ASSETS, NET

54,979,604

OTHER ASSETS

Investments - Electric Cooperative certificates	195,800
Southwest Power Pool deposit	110,000
Scenic Hills Solar prepayment deposit	<u>3,000,000</u>

3,305,800

Total Assets	<u>73,119,529</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflow of resources - pension actuarial	1,154,187
Deferred outflow of resources - OPEB actuarial	<u>1,299,579</u>

2,453,766

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

\$ 75,573,295

See accompanying notes to financial statements.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Statement of Net Position
September 30, 2022

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

CURRENT LIABILITIES (PAYABLE FROM CURRENT ASSETS)

Accounts payable	\$ 2,205,554
Bank overdraft	374,190
Accrued expenses	<u>1,117,290</u>

Total Current Liabilities (Payable from Current Assets) 3,697,034

CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)

Customer meter deposits	471,836
Accrued interest payable	110,242
Current portion of long-term debt	<u>795,000</u>

Total Current Liabilities (Payable from Restricted Assets) 1,377,078

LONG-TERM LIABILITIES

Early retirement payable	151,574
Long-term debt, net of current maturities	9,770,747
Net other postemployment benefit obligations	1,833,601
Net pension liability	<u>2,281,055</u>

14,036,977

Total Liabilities 19,111,089

DEFERRED INFLOWS OF RESOURCES

Deferred inflow of resources - pension actuarial	<u>287,335</u>
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NET POSITION

Invested in capital assets, net of related debt	44,303,615
Restricted	589,853
Unrestricted	<u>11,281,403</u>

56,174,871

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

\$ 75,573,295

See accompanying notes to financial statements.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Statement of Revenues, Expenses, and Changes in Net Position
Year ended September 30, 2022

OPERATING REVENUES	
Electric revenue	\$ 18,982,418
Water revenue	5,519,880
Sewer revenue	2,173,195
Broadband revenue	1,428,889
	<u>28,104,382</u>
OPERATING EXPENSES	
Direct operating expenses	25,357,809
General and administrative	4,226,579
	<u>29,584,388</u>
OPERATING (LOSS)	<u>(1,480,006)</u>
OTHER REVENUES (EXPENSES)	
Interest income	31,668
Loss on sale of fixed assets	(12,429)
Interest expense	(337,092)
Transfers to the City of Clarksville	(224,108)
	<u>(541,961)</u>
CHANGE IN NET POSITION	<u>(2,021,967)</u>
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	60,205,169
PRIOR PERIOD ADJUSTMENT	<u>(2,008,331)</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>58,196,838</u>
NET POSITION, END OF YEAR	<u><u>\$ 56,174,871</u></u>

See accompanying notes to financial statements.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Statement of Cash Flows
Year ended September 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 26,568,003
Cash paid to employees, payroll taxes, and employee benefits, net of capitalized labor	(5,684,008)
Cash paid to suppliers for operations and general and administrative expenses	<u>(20,435,662)</u>
Net Cash From Operating Activities	<u>448,333</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	28,022
Investment in electric cooperative certificates	(8,387)
Investment in Southwest Power Pool deposit	(110,000)
Transfers to the City of Clarksville	(224,108)
Capital expenditures	<u>(971,427)</u>
Net Cash (Used For) Investing Activities	<u>(1,285,900)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Bank overdraft	374,190
Change in meter deposits	45,439
Payments on debt obligations	(770,000)
Interest paid on debt obligations, net of capitalized interest	<u>(341,226)</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(691,597)</u>
CHANGE IN CASH AND CASH EQUIVALENTS, CERTIFICATES OF DEPOSIT, AND RESTRICTED CASH	(1,529,164)
CASH AND CASH EQUIVALENTS, CERTIFICATES OF DEPOSIT, AND RESTRICTED CASH, BEGINNING OF YEAR	<u>9,485,611</u>
CASH AND CASH EQUIVALENTS, CERTIFICATES OF DEPOSIT, AND RESTRICTED CASH, END OF YEAR	<u>\$ 7,956,447</u>

See accompanying notes to financial statements.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Statement of Cash Flows
Year ended September 30, 2022

RECONCILIATION OF OPERATING (LOSS) TO NET

CASH FROM OPERATING ACTIVITIES:

Operating (loss)	\$ (1,480,006)
Adjustments to reconcile operating (loss) to net cash from operating activities:	
Depreciation	3,852,414
Amortization of bond premium	(7,403)
Allowance for doubtful accounts	59,584
Loss on disposal of fixed assets	12,429
Changes in assets and liabilities:	
Accounts receivable	(721,367)
Unbilled receivables	(349,819)
Inventory	(169,669)
Prepaid expenses	(18,025)
Deferred outflows - pension actuarial	(263,772)
Deferred outflows - OPEB actuarial	(64,400)
Accounts payable	(1,200,769)
Accrued expenses	(243)
Early retirement payable	(126,866)
Net pension liability	533,327
Net other postemployment benefit obligations	321,998
Deferred inflows - pension actuarial	70,920
	<u>\$ 448,333</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS, CERTIFICATES OF DEPOSIT, AND RESTRICTED CASH TO THE STATEMENT OF NET POSITION:

Cash and cash equivalents	\$ 3,433,132
Certificates of deposit	3,933,495
Restricted cash	589,820
	<u>\$ 7,956,447</u>

NONCASH TRANSACTIONS

Capital assets included in accounts payable at year end	\$ 175,139
Cash paid for interest	343,129

See accompanying notes to financial statements.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Notes to Financial Statements
September 30, 2022

NOTE 1: NATURE OF ACTIVITIES

Clarksville Connected Utilities (CCU) is a component unit of the City of Clarksville, Arkansas (the City). CCU is governed by a Board of Commissioners appointed by the Mayor and approved by the City Council. CCU is a business-type activity of the City and is responsible for the operation and maintenance of the city-owned electric, water, sewer, and broadband systems. CCU 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are presented 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 revenue (expense) items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of CCU. All revenues and expenses not meeting this definition are reported as other revenues (expenses) but remain a major component of the overall revenues and expenses of CCU.

In accordance with Governmental Accounting Standards Board (GASB) Statement Number 62, CCU applies accounting standards in accordance with the Codification of Governmental Accounting and Financial Reporting Standards which incorporates applicable Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements issued on or before November 30, 1989.

CCU incurs direct departmental expenses as well as indirect general and administrative expenses in the daily operations of CCU. 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.

Fund Type

CCU is made up of enterprise funds, used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Notes to Financial Statements
September 30, 2022

Use of Estimates

Management of CCU used estimates and assumptions in preparing these financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash and have maturities that present insignificant risk of changes in value because of changes in interest rates. At September 30, 2022, CCU had cash equivalents of \$589,820.

Accounts Receivable and Uncollectible Accounts

Accounts receivable relate to water, sewer, electric and broadband service billings and are shown net of an allowance for doubtful accounts. The allowance for uncollectible accounts was \$141,865 for the year ended September 30, 2022. The allowance is based upon historical losses and a review of past-due accounts. Credit extended to customers is generally uncollateralized. Accounts are due ten days after the billing date. Past-due accounts are charged a ten percent penalty. Customers are required to make a deposit, and deposits can be offset against the receivable.

Inventory

Inventory is valued at the lower of cost (first-in, first-out method) or net realizable value. Inventory consists of construction and maintenance supplies related to the water system, sewer system, electric system and broadband system.

Long-Lived Assets

CCU reviews long-lived assets and certain identifiable intangibles held and used by the various departments for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the year ended September 30, 2022, this review has not materially affected CCU's reported earnings, financial position or results of operations.

Capitalized Interest

CCU capitalizes interest costs as part of the cost of constructing various electric, water, and sewer projects when material. There was no capitalized interest during the year ended September 30, 2022.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Notes to Financial Statements
September 30, 2022

Fixed Assets

Fixed assets are recorded at cost, including interest incurred during the construction period. Contributed property in excess of \$1,000 is recorded at fair value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

Office building	7 - 33 years
Buildings - electric	5 - 20 years
Warehouse	5 - 33 years
Electric system	5 - 33 years
Water system	2 - 66 years
Sewer system	3 - 66 years
Broadband system	10 - 40 years
Transportation equipment	5 - 20 years
Generation equipment	20 years
Office equipment	3 - 10 years
Lab equipment	5 - 10 years
Construction equipment	5 - 20 years
Maintenance equipment	3 - 20 years
Plant and shop equipment	3 - 10 years

CCU's capitalization policy states that capital assets are defined as assets with a cost of \$1,000 or more and an estimated useful life of greater than one year. The cost basis of fully depreciated property and equipment still in use by CCU at September 30, 2022 amounted to approximately \$40,855,000.

Amortization of Bond Discounts and Premiums

Bond discounts and premiums are amortized over the lives of the related bond issues. Net amortization of bond premiums for the year ended September 30, 2022 was \$7,403 and is included as a component of interest expense. See Note 8.

Compensated Absences

CCU 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. The balance of accrued compensated absences as of September 30, 2022 amounted to \$766,671.

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Pensions

For purposes of measuring 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 estimated to comply with the plan's accounting and reporting requirements and should not be used for estimating plan termination liabilities or any other related purpose. The measurement date of the Plan was January 31, 2022. 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, 2022 actuarial report.

Deferred Inflows and Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources until then. CCU has two items that qualify for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. CCU has one item that qualifies for reporting in this category.

Net Position Classifications

Net position is classified and displayed in the following three components:

Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.

Unrestricted net position – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, CCU's policy is to make payment from unrestricted funds and generally take reimbursement from restricted funds.

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Current Accounting Developments

GASB Statement No. 96, Subscription-Based Information Technology Arrangements (GASB 96): This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). GASB 96 is effective for periods beginning after June 15, 2022, with earlier application encouraged.

Management is currently evaluating the impact of implementation of this statement to the financial statements of CCU and does not expect the implementation of GASB 96 to significantly impact the financial statements of CCU.

Adoption of GASB Statements

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period (GASB 89), is effective for CCU for the year ended September 30, 2022. The objective of GASB 89 is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The adoption of GASB 89 had no impact on CCU's financial statements.

GASB Statement No. 87, Leases (GASB 87), is effective for CCU for the year ended September 30, 2022. The objective of GASB 87 is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases for governments. The adoption of GASB 87 had no impact on CCU's financial statements.

NOTE 3: DEPOSITS IN FINANCIAL INSTITUTIONS

Deposits in financial institutions are financial instruments that could potentially subject CCU to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. At September 30, 2022, CCU had approximately \$7,966,000 in deposit balances, of which approximately \$250,000 were FDIC insured and the remaining balances collateralized by securities held by the bank in CCU's name. See Note 4.

NOTE 4: CASH AND CASH EQUIVALENTS, CERTIFICATES OF DEPOSIT AND RESTRICTED CASH

All monies received by CCU shall be deposited in such a depository or depositories, as may be lawfully designated by the Board of Commissioners; subject to the giving of security as now or as hereafter may be required by law, and provided that such depositories shall hold membership in the Federal Deposit Insurance Corporation (FDIC). The bank balances and carrying amounts of CCU's deposits and short-term investments held as of September 30, 2022 were as follows:

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	Bank Balance	Book Balance
Cash on hand	\$ -	\$ 950
Demand deposits	3,442,253	3,432,182
Certificates of deposit	4,077,305	4,077,305
Federated Hermes Treasury Obligations Fund	374,691	374,691
FDIC Insured Cash Sweep Funds	71,319	71,319
	\$ 7,965,568	\$ 7,956,447

Money market mutual funds were held by CCU as of September 30, 2022 of \$374,691 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.

NOTE 5: CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject CCU 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 to CCU's customer base being made up of a large number of customers, thus spreading the trade credit risk. CCU generally does not require collateral other than the required customer deposit to support accounts receivables.

NOTE 6: MAJOR CUSTOMERS AND SUPPLIES

The following table set forth the major customers for CCU for the year ended September 30, 2022. Amounts are presented in dollars and percent of total revenues. Accounts receivable from the following customers represent 32% of total accounts receivable as of September 30, 2022.

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Customer	Gross Revenues	% of Total Revenues
Tyson Foods	\$ 5,681,297	20%
Hanesbrand Inc.	1,786,035	6%
Walmart Supercenter and Distribution Center	1,645,618	6%
	<u>\$ 9,112,950</u>	<u>32%</u>

The following tables set forth the major power suppliers for CCU for the year ended September 30, 2022. Amounts are presented in dollars and percent of total power purchased and of direct operating expenses. Accounts payable to the following suppliers represent 62% of total accounts payable as of September 30, 2022.

Supplier	Power Purchases	% of Total Power
Independence County	\$ 2,854,498	18%
Southwestern Power Administration	1,565,384	10%
Oklahoma Municipal Power Association	9,209,651	59%
Trillium HoldCo	233,507	1%
Scenic Hills Solar	558,579	4%
Southwestern Power Pool	1,310,300	8%
	<u>\$ 15,731,919</u>	<u>100%</u>
<u>Total Power Purchased to</u>	<u>\$ 15,731,919</u>	
Direct Operating Expenses	25,357,809	62%

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NOTE 7: CHANGES IN FIXED ASSETS

	<u>Balance, restated</u> <u>September 30, 2022</u>	<u>Transfers/ Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance</u> <u>September 30, 2022</u>
Land - electric	\$ 433,699	\$ -	\$ (2,356)	\$ 431,343
Land - water	531,037	-	(2,508)	528,529
Land - sewer	216,214	-	(525)	215,689
Office building	1,254,642	27,500	-	1,282,142
Buildings - electric	38,128	4,369	(5,275)	37,222
Warehouse	1,507,427	2,930	(2,714)	1,507,643
Electric system	29,351,988	14,822	(5,675)	29,361,135
Water system	61,890,930	17,766	(5,441)	61,903,255
Sewer system	15,601,071	27,804	(3,978)	15,624,897
Broadband system	15,646,346	-	(3,973)	15,642,373
Transportation equipment	2,389,798	15,426	-	2,405,224
Generation equipment	956,655	-	-	956,655
Office equipment	1,551,418	28,803	(24,694)	1,555,527
Lab equipment	79,184	-	(5,276)	73,908
Construction equipment	1,005,559	20,229	-	1,025,788
Maintenance equipment	1,991,877	80,171	(24,550)	2,047,498
Plant and shop equipment	550,733	-	(22,496)	528,237
	<u>134,996,706</u>	<u>239,820</u>	<u>(109,461)</u>	<u>135,127,065</u>
Construction in progress - electric	107,453	224,840	(58,836)	273,457
Construction in progress - water	1,664,411	118,593	(493)	1,782,511
Construction in progress - sewer	9,285	5,734	-	15,019
Construction in progress - broadband	44,693	672,423	-	717,116
	<u>136,822,548</u>	<u>1,261,410</u>	<u>(168,790)</u>	<u>137,915,168</u>
Less: accumulated depreciation	<u>(79,180,180)</u>	<u>(3,852,414)</u>	<u>97,030</u>	<u>(82,935,564)</u>
Total capital assets, net	<u>\$ 57,642,368</u>	<u>\$ (2,591,004)</u>	<u>\$ (71,760)</u>	<u>\$ 54,979,604</u>

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NOTE 8: LONG-TERM DEBT

On June 25, 2013, the City 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 CCU. Final maturity is in 2032.

On May 21, 2019, the City 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 broadband systems secured by a pledge of the revenues of CCU. Final maturity is in 2034.

Following is a summary of changes in long-term debt:

	Balance September 30, 2021	Increases	Decreases	Balance September 30, 2022	Amounts Due Within One Year
Utility Revenue Construction					
Bonds, Series 2013	\$ 2,255,000	\$ -	\$ 195,000	\$ 2,060,000	\$ 200,000
Utility Revenue Construction					
Bonds, Series 2019	8,995,000	-	575,000	8,420,000	595,000
Bonds payable, gross	11,250,000	-	770,000	10,480,000	795,000
Plus premiums	93,150	-	7,403	85,747	-
	<u>\$11,343,150</u>	<u>\$ -</u>	<u>\$ 777,403</u>	<u>\$10,565,747</u>	<u>\$ 795,000</u>

Principal and interest maturities of CCU bonds are as follows:

Year ending September 30,	Principal	Interest	Total
2023	\$ 795,000	\$ 321,199	\$ 1,116,199
2024	815,000	298,148	1,113,148
2025	840,000	274,109	1,114,109
2026	865,000	248,909	1,113,909
2027	890,000	222,529	1,112,529
2028-2032	4,660,000	681,353	5,341,353
2033-2034	1,615,000	76,094	1,691,094
Total	<u>\$ 10,480,000</u>	<u>\$ 2,122,341</u>	<u>\$ 12,602,341</u>

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NOTE 9: RELATED PARTY TRANSACTIONS

CCU and the City 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. Once CCU receives payment, CCU contributes the same amount back to the City, which is recorded as a "Transfer to the City of Clarksville" on the Statement of Revenues, Expenses, and Changes in Net Position. The amount included in accounts receivable at September 30, 2022 from the City was \$71,024.

NOTE 10: RISK MANAGEMENT

CCU is exposed to various risk 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 during the year ended September 30, 2022.

NOTE 11: OTHER COMMITMENTS

On May 20, 2019, CCU 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 CCU. On May 20, 2019, CCU and Scenic Hill Solar III, LLC also entered into a power purchase agreement whereby CCU will purchase all power generated by the facility. This agreement also sets forth the terms and conditions for CCU's option to purchase the facility. This facility is interconnected to and operating with CCU's electric power system.

NOTE 12: 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. CCU 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. CCU has the right at any time and from time to time to amend the plan in any manner it deems necessary or advisable in order to continue the status of this plan as an eligible 457(b) plan; including deletion, substitution or modification of any plan provision. Contributions made by plan members for the year ended September 30, 2022 were \$67,965. Effective January 1, 2023, the plan document was amended and restated.

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NOTE 13: OTHER POSTEMPLOYMENT BENEFITS

CCU sponsors and administers an informal early retirement benefit and a single employer defined benefit healthcare plan. CCU does not issue stand-alone financial statements of the plan; however, all required information is presented in this report. The plan has no assets and is funded on a pay-as-you-go basis.

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. CCU's 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. Seven retirees participated in this early retirement benefit in 2022. The expenditures for these retirees was \$126,866 for the year ended September 30, 2022.

- (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 2,080 hours)
 - Benefit Factor (defined as 1.50%)
 - Years of Service at Date of Retirement

This benefit ends at age 62. No retiree participated in the position elimination early retirement benefit during the year ended September 30, 2022.

Sections (1) and (2) above are considered termination benefits and an estimated liability of \$151,574 has been accrued for future payments through July 31, 2024 and are measured at the actual amount expected to be paid.

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- (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 CCU's group health insurance policy does not permit continuation of coverage for retirees, the cost of single coverage as of the date of retirement may be paid directly to the retiree on a monthly basis. If coverage is initially provided and later terminated because of changes to the health insurance policy, the benefit payable to the retiree will be the amount paid for single coverage at the time of the change. The benefit will end at age 65, or earlier if Medicare eligibility occurs before age 65. Thirteen retirees participated in the health insurance coverage benefit as of September 30, 2022. The expenditures for the health insurance coverage for the retirees participating under this benefit option was \$95,444 during the year ended September 30, 2022. 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, CCU 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 CCU at the age of 59 or older. Therefore, if an employee terminates for any reason prior to reaching retirement age, he or she is disqualified.

Benefits are not retroactive and will not begin until proof of supplemental medical insurance coverage is furnished to CCU. Early retirees may apply to CCU 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 the year ended September 30, 2022 was \$10,776. 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 CCU 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 not received until after employment has ended. Therefore, the cost of these future benefits is part of the cost of providing services today.

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The Early Retirement benefit part (3) and the Extended Medical Coverage benefit listed above meet the definition of a single employer Postemployment Benefit Plans Other Than Pension Plans and require actuarial disclosures. The Extended Medical Coverage benefit was discontinued as of October 1, 2013 except for those retirees already receiving benefits or qualified to receive benefits at their retirement date. An Actuarial Valuation Report Under GASB Statement 75 prepared by Hildi Incorporated, A Division of USI Consulting Group, an independent actuary, for the measurement period of October 1, 2020 to October 31, 2021 has been used for the fiscal year ending September 30, 2022 reporting. Copies of this report may be obtained by contacting CCU. As allowed by Governmental Accounting Standards Board (GASB) Statement No. 75 – Accounting and Financial Reporting for Postemployment 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 75 – Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans establishes uniform accounting and financial reporting standards for state and local governments related to postemployment benefits other than pensions. CCU has adopted GASB 75 as of September 30, 2020. The calculations reported herein are consistent with our understanding of the provisions of GASB Statement 75.

OPEB benefits have historically been funded on a pay-as-you-go basis. Under GASB 75, plan sponsors may set a trust fund and pre-fund the benefits. There is no requirement to pre-fund benefits under GASB 75. Results reported assume continued funding on a pay-as-you-go basis.

There are no non-employer 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 CCU’s Commission of the City which may amend the plan provisions, and which is responsible for the management of plan assets.

<u>Employees Covered</u>	
Active plan members	67
Terminated vested	17
Retirees	-
Total	<u><u>84</u></u>

Plan Changes – None

Method Changes – None

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. No changes were made in the method.

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Plan Experience –

- Healthcare claims for retired employees are assumed to be based on active employee premiums, increased for the difference in average age, resulting in the measurement of an implicit rate subsidy liability.
- There was a liability loss of \$182,702 due to updated census data and the implicit rate subsidy.
- There was a liability gain of \$105,197 due to claims and premiums lower than expected.

Assumption Changes –

- The healthcare trend rates were changes to better anticipate short term and long-term medical increases.
- The retirement rates were updated to better reflect plan experience.
- These changes increased the liability \$250,484.

Projected benefits are based on projected salary and projected service.

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

A. Statement of Fiduciary Net Position

There are no plan assets.

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

Statement of Changes in Fiduciary Net Position

Measurement Date	9/30/2021	9/30/2020	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Reporting Date	9/30/2022	9/30/2021	9/30/2020	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015	9/30/2014
Employer Contributions	\$ 121,191	\$ 91,526	\$ 68,651	\$ 43,734	\$ 33,615	\$ 25,364	\$ 20,134	\$ 21,258	\$ 21,230
Benefit Payments	(121,191)	(91,526)	(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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Statement of Changes in Net OPEB Liability

Net OPEB Liability - Beginning of Year	\$1,511,603	\$ 837,942	\$ 345,284	\$ 396,696	\$ 439,263	\$ 475,053	\$ 506,747	\$ 541,429	\$ 578,051
Service Cost	79,979	66,248	-	15,109	15,109	15,109	15,679	15,679	15,679
Interest on Net OPEB Obligation	35,221	30,488	10,359	11,901	13,177	14,252	15,202	16,243	17,342
Changes in Actuarial Assumptions	250,484	(29,618)	550,950	(34,688)	(37,238)	(39,787)	(42,441)	(45,346)	(48,413)
Difference in Expected & Actual Experience	77,505	698,069	-	-	-	-	-	-	-
Net Changes	443,189	765,187	561,309	(7,678)	(8,952)	(10,426)	(11,560)	(13,424)	(15,392)
Contributions and Payments	(121,191)	(91,526)	(68,651)	(43,734)	(33,615)	(25,364)	(20,134)	(21,258)	(21,230)
Increase (Decrease) in Net OPEB Liability	321,998	673,661	492,658	(51,412)	(42,567)	(35,790)	(31,694)	(34,682)	(36,622)
Net OPEB Liability - End of Year	\$1,833,601	\$1,511,603	\$ 837,942	\$ 345,284	\$ 396,696	\$ 439,263	\$ 475,053	\$ 506,747	\$ 541,429

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C. Sensitivity to Changes in Discount Rate

	1% Decrease 1.30%	Discount Rate 2.30%	1% Increase 3.30%
Net OPEB Liability	\$ 1,945,613	\$ 1,833,601	\$ 1,726,111

D. Sensitivity to Changes in Healthcare Trend Rate

	1% Decrease 5.50%	Trend Rate 6.50%	1% Increase 7.50%
Net OPEB Liability	\$ 1,687,413	\$ 1,833,601	\$ 2,002,755

E. Statement of OPEB Expenses for GASB 75 Reporting

The OPEB Expense under GASB 75 for fiscal year ended September 30, 2022 is \$397,755. Actual OPEB benefit payment contributions for the supplemental insurance and health insurance was \$145,354, which includes an implicit subsidy calculation.

Components of OPEB Expense

Service cost	\$ 79,979
Interest cost	35,221
Liability gain or loss	156,319
Assumption changes	126,236
Projected investment return	-
Investment gain or loss	-
Administrative expenses	-
Plan changes	-
Total	\$ 397,755

F. Statement of Deferred Outflow and Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 622,931	\$ -
Effects of changes in assumptions	531,294	20,341
Employer contributions	145,354	-
Total deferred outflows and inflows of resources	\$ 1,299,579	\$ 20,341

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Amortization of the OPEB expense is as follows:

Year ending September 30,	Amount to be recognized
2023	\$ 282,555
2024	282,555
2025	279,605
2026	195,465
2027	46,857
Thereafter	46,847

Outstanding amortization bases for Deferred (Inflows) and Outflows of Resources as of September 30, 2022:

Date Established	Type	Original Amount	Original Years	Amortization Amount	Remaining Amount as of September 30, 2022	Remaining Years as of September 30, 2022
10/1/2020	Liability (Gain)/Loss	\$ 19,552	4.31	\$ 4,537	\$ 10,478	2.31
10/1/2020	Assumption Change	(1,117)	4.31	(260)	(597)	2.30
10/1/2020	Liability (Gain)/Loss	129,370	5.31	24,364	80,642	3.31
10/1/2020	Assumption Change	507,892	5.31	95,469	316,594	3.31
10/1/2020	Liability (Gain)/Loss	698,069	6.00	116,345	465,379	4.00
10/1/2020	Assumption Change	(29,618)	6.00	(4,937)	(19,744)	4.00
10/1/2021	Liability (Gain)/Loss	77,505	7.00	11,073	66,432	6.00
10/1/2021	Assumption Change	250,484	7.00	35,784	214,700	6.00

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 year ended September 30, 2022 is \$121,191.

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.

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

Valuation/Census Data Date	October 1, 2021										
Measurement Date	October 1, 2021										
Actuarial Cost Method	Entry Age, level percentage of pay										
Actuarial Assets	None										
Amortization of Deferred Resource Flows	Average of expected remaining service on a closed basis for differences between expected and actual experience and assumption changes										
Discount Rate	2.30%										
20-Year Municipal Bond Yield	2.30%										
Salary Increases	Table S-5 plus 2.0% plus an additional amount based on service:										
	<table border="0"> <thead> <tr> <th style="text-align: center;">Age</th> <th style="text-align: center;">Rate as %</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">25</td> <td style="text-align: center;">6.18%</td> </tr> <tr> <td style="text-align: center;">40</td> <td style="text-align: center;">4.72%</td> </tr> <tr> <td style="text-align: center;">55</td> <td style="text-align: center;">3.88%</td> </tr> </tbody> </table>	Age	Rate as %	25	6.18%	40	4.72%	55	3.88%		
Age	Rate as %										
25	6.18%										
40	4.72%										
55	3.88%										
	Salary increases used only for cost attribution and not for the determination of plan benefits.										
	Pre-65: 6.50% as of October 1, 2021 grading to 5.00% over 6 years and then to 4.00% over the next 48										
	Post-65: 4.00%										
Medical Trend Rate											
Mortality	Pri-2012 Total Dataset Mortality Table with MP-2021 Generational Improvement Scale										
Disability	None										
Withdrawal Retirement	2003 Society of Actuaries Small Plan Age Table, multiplied by 0.50										
	<table border="0"> <thead> <tr> <th style="text-align: center;"><u>Age</u></th> <th style="text-align: center;"><u>Rate as %</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">59-60</td> <td style="text-align: center;">20%</td> </tr> <tr> <td style="text-align: center;">61-62</td> <td style="text-align: center;">30%</td> </tr> <tr> <td style="text-align: center;">63-64</td> <td style="text-align: center;">40%</td> </tr> <tr> <td style="text-align: center;">65</td> <td style="text-align: center;">100%</td> </tr> </tbody> </table>	<u>Age</u>	<u>Rate as %</u>	59-60	20%	61-62	30%	63-64	40%	65	100%
<u>Age</u>	<u>Rate as %</u>										
59-60	20%										
61-62	30%										
63-64	40%										
65	100%										
Expenses	Assumed paid outside of Plan										
Percent Married	N/A										
Age Difference	N/A										
Retiree Plan Participation	Future Retirees Electing Coverage:										
	Pre-65 subsidy available: 100%										
	Pre-65 subsidy not available N/A										
Percent of Married Retirees Electing Spouse Coverage	N/A										

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NOTE 14: CLARKSVILLE CONNECTED UTILITIES RETIREMENT PLAN WITH LIFE INSURANCE (unaudited)

A. General Information about the Pension Plan

Plan Description

The Clarksville Connected Utilities Retirement Plan with Life Insurance (the Plan) is a single employer defined benefit plan sponsored by CCU. The Plan is governed by CCU's Commission, which may amend plan provisions is responsible for the management of plan assets. CCU's Commission approved the transfer of Plan assets from Principal Financial Group to Lincoln Financial Group (Lincoln) during the year ended September 30, 2022, and delegated the authority to manage plan assets to Lincoln Financial Group. No changes have occurred in the plan between the measurement date and the financial statement date that have a significant effect on net pension liability. The Plan does not issue an audited stand-alone financial report.

Eligibility and Benefits Provided

The Plan covers substantially all full-time employees who attained age 21 and have completed at least one year of service in which at least 1,000 hours were worked. The normal retirement benefit is a monthly annuity guaranteed for five years and life thereafter after the later of attaining age 65 or five years after the plan entry date. The monthly annuity is 60% of average compensation multiplied by short service percentage, multiplied by accrued benefit adjustment as defined in the plan. An early retirement benefit is available for employees who have attained age 55 and completed 10 years of vesting service at a reduced benefit amount depending on the number of years the early retirement date precedes the normal retirement date. The Plan also provides for a death benefit of the greater of a survivor annuity death benefit or whole life insurance death benefit. This reflects the provisions of the plan dated January 31, 2014. There have been no changes in plan provisions during the measurement period. There have been no changes in plan provisions between the January 31, 2022 measurement date and the date of this report.

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, 2022 was \$834,822 and the employee contributions were \$95,045.

The plan funding policy assumes 100% of the estimated actuarially determined contribution amount is contributed midway through each projection period. Employer normal cost is assumed to be 11.67% of payroll throughout the projection period based on the February 1, 2022 actuarial valuation report.

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Allocated Insurance Contracts

Benefits paid during the prior plan year were \$885,217. 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.

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 Plan	(3) Net Pension Liability (2)-(1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) Net Pension Liability as % of Payroll (3)/(5)
2/1/2022	\$6,482,384	\$8,763,439	\$2,281,055	74%	\$3,903,758	58%
2/1/2021	7,077,923	8,825,651	1,747,728	80%	4,029,477	43%
2/1/2020	6,866,993	8,472,158	1,605,165	81%	3,438,160	47%
2/1/2019	6,621,103	8,296,268	1,675,165	80%	3,220,409	52%
2/1/2018	6,683,189	8,609,960	1,926,771	78%	3,378,654	57%
2/1/2017	6,118,243	8,067,346	1,949,103	76%	3,309,601	59%
2/1/2016	5,985,322	7,286,733	1,301,411	82%	3,310,615	39%
2/1/2015	5,119,134	6,871,556	1,752,422	74%	3,114,072	56%
2/1/2014	4,117,792	5,895,347	1,777,555	70%	3,296,874	54%
2/1/2013	3,623,125	5,426,419	1,803,294	67%	3,381,052	53%

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.

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

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

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

Plan Year Ending	(1) Actuarially Determined Contribution	(2) Actual Plan Contribution	(3) Difference (2)-(1)	(4) Annual Covered Payroll	(5) % Contributions as % Covered Payroll (2)/(4)
1/31/2022	\$ 834,822	\$ 7,528	\$(827,294)	\$3,903,758	0%
1/31/2021	638,889	615,005	(23,884)	4,029,477	15%
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%

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Summary of Methods and Assumptions

Census Date	February 1, 2022
Measurement Date	January 31, 2022
Actuarial Cost Method	GASB Accounting: Entry Age Normal Actuarial Determined Contribution: Entry Age Normal
Actuarial Assets	Trustee value as of the measurement date Level dollar amount on a closed basis. For GASB 68, the amortization basis is as described in GASB Statement 68. For the Actuarially Determined Contribution, the amortization period is 20 years.
Amortization of Deferred Resource Flows	
Economic Assumptions	
Discount Rate	GASB Accounting: 4.40% (net of investment expenses) Plan Funding: 4.50%
Expected Long-Term Investment Return	4.50%
20-Year Municipal Bond Yield	3.00%
Period of Projected Benefits	2022-2117
Salary Increase	Table S-5 plus 2.0% plus an additional amount based on service
	Age Rate as %
	25 6.18%
	40 4.72%
	55 3.88%
Cost of Living Increases	None
Other Assumptions	
Mortality Table	RP-2006 with MP-2021
Disability	1987 Commissioner's Group Disability Table, six month elimination period, male and female. 2003 Society of Actuaries Small Plan Age Table, multiplied by 0.50
Withdrawal	
Retirement	100% at Normal Retirement Date
Expenses	Actual Expenses Used
Percent Married	Males 75%, Females 75%
Age Difference	Males assumed to be 3 years older than females
Form of Payment	5 year certain and life annuity

Clarksville Connected Utilities
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Notes to Financial Statements
September 30, 2022

C. Schedule of Changes in Net Pension Liability

Measurement Period Ending Fiscal Year Ending	1/31/2022 9/30/2022	1/31/2021 9/30/2021	1/31/2020 9/30/2020	1/31/2019 9/30/2019	1/31/2018 9/30/2018	1/31/2017 9/30/2017	1/31/2016 9/30/2016	1/31/2015 9/30/2015
Total Pension Liability								
Service Cost	\$ 468,925	\$ 418,181	\$ 379,556	\$ 388,773	\$ 379,811	\$ 351,998	\$ 335,823	\$ 303,951
Interest	331,949	320,590	314,352	320,918	312,149	302,759	300,400	293,822
Benefit Payments	(885,217)	(682,540)	(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)
Plan changes	(344,406)	-	-	-	-	-	-	-
Changes in assumptions	501,395	422	38,170	(4,430)	(4,835)	616,239	(20,685)	635,769
Gain or Loss	(134,858)	296,840	-	-	-	-	-	-
Net change in Total Pension Liability	(62,212)	353,493	175,890	(313,692)	542,614	780,613	415,177	976,214
Balance, beginning of period	8,825,651	8,472,158	8,296,268	8,609,960	8,067,346	7,286,733	6,871,556	5,895,342
Balance, end of period	<u>\$ 8,763,439</u>	<u>\$ 8,825,651</u>	<u>\$ 8,472,158</u>	<u>\$ 8,296,268</u>	<u>\$ 8,609,960</u>	<u>\$ 8,067,346</u>	<u>\$ 7,286,733</u>	<u>\$ 6,871,556</u>
Fiduciary Net Position								
Employee contributions	\$ 95,045	\$ 95,657	\$ 85,936	\$ 85,983	\$ 84,812	\$ 77,537	\$ 88,419	\$ 79,851
Employer contributions	7,528	615,005	587,948	596,786	473,615	451,996	819,213	978,957
Other contributions	-	-	-	-	-	-	-	-
Net investment income	191,105	257,965	170,807	224,330	185,689	223,519	254,428	174,941
Benefit payments	(885,217)	(682,540)	(556,052)	(798,371)	(123,530)	(564,759)	(267,216)	(151,406)
Administrative expenses	(4,000)	(4,000)	-	(8,000)	-	(4,000)	-	-
Gain or loss	-	(71,157)	-	-	-	-	-	(450)
Other deductions	-	-	(33,394)	(172,439)	(55,640)	(51,372)	(28,386)	(80,552)
Net Change in Fiduciary Net Position	(595,539)	210,930	255,245	(71,711)	564,946	132,921	866,458	1,001,341
Balance, beginning of period	7,077,923	6,866,993	6,611,748	6,683,459	6,118,513	5,985,592	5,119,134	4,117,793
Balance, end of period	<u>\$ 6,482,384</u>	<u>\$ 7,077,923</u>	<u>\$ 6,866,993</u>	<u>\$ 6,611,748</u>	<u>\$ 6,683,459</u>	<u>\$ 6,118,513</u>	<u>\$ 5,985,592</u>	<u>\$ 5,119,134</u>
Net Pension Liability	<u>\$ 2,281,055</u>	<u>\$ 1,747,728</u>	<u>\$ 1,605,165</u>	<u>\$ 1,684,520</u>	<u>\$ 1,926,501</u>	<u>\$ 1,948,833</u>	<u>\$ 1,301,141</u>	<u>\$ 1,752,432</u>
End of Period Assumptions								
Long-term rate of return	4.50%	3.75%	3.75%	3.75%	3.75%	3.75%	4.25%	4.25%
Discount rate	4.50%	3.75%	3.75%	3.75%	3.75%	3.75%	4.25%	4.25%
Salary increase assumption	S5 + 2.0%	S5 + 2.5%	S5 + 2.5%					
Retirement age assumption	NRA							
Plan changes	See below	none						

- a) The plan has exited their annuity contract and the distribution expense load has
b) The plan has exited an insurance contract, which measured some plan assets at
(c) Effective January 31, 2022, the plan's assets are measured at fair market value.
The expected long-term rate of return on the plan's investment portfolio was changed from 3.75% to 4.50%.
(d) The GASB discount rate was determined to be 4.40%.
(e) Post-retirement mortality based on best estimate rates instead of annuity

	1% Decrease <u>3.50%</u>	Discount Rate <u>4.50%</u>	1% Increase <u>5.50%</u>
Net OPEB Liability	<u>\$ 3,881,960</u>	<u>\$ 2,281,055</u>	<u>\$ 955,094</u>

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Notes to Financial Statements
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D. Pension Expense

Pension expense for the year ended September 30, 2022 were \$353,200. Below are the components of pension expense.

Components of Pension Expense

Service cost	\$ 468,925
Interest cost	331,949
Contributions from employees	(95,045)
Expected investment income	(250,673)
Other expenses	4,000
Plan changes	(344,406)
Recognition of deferred outflows and inflows due to:	
Differences between expected and actual experience	(10,187)
Changes in assumptions	195,488
Investment gain or loss	53,149
Total pension expense	<u><u>\$ 353,200</u></u>

Rates used to determine pension expenses

Discount rate	4.50%
Long-term rate of return	4.50%

E. Deferred Outflows and Inflows of Resources Related to Pensions

Recognition of Deferred Outflows and Inflows - Actuarial

Date Established	Type	Original Amount	Original Years	Remaining Amount	Years Remaining
10/1/2014	Assump. Outflow	\$ 635,759	9.19	\$ 82,325	1.19
10/1/2014	Liab. GL Inflow	(105,922)	9.19	(13,714)	1.19
10/1/2015	Assump. Inflow	(20,685)	9.31	(5,131)	2.31
10/1/2015	Liab. GL Outflow	66,855	9.31	16,588	2.31
10/1/2016	Assump. Outflow	616,239	8.88	199,861	2.88
10/1/2016	Liab. GL Outflow	74,376	8.88	24,120	2.88
10/1/2017	Asset GL Outflow	44,941	5.00	-	0.00
10/1/2017	Assump. Inflow	(4,835)	8.66	(2,043)	3.65
10/1/2017	Liab. GL Inflow	(20,981)	8.67	(8,881)	3.67
10/1/2018	Asset GL Outflow	16,656	5.00	3,330	1.00
10/1/2018	Assump. Inflow	(4,430)	8.34	(2,304)	4.33
10/1/2018	Liab. GL Inflow	(220,582)	8.34	(114,786)	4.34
10/1/2019	Asset GL Outflow	73,411	5.00	29,363	2.00
10/1/2019	Assump. Outflow	38,170	8.54	24,760	5.54
10/1/2019	Liab. GL Inflow	(406)	8.46	(262)	5.46
10/1/2020	Liab. GL Outflow	296,840	10.00	237,472	8.00
10/1/2020	Assump. Outflow	422	10.00	336	7.81
10/1/2020	Asset GL Outflow	71,158	5.00	42,694	3.00
10/1/2021	Liab. GL Inflow	(134,858)	9.00	(119,873)	8.00
10/1/2021	Assump. Outflow	501,395	9.00	445,684	8.00
10/1/2021	Asset GL Outflow	59,568	5.00	47,654	4.00
Total		<u><u>\$ 1,983,091</u></u>		<u><u>\$ 887,193</u></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:

<u>Year ending</u> <u>September 30,</u>	<u>Amount to be</u> <u>recognized</u>
2023	\$ 229,460
2024	179,430
2025	141,033
2026	57,819
2027	65,709
Thereafter	213,742

Deferred Outflow of Resources – Pension Contribution

No pension contributions have been paid after the measurement date of January 31, 2022.

F. Investments

Investment Policy

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

	<u>1/31/2022</u>
Lincoln Financial Group	\$ 6,482,384
Whole Life Insurance Reserves	-
Total Plan Assets	<u>\$ 6,482,384</u>

Plan funds are held in the general account and a managed principal protection portfolio that are part of the general assets of The Lincoln National Life Insurance Company, according to the terms of the deposit administration group variable annuity contract. Investment policies, strategies, and allocations within the general account are made by The Lincoln National Life Insurance Company, and are stated in the group annuity contract.

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A summary of annual and long-term returns and portfolio composition is as follows:

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	2021	2020	2019	2018	2017
Total Return %	2.90%	6.03%	8.65%	-3.33%	7.49%

Portfolio Information
Composition as of December 31, 2021

	% of Assets
Fixed income	68.00%
Equities	32.00%

Concentrations

As of the measurement dates investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represents 5 percent or more of the pension plan's fiduciary net position are with Lincoln and amount to \$6,482,384.

Method used to value investments

Investments are valued as of the measurement date. Investments in separate accounts held at Lincoln are comingled pools, rather than individual securities and are valued at fair market value.

Investments in the general account at The Lincoln National Life Insurance Company 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.

Rates of Return

The 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 rate of return on plan investments for the measurement period of February 1, 2021 to January 31, 2022 is 2.9%. The actual date and amount of each contribution benefit payment, and administrative expense payment was used in the calculation of the rate of return.

Clarksville Connected Utilities
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Notes to Financial Statements
September 30, 2022

NOTE 15: PRIOR PERIOD ADJUSTMENT

Prior period adjustments were made to the net position balance at September 30, 2021 for misapplication of the capitalization policy for fixed assets, inventory write-down to net realizable value, and removal of obsolete inventory. Other prior period adjustments were made between net position classifications that did not have an effect on the overall ending net position. Details are as follows:

Fixed assets, misapplication of capitalization policy	\$ (1,494,917)
Inventory write-down to net realizable value	(338,414)
Obsolete inventory write-down	(175,000)
Decrease in net position	2,008,331

NOTE 16: SUBSEQUENT EVENTS

Subsequent events have been reviewed through October 19, 2023 which is the date that the financial statements were available to be issued.

Hanesbrands, Inc. announced they will be closing their Clarksville facility by the end of September 2023. Historically, this is a top three customer of CCU.

Supplementary Information

Clarksville Connected Utilities
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Departmental Statement of Revenues and Expenses
Year ended September 30, 2022

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Broadband</u>	<u>Total</u>
Operating Revenue					
Electric	\$ 18,982,418	\$ -	\$ -	\$ -	\$ 18,982,418
Water	-	5,519,880	-	-	5,519,880
Sewer	-	-	2,173,195	-	2,173,195
Broadband	-	-	-	1,428,889	1,428,889
Total Operating Revenue	<u>18,982,418</u>	<u>5,519,880</u>	<u>2,173,195</u>	<u>1,428,889</u>	<u>28,104,382</u>
Operating Expense					
Direct operating expenses	18,123,636	3,787,246	1,664,502	1,782,425	25,357,809
General and administrative	<u>1,749,734</u>	<u>1,474,033</u>	<u>526,544</u>	<u>476,268</u>	<u>4,226,579</u>
Total Operating Expense	<u>19,873,370</u>	<u>5,261,279</u>	<u>2,191,046</u>	<u>2,258,693</u>	<u>29,584,388</u>
Operating Income (Loss)	<u>(890,952)</u>	<u>258,601</u>	<u>(17,851)</u>	<u>(829,804)</u>	<u>(1,480,006)</u>
Non-Operating Revenue (Expense)					
Interest income	11,711	12,289	3,446	4,222	31,668
Loss on sale of fixed assets	(4,972)	(4,971)	(1,243)	(1,243)	(12,429)
Interest expense	<u>-</u>	<u>(79,240)</u>	<u>-</u>	<u>(257,852)</u>	<u>(337,092)</u>
Total Non-Operating Revenue (Expense)	<u>6,739</u>	<u>(71,922)</u>	<u>2,203</u>	<u>(254,873)</u>	<u>(317,853)</u>
Income (loss) before contributions and transfers	<u>\$ (884,213)</u>	<u>\$ 186,679</u>	<u>\$ (15,648)</u>	<u>\$ (1,084,677)</u>	<u>\$ (1,797,859)</u>

See Independent Auditor's Report.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Schedule of Direct Operating Expenses
Year ended September 30, 2022

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Broadband</u>	<u>Total</u>
Bandwidth purchased	\$ -	\$ -	\$ -	\$ 229,782	\$ 229,782
Depreciation	902,587	1,802,646	549,371	537,372	3,791,976
Education, meetings, and travel	12,834	7,667	3,331	624	24,456
Employee benefits	187,283	208,028	168,915	80,243	644,469
Fuel	41,349	20,732	21,072	7,497	90,650
Generation costs	7,665	-	-	-	7,665
Labor	923,300	651,818	617,289	325,444	2,517,851
Labor - construction in progress	(64,232)	(12,070)	(2,326)	(1,859)	(80,487)
Maintenance	263,883	131,790	24,154	565,669	985,496
Equipment expense - construction progress	(39,663)	(7,539)	(1,698)	(2,061)	(50,961)
Payroll taxes	66,236	47,748	44,285	13,676	171,945
Pension expense	68,136	57,654	57,404	20,965	204,159
Power purchased	15,731,919	-	-	-	15,731,919
Supplies	-	419,959	32,039	-	451,998
Uniforms	21,580	11,015	10,317	4,692	47,604
Utilities	-	446,905	139,933	-	586,838
Use tax	759	893	416	381	2,449
Total	<u>\$ 18,123,636</u>	<u>\$ 3,787,246</u>	<u>\$ 1,664,502</u>	<u>\$ 1,782,425</u>	<u>\$ 25,357,809</u>

See Independent Auditor's Report.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Schedule of General and Administrative Expenses
Year ended September 30, 2022

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Broadband</u>	<u>Total</u>
Advertising and promotion	\$ 9,053	\$ 6,487	\$ 2,230	\$ 9,426	\$ 27,196
Bad debts	43,539	13,108	5,958	-	62,605
Customer online payment fees	23,872	23,872	5,968	5,968	59,680
Depreciation	24,175	24,175	6,044	6,044	60,438
Dues and subscriptions	77,025	41,148	18,560	67,374	204,107
Education, travel, and meetings	17,002	11,368	4,406	8,853	41,629
Employee benefits	171,729	170,099	55,351	46,519	443,698
Fuel	6,456	6,456	1,479	1,749	16,140
Insurance	112,514	109,470	32,998	26,302	281,284
Inventory variances	3,965	3,754	877	874	9,470
Lab fees and tests	2,086	777	16,556	17	19,436
Labor	666,514	666,514	171,108	160,861	1,664,997
Maintenance	294,565	193,375	125,077	92,708	705,725
Miscellaneous	22,877	16,427	5,342	4,817	49,463
Office supplies	27,405	27,782	6,817	8,065	70,069
Payroll taxes	46,610	44,051	10,965	21,045	122,671
Pension	56,605	56,605	28,303	-	141,513
Professional services	59,348	2,521	905	4,980	67,754
Supplies	20,091	29,346	13,016	4,719	67,172
Uniforms	5,752	5,735	1,436	1,436	14,359
Utilities	58,551	20,963	13,148	4,511	97,173
Total	<u>\$ 1,749,734</u>	<u>\$ 1,474,033</u>	<u>\$ 526,544</u>	<u>\$ 476,268</u>	<u>\$ 4,226,579</u>

See Independent Auditor's Report.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and City Council
City of Clarksville, Arkansas
Clarksville Connected Utilities
Clarksville, Arkansas

We have audited 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, the financial statements of **Clarksville Connected Utilities (CCU)**, a component unit of the City of Clarksville, Arkansas, which comprise the Statement of Net Position as of September 30, 2022, and the related Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 19, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered CCU's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCU's internal control. Accordingly, we do not express an opinion on the effectiveness of CCU's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs and Management's Response, we did identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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 CCU's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs and Management's Response as items 2022-01, 2022-03, 2022-07, 2022-08, and 2022-09 to be material weaknesses.

A significant deficiency is a deficiency, or 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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs and Management's Response as items 2022-04, 2022-06, 2022-10, 2022-11, 2022-12, 2022-14, and 2022-15 to be significant deficiencies.

To the Honorable Mayor and City Council
City of Clarksville, Arkansas
Clarksville Connected Utilities

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether CCU's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs and Management's Response as items 2022-02, 2022-05, and 2022-13.

Clarksville Connected Utilities Response to Findings

CCU's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs and Management's Response. CCU's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CCU's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CCU's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Fort Smith, Arkansas
October 19, 2023

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Schedule of Findings and Questioned Costs and Management's Response
September 30, 2022

2022-01: Segregation of Duties

Condition: A proper segregation of duties is designed to prevent one person from being in a position to initiate, authorize, execute, and record the same transaction.

Criteria and Cause: The fiscal officer/chief financial officer prepares all bank reconciliations, is able to approve invoices for payment, is an authorized check signer, and makes all journal entries.

Effect: Key controls were lacking, such as timely preparation and review of bank statements and bank reconciliations, which increases the risk that errors or fraud may occur and not be detected in a timely manner and could yield inaccuracies in reporting and/or a lack of reliable information.

Recommendation: While we realize there is a cost-benefit consideration to obtaining ideal segregation of duties, we recommend that consideration be given to reassigning conflicting duties to the extent possible to, at a minimum, apply key controls such as independent review (and sign off) of bank reconciliations, journal entries, and financial statements prior to submission to the Commission (including review of significant general ledger accounts) preferably with budget to actual variances.

Management Response: Management will review and communicate existing internal control procedures to be sure that all bank reconciliations, journal entries, and financial statements are reviewed and signed off by the general manager or another member of the accounting staff. This issue has been addressed and corrected in 2023 and the accounting personnel responsible for the effects of this condition are no longer with the company.

2022-02: Delay in Audit of Books and Records

Condition: The 2019 bond issue requires an annual audit of the books and records to be provided to the bond trustee within six months after the end of the fiscal year. Also, as required by City ordinance, a copy of the completed audit is due to the City Council.

Criteria and Cause: Due to the findings reported in the September 30, 2021 audit, a change in auditors was requested by the Mayor for the 2022 fiscal year end audit and consulting services beyond the scope of the audit. The change in auditors, additional consulting services, and the lack of being prepared for the audit by CCU personnel led to the delay.

Effect: The potential effect of not submitting the annual audit to the bond trustee in a timely manner could be deemed a bond covenant violation warranting further action.

Recommendation: We recommend that CCU submit the current audit to the bond trustee and City Council as soon as available, and that CCU works diligently to meet all future audit filing deadlines. We understand that with a change in personnel over financial reporting and change in general manager over CCU, CCU does not anticipate that this will be an issue for the upcoming year.

Management Response: Management will submit the annual audit to the bond trustee and City Council as soon as it becomes available. This issue has been addressed and corrected in 2023 and the accounting personnel responsible for the effects of this condition are no longer with the company.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Schedule of Findings and Questioned Costs and Management's Response
September 30, 2022

2022-03: Internal Controls and Procedures over Financial Reporting

Condition: Those charged with governance of CCU need timely and reliable information on which to make informed decisions affecting the operations and future plans for CCU.

Criteria and Cause: Bank reconciliations had not been timely prepared or reviewed, numerous accounts had not been reconciled or adjusted, financial statements were prepared outside of the accounting software (opportunity for error), and a separate billing system was utilized for broadband that was derived from multiple spreadsheets (opportunity for error). Also, there was a lag in billing for broadband services after in-home installation due to this process.

Effect: The above leads to inaccuracies in reporting and/or lack of reliable information being reported to those charged with governance of CCU.

Recommendation: We recommend that consideration be given to developing or revising policies and procedures for ongoing and monthly reconciliations of bank accounts and general ledger accounts and the review of such for financial reporting purposes. We also recommend that CCU investigate other opportunities for billing broadband services that reduces the possibility for errors or missed billings on broadband services.

Management Response: Management will review, update, and communicate existing internal controls regarding the timely reconciliation of bank statements and general ledger accounts. Management is currently in the process of implementing changes to the broadband billing system that will eliminate the need for entry into spreadsheets. In addition, an upgrade to the current software will be implemented utilizing reporting and analytics software which allows access to all data for real time reporting. A thorough review of all broadband services will be verified in the billing software to be sure none are missed.

2022-04: Overdrawn Cash Balances and Related Penalties

Condition: There were numerous instances of the general account being overdrawn and a lack of detailed information about CCU's cash position and cash needs at any point in time.

Criteria and Cause: As stated previously, bank reconciliations were not timely prepared throughout the period under audit and were not being prepared within the accounting system. Also, the cash position information given to those charged with governance was not in sufficient detail (reported a lump sum balance that included reserves).

Effect: Because of the chronic cash overdrafts and the lack of adequate controls over cash, excessive and unnecessary penalties were incurred during the year.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Schedule of Findings and Questioned Costs and Management's Response
September 30, 2022

Recommendation: Cash management could be improved by taking the following steps:

- Prepare regular cash position reports and budgeted cash flow statements to anticipate both cash needs and cash availability and to provide information for planning the timing of discretionary expenditures and the need for temporary borrowings.
- Regularly prepare timely and accurate bank reconciliations for management's review within the accounting system.
- Consider arranging for an automatic overdraft facility at the bank to cover checks written and to avoid having checks returned for insufficient funds. Also, consider use of a money market fund or cash management account that has check writing privileges on interest-bearing accounts.

Management Response: Management will review and communicate all controls over cash to eliminate accounts being overdrawn. The accounting personnel responsible for the effects of this condition are no longer with the company.

2022-05: Competitive Bidding and Contracts with Vendors

Condition: The competitive bidding process did not take place and there were no written contracts in place for certain vendors, specifically as it relates to the broadband project. Amounts paid to these vendors were well in excess of Arkansas Municipal Code.

Criteria and Cause: Arkansas Municipal Code Section 14-58-104 states that in a city of the first class where the amount of expenditure for any purpose or contract exceeds the sum of twenty thousand dollars (\$20,000), competitive bidding on the purpose or contract by legal advertisement in any local newspaper shall be solicited. It is our understanding that competitive bidding was not solicited because the general manager considered the project a construction build and/or the vendor was a single-source provider.

Effect: Without competitive bidding and/or contracts, construction costs become difficult to manage and overall costs could exceed budgets and/or expectations. Also, without contracts and set pricing, it is difficult to review and approve invoices from vendors.

Recommendation: We recommend that competitive bidding be solicited to comply with Arkansas Municipal Code, and contracts be executed to substantiate the costs associated with the service provided.

Management Response: Management will communicate to existing personnel that all laws and regulations within the Arkansas Municipal Code regarding competitive bidding and contracts with vendors will be strictly adhered to.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Schedule of Findings and Questioned Costs and Management's Response
September 30, 2022

2022-06: Purchase Order Process

Condition: Purchase order policies and procedures were circumvented.

Criteria and Cause: Numerous instances were noted where the purchase order and approval for the purchase was obtained after the item(s) had already been purchased. While there may occasionally be instances where it is necessary to bypass the policies and procedures in place, exceptions should be minimal.

Effect: It is difficult to monitor costs and expenses when policies and procedures are circumvented.

Recommendation: We recommend adherence to policies and procedures, or, if necessary, revisions to the policies and procedures for exceptions.

Management Response: Management will review and communicate existing internal control procedures to be sure that items are not purchased without prior approval except in cases of emergency. A protocol for emergency purchases will be established and communicated to all departments.

2022-07: Invoices for Payment

Condition: Invoices should provide enough detail to ensure that the amounts being charged are correct and accurate prior to approval for payment.

Criteria and Cause: Numerous invoices were paid that did not have sufficient detail on the invoice to be able to ensure that the amount being charged was correct. For example, invoices were approved for payment that did not include the detail and charge per drop made for broadband (which also did not have a signed contract for charges per drop). When inquiry was made for support for the amount paid, multiple spreadsheets were furnished; however, the spreadsheets came from the vendor, and did not provide the detail on how the cost for each drop was calculated so that it could be agreed back to the invoice.

Effect: There is a potential for inaccurate invoices being approved for payment, likely overpayments.

Recommendation: We recommend that no invoice be paid until adequate detail is included on or with the invoice to support the amount being billed so that the person approving the invoice for payment can ensure that the amounts being billed are in accordance with the contract/agreement with the vendor.

Management Response: This issue has been addressed and corrected in 2023 and a change in personnel has resolved this issue and all future invoices without sufficient detail will not be paid.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Schedule of Findings and Questioned Costs and Management's Response
September 30, 2022

2022-08: Inventory

Condition: A significant amount of unused inventory related to the broadband project was not reflected in the perpetual inventory records.

Criteria and Cause: This unused inventory was capitalized into construction in progress for the broadband project when purchased with bond money several years prior. During the fiscal year 2021 audit, construction in progress, which included this inventory, was placed in service and depreciation began.

Effect: Inventory was understated and there was a potential for misappropriation of this inventory as it was not being tracked in CCU's perpetual records. A significant adjustment was made during the current year audit to remove these items from capital assets and put into inventory. A subsequent significant adjustment was made to write this inventory down to net realizable value.

Recommendation: We recommend that unused inventory items for construction projects be added to the perpetual inventory records and not capitalized or expensed as part of a project until used for that project.

Management Response: Management will review and communicate existing internal control procedures to be sure that all items are received into inventory at the time of purchase and only issued out when needed for a specific job. Unused inventory for construction projects will be returned to stock.

2022-09: Capitalization Policy

Condition: CCU's capitalization policy was not being followed correctly or consistently. Low-cost items were capitalized as an asset (and depreciated over time) instead of showing as a current period expense. Labor and equipment costs were being capitalized for troubleshooting and billing set up time for broadband services after in-home installation was completed, and in some cases the adjustment was more than the actual labor paid.

Criteria and Cause: Invoices were approved and coded by the general manager and/or manager over the broadband project, and there appeared to be a bias towards keeping expenses on the broadband cost center's profit and loss statement low by capitalizing all costs possible.

Effect: There are loan covenants in place with the bonds that are centered around operating income with certain adjustments that are distorted when everything is capitalized instead of expensed according to the established capitalization policy. By capitalizing everything, it does not allow for a true picture of the cost center's profitability.

Recommendation: We recommend consideration be given to developing/revising the capitalization policies and communicate such to those involved with the financial reporting of such. Consideration should be given to raising the threshold for capitalization to \$5,000 unless part of a construction project. Regarding the broadband project, capitalization of costs should end once in-home installation is complete, and costs of troubleshooting and billing set up should be expensed. It is our understanding that labor and equipment costs for troubleshooting and billing set up after in-home installation has occurred is no longer being capitalized. However, we recommend that work orders continue to be scrutinized and adjusted for such things going forward.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Schedule of Findings and Questioned Costs and Management's Response
September 30, 2022

Management Response: All work orders will continue to be closely monitored so that maintenance items are expensed instead of capitalized and that CCU's capitalization policy of \$5,000 will be consistently followed unless part of a construction project. Broadband capitalization costs will end once the installation is complete and troubleshooting costs will be expensed.

2022-10: Expense Low-Cost Items/Identify Slow-Moving Inventory Items

Condition: The inventory of parts and miscellaneous supplies includes numerous units of low-cost items, e.g., nuts and bolts.

Criteria and Cause: The perpetual inventory records show that these items have not changed in quantity or price significantly in several years, indicating that these items are either old, slow-moving, or not tracked any longer.

Effect: By capitalizing low-cost items into inventory, considerable time is spent in preparing formal requisitions and maintaining the perpetual records, and it can be costly to use valuable warehouse space for slow-moving inventory.

Recommendation: We recommend that consideration be given to expensing items of this nature as they are purchased, and reviewing the perpetual inventory listing to determine items that should be considered obsolete and, therefore, removed from inventory either by disposal or sale.

Management Response: Management will review and communicate existing internal control procedures and consideration will be given to evaluate the current inventory to remove obsolete inventory by disposal or sale.

2022-11: Commission and Fiduciary Duty

Condition: Commissioners have a fiduciary responsibility to ensure that financial decisions are in the best interest of CCU and are reasonable and necessary.

Criteria and Cause: Information provided to the Commission for review was very abbreviated and did not, in our opinion, provide sufficient information on which to make financial decisions. For example, the cash balance was given, but not in enough detail for the Commission to know that the general account was routinely overdrawn by a significant amount, that the bulk of the cash balance given was in reserve funds, or that the cash balance amount was not based on reconciled balances.

Effect: It is difficult to honor fiduciary responsibilities with inaccurate or incomplete information.

Recommendation: We recommend that consideration be given to revising the packet of information given to the Commission to include details of selected information from reconciled balances, and that certain key pieces of information be provided to the Commissioners on a routine basis, such as cash balance detail, accounts payable detail and profit and loss by fund (including budget to actual comparisons). We also recommend that consideration be given to providing education to interested Commissioners on how to interpret what they are given and what questions to ask.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Schedule of Findings and Questioned Costs and Management's Response
September 30, 2022

Management Response: Management will review the current packet of information given to Commissioners to be sure they have adequate information to make financial decisions and education will be provided to new Commissioners as they become appointed. This will include cash balance detail, accounts payable detail and profit and loss by department compared to budget.

2022-12: Retirement Account

Condition: The plan's trustees are acting as a fiduciary with respect to participant retirement accounts, and due diligence should be made to adequately consider the effect on and benefits of any changes.

Criteria and Cause: A change was made to move from Principal to Lincoln for CCU's retirement account, which should have been documented in the minutes of meetings of the Commission. It is our understanding that communication of the change to employees and others stated that there would be no cost to the participants as a result of the move.

Effect: There was a contractual fee of \$183,549.38 charged to the plan by Principal, which was or will be passed on to participants typically based on their account balance to the whole.

Recommendation: We recommend that any change that could potentially affect participant retirement accounts have adequate documentation, preferably in the minutes of meetings of the Commission, of the purpose for making the change and benefits to be derived from such.

Management Response: Management will be cautious of making any changes to the participant retirement accounts. The previous management who made this change is no longer with the company.

2022-13: Fuel Adjustment

Condition: The fuel adjustment included certain charges that should not have been included in the fuel adjustment.

Criteria and Cause: The fuel adjustment is established by ordinance, which was approved, and passed on to consumers in their monthly utility bill. The fuel adjustment includes all power purchased by CCU and City equity (City utility bills paid by the City that were contributed back to the City by CCU). However, it also included costs for street lights, which was not approved in the ordinance.

Effect: The fuel adjustment, while likely insignificant to consumer monthly billing, is overstated.

Recommendation: We recommend that consideration be given to having someone independent of the billing process periodically recalculate the bill that is being generated to ensure that the appropriate amounts are being billed. We also recommend that the components of the fuel adjustment be evaluated and corrected as deemed necessary, including updating the ordinance regarding such.

Management Response: Management will strictly adhere to the City ordinance on all fuel adjustment calculations and will review it periodically. The previous management who made this change is no longer with the company.

Clarksville Connected Utilities
A Component Unit of the City of Clarksville, Arkansas

Schedule of Findings and Questioned Costs and Management's Response
September 30, 2022

2022-14: Depreciation Schedule

Condition: The depreciation schedule has broadband assets included under the electric fund (and possibly other funds) which are also assets on the respective fund's balance sheet.

Criteria and Cause: The broadband fund wasn't set up until the 2019 bond issue occurred. There was broadband construction prior to the bond issue that was put on the books of other funds because that fund paid for the costs.

Effect: Depreciation expense is overstated for the electric fund (and possibly other funds) and understated for the broadband fund. Therefore, it does not allow for a true picture of the cost center's profitability.

Recommendation: We recommend that consideration be given to transferring broadband related assets to the broadband fund, and that the depreciation for such be included on the broadband fund.

Management Response: Management will continue to review the depreciation schedule to identify and transfer any items not in the broadband fund.

2022-15: Recurring Losses, Allocation of Indirect Expenses, and Debt Covenants

Condition: There have been increasing and recurring losses since 2019, indirect costs are arbitrarily charged to each cost center with no apparent basis for allocation, and instances were noted where billing did not begin in a timely manner. There is a debt covenant associated with the bonds that requires 110% of the next year's principal and interest payment on the bond that is based on operating income with certain adjustments.

Criteria and Cause: While the general manager indicated that annual budgets were in place and distributed to department heads, several department heads stated they were not aware of a budget to follow, and that purchases were made as needed. Instances were noted where billing for broadband was delayed, thereby understating revenue. The debt covenant associated with the bonds starts with operating income or loss and adds back items such as depreciation.

Effect: It is difficult for department heads or the Commission to monitor costs when a budget is not provided, thereby increasing the risk for overspending which could potentially lead to an excess allocation of indirect costs to one cost center due to another cost center's excess spending. Lost revenues occur when new customer billing set up is delayed. Not appropriately applying the capitalization policy takes expenses out of the profit and loss statement and puts it on the balance sheet (and later depreciated, which is an add back for purposes of the debt covenant), which does not give a true picture of each cost center's profitability and overstates the debt covenant results.

Recommendation: We recommend that consideration be given to developing an indirect cost allocation plan among the funds, depreciation schedules be reviewed to insure that assets under each fund are truly assets of that fund, the general ledger be periodically reviewed to ensure all costs are appropriately expenses or capitalized, and that budget to actual information be routinely provided to the Commission and department heads. We also recommend that consideration be given to periodic review and testing of billings to ensure that the readings and software are calculating correctly and that new customers are appropriately set up and charged as services are provided.

Clarksville Connected Utilities

A Component Unit of the City of Clarksville, Arkansas

Schedule of Findings and Questioned Costs and Management's Response September 30, 2022

Management Response: Management will have annual operating and capital budgets in place and utilize such budgets for analysis of any capital purchases by department. The indirect cost allocation method of reporting will be re-evaluated as a method of computation for depreciation. The general ledger will be reviewed to be sure all costs are appropriately expensed or capitalized, and billings will be tested for accuracy. A thorough review of all broadband services will be verified in the billing software to be sure none are missed.