

CLARKSVILLE LIGHT & WATER COMPANY
Independent Auditors' Report
And
Financial Statements
September 30, 2017 and 2016

CLARKSVILLE LIGHT AND WATER COMPANY
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King Jacobs Gresham & Lorfing

Certified Public Accountants
Since 1958

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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of Clarksville Light & Water Company, a component unit of the City of Clarksville, Arkansas, as of and for the years ended September 30, 2017 and 2016 and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

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

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Clarksville Light & Water Company, a component unit of the City of Clarksville, Arkansas, as of September 30, 2017 and 2016, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Clarksville Light & Water Company, taken as a whole. The accompanying financial information listed as departmental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Clarksville Light & Water Company. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2018 on our consideration of the Clarksville Light & Water Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clarksville Light & Water Company's internal control over financial reporting and compliance.



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

March 5, 2018



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

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

We have audited the financial statements and the related notes of the Clarksville Light & Water Company, a component unit of the City of Clarksville, Arkansas, as of and for the year ended September 30, 2017, and have issued our report thereon dated March 5, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clarksville Light & Water Company's, a component unit of the City of Clarksville, Arkansas, internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on effectiveness of Clarksville Light & Water Company's internal control. Accordingly, we do not express an opinion on the effectiveness of Clarksville Light & Water Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

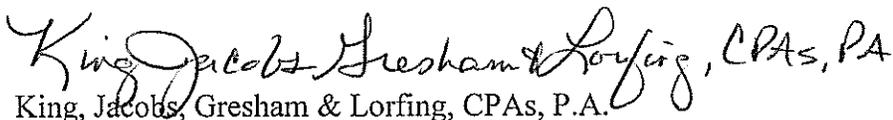
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



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

Clarksville, Arkansas

March 5, 2018



MANAGEMENT'S DISCUSSION & ANALYSIS
SEPTEMBER 30, 2017

Background

Clarksville Light & Water Company (CLW) is owned by the City of Clarksville, Arkansas. The history of the utility goes back to 1913 when the electric, water, and sewerage operations started providing utility services to the community. At the time, Clarksville was considered one of the most progressive towns in Arkansas. CLW's current governing structure was established in 1947 when the City Council appointed a Commission to act as an agency of the City, charged with the responsibility of administering the Light and Water Company in the best interest of the citizens of Clarksville. That tradition continues today with Clarksville Light & Water, and the current commissioners are: Edward Anderson, Eddie Lindsey, Bendex Stephenson, Jim Taylor, and Christel Thompson.

Customers

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

Sales

CLW's total annual revenues for fiscal year 2017 were \$26,393,174 which is \$1,012,885 (4%) more than the previous year.

Electric revenues for 2017 were \$19,155,571, up \$844,126 (4.6%) in residential, commercial, and industrial accounts. Electricity kilowatt hours sold during 2017 were 241,116,430, down - 2.1 % compared to 246,250,197 kilowatt hours the previous year. This resulted in net income of \$937,992 for the year. The earnings were driven mostly as a result of the fuel adjustment rate/formula being high during months when CLW benefited from a sizable amount of low cost supplemental energy being generated by SWPA due to rainfall and water levels being in the flood pool for much of the later part of the fiscal year.

Water revenues were up \$157,012 (3.21%) and sewer revenues were up by \$11,747 (0.5%) in 2017. Water sold during 2017 was up to 1,890,124,062 gallons from 1,805,618,881 gallons in 2016. This was a 4.7% increase from the previous year. After a recent expansion project, the water plant's capacity is 16 million gallons per day (MGD). Much of the facility is capable of 24 MGD, and with some relatively minor additional investments at a future point, the water treatment plant would be capable of producing at the higher capacity level.

ABOUT THE ELECTRIC UTILITY

Wholesale Power Providers

CLW's largest power provider, Oklahoma Municipal Power Authority (OMPA), furnished approximately 65% of our requirement in 2017. This represented an increase of 3% over 2016. In addition to the purchase of energy, OMPA provides ancillary services to CLW 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.

CLW continues to receive hydro peaking power from the Southwestern Power Administration (SWPA) and supplemental energy, comprising of approximately 19% in 2017, down 1% compared to the annual power purchased in 2016. One discussion point near the end of the year related to SWPA was concerning CLW's electric transmission service. Historically, CLW has had two contracts with SWPA- one for power supply and one for transmission. During 2017 we began to research moving our transmission contract from a "Point to Point (PTP)" service from SWPA to a "Network Integrated Transmission Service (NITS) with the Southwest Power Pool (SPP). The reason for the potential switch is related to a changing market condition related to transmission service, whereas, the cost of transmission would be lowered by an estimated \$400,000 a year with savings to upwards of \$800,000 a year. CLW continues to examine this option for 2018. SPP is a large multi-state transmission organization that acts as a coordinator of transmission service across many providers in the region.

The third supplier, Independence County Hydroelectric, furnished Clarksville Light & Water approximately 16% of the purchased power supply in 2017 down 1% from 2016. These 'run of the river' units near Batesville, Arkansas did produce power more reliably the last two years compared to previous years. A renegotiating contract was extended for several more years with Independence County. The terms included performance benchmarks built into the contract to incentivize the provider to keep up production levels.

In July 2017, CLW entered into a 4th power purchase agreement (PPA) with a provider called Scenic Hill Solar (SHS). In accordance with our OMPA quasi "full requirements" contract, CLW requested to add generation with the CLW system in order to add solar power to our generation portfolio. The ability to add 7 MW of capacity was granted by OMPA and CLW entered into a long-term agreement with SHS. The arrangement between SHS and CLW included three primary items. First, CLW purchased 42 acres of property inside the city limits where the power plant would be constructed. Second, CLW entered into a long-term property lease with SHS, where the solar facility would be interconnected directly to the CLW electric distribution system. Third, CLW would agree to purchase 100% of the energy produced by the 6.5 MW DC (5MW AC) power plant at a fixed priced for the next 28 years via a Purchase Power Agreement (PPA). The final terms of the PPA was for a fixed price of \$55/MWh. As a reference, the 2017 fiscal year average wholesale price per MWh was \$52.32 plus the MWh cost for transmission of \$5.92, for a total delivered cost of \$58.24/MWh. Based upon the analysis, CLW would see a net savings on power supply compared to recent supply costs because the solar power would shave CLW peaks during higher demand times lowering capacity/demand charges for the systems as a whole, and there would be a savings on

transmission because the energy provided by the solar plant would be “behind the meter” and the energy would not need to be imported into the CLW system via transmission.

Within this arrangement, CLW agreed to provide a deposit guarantee for the project of \$3 million from our reserves in return for lowering the price per MWh from the original \$58 to \$55. The CLW reserves had been set aside specifically for a future power generation project and this certainly fit the criteria. Within the terms of the PPA, CLW has the right to purchase the power plant in Year 8 (when the developers tax credits are fully monetized), Year 15, Year 22, and at the end of the term at predetermined buyout prices. The \$3 million-dollar deposit guarantee is applied to the purchase price. Overall, what makes this transaction work is that federal tax credits can be utilized by a private entity whereas they cannot by a municipal utility. The private entity builds and owns the plant and monetizes the tax credits and passes the savings via a rate structure to the municipality. In turn, the municipal utility (CLW) purchases the land and leases the land to the developer on a long-term basis. The utility is property tax-exempt; therefore, it also leverages the tax advantages it has to benefit the project and its customers. In return for these benefits and the fact that a solar power plant is essentially all capital-based with little to no ongoing variable costs, the contract can be a fixed long-term price, in this case 28 years, for the output. If CLW chooses to purchase the plant at the future negotiated and discounted price, the price per kW can be lowered even more for our customers because CLW can issue tax exempt bonds at a much lower interest rate than a private entity can. This means our cost of capital is lower compared to a private developer. We suspect that when CLW becomes the owner, it will lower the cost for power, even if debt is issued, by approximately another \$20/MWh.

Fuel Adjustment/Rates

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

During the previous fiscal year, the CLW board requested for management to engage an engineering firm to review the current rate structure to determine if there are changes which should be made to reduce this roller coaster effect from year to year in its financials and in a way to simplify the overall structure. Currently, beyond the fuel adjustment formula, the CLW electric rate calculations include declining blocks and winter rates versus summer rates for all electric homes. With these issues in mind, CLW management engaged Finley Engineering to conduct a cost of service and rate study during the 2017 fiscal year. As of the time of this report, the rate study has not yet been completed nor has a formal recommendation made.

ABOUT THE WATER UTILITY

The water and sewer utilities have been financially performing consistently for the last few years following the expansion of the treatment plant and connecting the City of Scranton as a

new wholesale water customer. During 2017, one of our wholesale customers', East Johnson County Water Users Association (EJCWA), contract term expired. We were able to work together to extend the term for another twenty (20) years, however, CLW has agreed to allow EJCWA connect to another provider on the eastern most part of their service territory. This was the right thing to do both for reliability and operationally for EJCWA. The EJCWA had grown enough in areas that pumping multiple times was required just to deliver to the eastern areas. We anticipate a short decline in gallons sold to EJCWA for a few years in the future, but additional housing growth in the area will likely soon make up for the shortfall.

Another significant milestone that took place is that CLW engaged and reached a settlement in late 2016 with the Plains All American Pipeline, who planned a 20' crude oil pipeline project from Cushing, Oklahoma to Memphis, Tennessee's Valero refinery. The purpose of the \$6.6 million Diamond Pipeline LLC and CLW settlement was for CLW to construct a new raw water intake on Spadra Creek upstream of where Diamond was going to cross its watershed. The other portion of the project was to open up the additional lower port at the Piney Bay intake and have Diamond provide on-site emergency equipment available for local first responders if the pipeline released oil on the Piney Bay watershed. The settlement covers the cost of both of these projects and was based upon an engineer's plan for CLW to mitigate CLW water supply in case of a failure of the oil pipeline. The construction of this project began in early 2017 and should be completed on or before April of 2018.

ABOUT THE FIBER OPTIC NETWORK

CLW has been steadily growing its fiber optic network since 2015. The initial purpose for constructing the fiber network was to provide a secure, highly reliable, and high-speed communications network for utility SCADA and its internal business operations. When the decision to construct was made, the CLW Commission approved the construction of the network with extra fiber capacity (288 strands) in the core network cabling, so CLW could possibility provide services to other local anchor institutions like the Clarksville School District, University of the Ozarks, Johnson Regional Medical Center, Johnson County governmental offices and City of Clarksville facilities. Additionally, they were aware that broadband services might also be a possibility for Clarksville residents and businesses.

After building the core fiber network in 2016, CLW lit its business network and the SCADA network for both the water and electric utilities. In early 2017, the CLW commission authorized the implementation of additional electronics to be connected to the network that included Cisco edge routers, service provider level switches, firewalls, and other equipment which would give CLW the capability to become an Internet Service Provider (ISP). Additionally, CLW took the formal steps to register with the American Registry of Internet Numbers (ARIN) and secured IPv4 and IPv6 numbers, and we registered to become a formal ISP under the name of www.ClarksvilleConnected.net. This step makes CLW's network, an officially recognized ISP across the world wide web.

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

Community Broadband – Connecting Anchor Institutions.

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

Additionally, by the end of the first quarter of 2017 CLW submitted a competitive proposal for wide area network services (WAN) to the Clarksville school system. The proposal was accepted and the Clarksville School District (CSD) moved forward with interconnecting all of their school buildings and using two CLW network fibers dedicated to the school system. This was implemented by July 1, 2017. With the CSD, CLW is transporting data between their buildings at 10 Gig speeds. Shortly thereafter, the district elected to begin purchasing internet bandwidth from CLW utilizing a shared 1 Gig. They also decided to set up a backup computer server location at the CLW Network Operations Center (NOC) inside the vault and connected to their own fiber pairs. Our understanding is that this places CSD in compliance with the state's offsite backup audit requirements. Part of the agreement between the district and CLW was the offsite storage capability was included in our WAN network proposal. This contractual agreement made CSD the first paying customer for ClarksvilleConnected.

Recently CLW has been in discussion with both the University of the Ozarks and Johnson County related to connecting to the network. We believe it is very likely both of these entities will begin taking network service from CLW during 2018. Furthermore, we believe it is likely that both entities would be able to increase their network speeds and capability to serve their constituent by being on ClarksvilleConnected and save money at the same time. We also anticipate that the City of Clarksville facilities will also begin to use the network.

The last item to mention, related to the fiber network and community broadband, is during 2017, a group of local IT experts volunteered to serve in an effort to determine what the future of the network might hold for the Clarksville. With the leadership of an outside consultant, the collective group recommended that CLW consider the possibility of a fiber to the home (FTTH) project for Clarksville. They also made recommendations related to the possible business models and structure as well as the need for a firm to be engaged to study the financial business case for such a project. The CLW Commission accepted their recommendation. Thereafter, a nationally-known and well-respected consultant with a firm that specializes in working with small telecommunication carriers, CCG Consulting (<http://www.ccgcomm.com/>), was engaged. Based upon the estimated cost to construct from Finley Engineering, the potential services provided over a FTTH network and a projected number of customers who might subscribe, the reports look promising. The next step in the process that is scheduled to begin in early 2018, is to have a professional market research firm conduct a survey to determine what the real "take rate" might be for such a network based upon our local customers' opinion. In conclusion,

Clarksville may very well be in a position to expand a fiber network community wide and leverage the infrastructure for both smart city application and economic development.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position (on pages 12 to 14) provide information regarding the activities of the Clarksville Light & Water Company as a whole. Net position represents the difference in what the Company owns (assets) and in what the Company owes (liabilities). These two statements report net position and changes in net position. Over time, increases or decreases in net position are one indication of the Company's financial health. Departmental schedules begin on page 17. These schedules provide a more detailed picture of the Company's revenues and expenses.

The Statement of Cash Flows (on pages 15 and 16) presents an overview of the cash received and expended during the year. It provides an insight into the sources of cash received, the uses of that cash, and the increase or decrease in cash on hand at the end of the year.

Financial ratios may be used to analyze relationships between items on the financial statements. Short-term liquidity can be demonstrated using the Current Ratio and Quick Ratio. The Current Ratio is calculated by dividing current assets by current liabilities. The Quick Ratio is similar to the Current Ratio but excludes inventory because inventory is normally the least liquid current asset. The Current and Quick Ratios for the year ended September 30, 2017 are 1.55 and 1.36 respectively. This means, for example, that for every \$1.55 in current assets, the Company has \$1.00 in current liabilities. These ratios were 1.33 and 1.19 respectively for the year ended September 30, 2016.

Comparison of Financial Data

	2017	2016	Net Change
Current Assets	13,104,259	13,730,686	(626,427)
Restricted Fund Assets	9,922,200	11,726,517	(1,804,317)
Net Capital Assets	47,298,850	44,991,712	2,307,138
Other Assets	143,056	137,216	5,840
Deferred Outflow of Resources	1,584,220	1,019,246	564,974
Total Assets	72,052,585	71,605,377	447,208
Current Liabilities	8,421,699	10,275,313	(1,853,614)
Net Long-Term Debt	3,460,003	4,904,400	(1,444,397)
Other Liabilities	2,849,747	2,250,905	598,842
Deferred Inflow of Resources	87,585	101,333	(13,748)
Total Liabilities	14,819,034	17,531,951	(2,712,917)
Net Assets Invested in Capital Assets, Net of Related Debt	42,500,831	38,761,438	3,739,393
Net Position Restricted	9,922,200	11,726,517	(1,804,317)
Net Position Unrestricted	4,810,520	3,585,471	1,225,049
Total Net Position	57,233,551	54,073,426	3,160,125
Operating Revenues	26,393,174	25,380,289	1,012,885
Direct Operating Expenses	22,320,851	22,193,209	127,642
General and Administrative Expenses	3,103,410	2,990,961	112,449
Non-Operating Revenues (Expenses)	(30,921)	(65,145)	34,224
Total Expenses	25,455,182	25,249,315	205,867
Income Before Contributions and Transfers	937,992	130,974	807,018

Contributions by Developers	2,523,477	102,850	2,420,627
Transfers to the City	(301,344)	(281,198)	(20,146)
Changes in Net Position	3,160,125	(47,374)	3,207,499
Ending Net Position	54,073,426	54,120,800	(47,374)
Cash Balance and Cash Equivalents	17,970,855	19,942,775	(1,971,920)

There was an increase of \$3,160,125 in net position during the year to \$57,233,551. There was a decrease in long-term debt in the amount of \$1,444,397. The \$17,970,855 cash balance at year-end was \$1,971,920 lower than 2016.

Overall, the 2017 net income before contributions and transfers of \$937,992 is up \$807,018 when compared to 2016. Operating revenues are up \$1,012,885, power costs increased \$372,116 and other expenses show a net decrease of \$166,249.

Departmental Summary

Electric Department operating revenues of \$19,155,571 are up \$844,126 from 2016 revenues. The cost of power purchased increased \$372,116 and other expenses decreased \$401,913. This resulted in a \$873,923 increase in electric net income of \$322,309 for the year 2017.

Water Department operating revenues increased \$157,012 to \$5,070,106. Expenses increased \$16,686 and the net income of \$524,780 reflects an increase in earnings of \$140,326 for the year.

Sewer Department operating revenues of \$2,167,497 are up \$11,747. Expenses increased \$218,978 and the net income of \$90,903 reflects a decrease in earnings of \$207,231 when compared to 2016.

Construction projects completed during the year added \$626,846, \$187,933 and \$405,992 to the electric, water, and sewer systems, respectively.

Equipment additions for the current year totaled \$222,966.



John Lester
General Manager



Jeanette Small
Finance Officer

CLARKSVILLE LIGHT & WATER COMPANY
Statements of Net Position
September 30, 2017 and 2016

ASSETS

	2017	2016
Current Assets		
Cash	\$ 8,048,655	\$ 8,216,258
Accounts Receivable net of allowance for doubtful accounts of \$65,000 for 2017 and \$65,000 for 2016	2,159,901	2,726,727
Unbilled Receivables	1,083,937	1,154,932
Accrued Interest Receivable	47,358	28,997
Inventories	1,632,602	1,489,397
Prepaid Expenses	131,806	114,375
Total Current Assets	13,104,259	13,730,686
Restricted Assets		
Bond Funds	263,252	267,826
Certificates of Deposits Pledged as Collateral on Loans	5,000,000	5,000,000
Diamond Pipeline Escrow Funds	4,658,948	6,458,691
	9,922,200	11,726,517
Capital Assets		
Land	1,178,305	681,088
Buildings	2,719,225	2,699,796
Electric System	26,500,873	25,874,027
Water System	53,547,256	53,359,322
Sewer System	15,198,051	14,792,059
Transportation Equipment	2,003,174	2,017,824
Office Equipment	1,403,244	1,384,299
Generation Equipment	956,655	956,655
Other Equipment	3,063,739	2,928,708
Construction in Progress	6,321,954	2,705,781
	112,892,476	107,399,559
Less Accumulated Depreciation	(65,593,626)	(62,407,847)
Net Capital Assets	47,298,850	44,991,712
Other Assets		
Investments - Electric Cooperative Certificates	143,056	137,216
Deferred Outflow of Resources		
Deferred Outflow of Resources - Pension Contributions	473,615	451,996
Deferred Outflow of Resources - Pension Actuarial	1,110,605	567,250
Total Deferred Outflow of Resources	1,584,220	1,019,246
Total Assets and Deferred Outflow of Resources	\$ 72,052,585	\$ 71,605,377

See accompanying notes to financial statements.

CLARKSVILLE LIGHT & WATER COMPANY
Statements of Net Position
September 30, 2017 and 2016

LIABILITIES AND NET POSITION

	<u>2017</u>	<u>2016</u>
Current Liabilities		
Accounts Payable	\$ 2,240,075	\$ 1,645,783
Accrued Expenses	852,240	815,237
Accrued Interest Payable (Payable from restricted funds)	28,926	29,828
Current Due on Long Term Debt (Payable from restricted funds)	1,338,016	1,325,874
Diamond Pipeline Advance Contribution	3,962,442	6,458,591
Total Current Liabilities	<u>8,421,699</u>	<u>10,275,313</u>
Other Liabilities		
Early Retirement Payable	97,469	116,397
Meter Deposits	363,912	358,044
Net OPEB Obligation	439,263	475,053
Net Pension Liability	1,949,103	1,301,411
Total Other Liabilities	<u>2,849,747</u>	<u>2,250,905</u>
Long-Term Debt, Net of Current Maturities	<u>3,460,003</u>	<u>4,904,400</u>
Deferred Inflow of Resources - Pension Actuarial	<u>87,585</u>	<u>101,333</u>
Total Liabilities and Deferred Inflow of Resources	<u>14,819,034</u>	<u>17,531,951</u>
Net Position		
Net Investment in Capital Assets, Net of Related Debt	42,500,831	38,761,438
Restricted	9,922,200	11,726,517
Unrestricted	4,810,520	3,585,471
Total Net Position	<u>57,233,551</u>	<u>54,073,426</u>
Total Liabilities and Net Position	<u>\$ 72,052,585</u>	<u>\$ 71,605,377</u>

See accompanying notes to financial statements.

CLARKSVILLE LIGHT & WATER COMPANY
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Operating Revenue		
Electric Revenue	\$ 19,155,571	\$ 18,311,445
Water Revenue	5,070,106	4,913,094
Sewer Revenue	2,167,497	2,155,750
Total Operating Revenue	26,393,174	25,380,289
Direct Operating Expenses	(22,320,851)	(22,193,209)
Operating Revenue less Direct Operating Expenses	4,072,323	3,187,080
General and Administrative Expense	(3,103,410)	(2,990,961)
Operating Income (Loss)	968,913	196,119
 Non-Operating Revenues (Expenses)		
Interest Income	47,302	41,668
Interest Expense	(117,247)	(139,336)
Gain on Sale of Assets	39,024	32,523
Total Non-Operating Revenues (Expenses)	(30,921)	(65,145)
Income before Contributions and Transfers	937,992	130,974
Contributions in Aid of Construction/Other	2,523,477	102,850
Transfers to the City	(301,344)	(281,198)
Changes in Net Position	3,160,125	(47,374)
Net Position - Beginning of Year	54,073,426	54,120,800
Net Position - End of Year	\$ 57,233,551	\$ 54,073,426

See accompanying notes to financial statements.

CLARKSVILLE LIGHT & WATER COMPANY
Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 27,030,995	\$ 24,952,553
Cash Paid to Employees, Payroll Taxes, and Employee Benefits, Net of Capitalized Labor	(4,475,706)	(4,302,358)
Cash Paid to Suppliers for Operations and General & Administrative Expense	(17,915,018)	(17,079,676)
Net Cash Provided by Operating Activities	4,640,271	3,570,519
Cash Flows From Non-Capital Financing Activities:		
Increase (Decrease) in Meter Deposits	5,868	10,234
Increase (Decrease) in Advanced Payment	27,328	6,600,000
Net Cash Provided by Non-Capital Financing Activities	33,196	6,610,234
Cash Flows from Capital & Related Financing Activities:		
Debt Obligations Incurred	-	-
Payments on Debt Obligations	(1,432,255)	(1,920,792)
Interest Paid on Debt Obligations, Net of Capitalized Interest	(118,149)	(145,162)
Net Cash used for Financing Activities	(1,550,404)	(2,065,954)
Cash Flows from Investing Activities:		
Investment Income	28,940	32,527
Contributions in Aid of Construction	-	-
Gain on Sale of Assets	39,024	-
Transfers to the City of Clarksville	(301,344)	(281,198)
Capital Expenditures	(4,861,603)	(4,040,818)
Net Cash Provided by Investing Activities	(5,094,983)	(4,289,489)
Net Increase (Decrease) in Cash	(1,971,920)	3,825,310
Cash at Beginning of Year	19,942,775	16,117,465
Cash at End of Year	\$ 17,970,855	\$ 19,942,775

See accompanying notes to financial statements.

CLARKSVILLE LIGHT & WATER COMPANY
Statements of Cash Flows (continued)
Years Ended September 30, 2017 and 2016

	2017	2016
Reconciliation of Earnings from Operations to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 968,913	\$ 196,119
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	3,251,979	3,294,223
Change in Operating Assets, Deferred Outflows of Resources and Liabilities:		
(Increase) Decrease in Accounts Receivables	566,826	(394,981)
(Increase) Decrease in Unbilled Receivables	70,995	(32,755)
(Increase) Decrease in Inventory	(143,205)	(18,081)
(Increase) Decrease in Prepaid Expenses	(17,431)	(18,547)
(Increase) Decrease in Certificates of Equity	(5,840)	(6,579)
Increase (Decrease) in Deferred Outflows-Pension Contributions	(21,619)	367,217
Increase (Decrease) in Deferred Outflows-Pension Actuarial	(543,355)	42,978
Increase (Decrease) in Accounts Payable	(103,221)	218,573
Increase (Decrease) in Accrued Expenses	37,003	105,376
Increase (Decrease) in Early Retirement Payable	(18,928)	(43,415)
Increase (Decrease) in Accrued OPEB Liability	(35,790)	304,465
Increase (Decrease) in Net Pension Liability	647,692	(451,011)
Increase (Decrease) in Deferred Inflows-Pension Actuarial	(13,748)	6,937
Net Cash Provided by Operating Activities	\$ 4,640,271	\$ 3,570,519
Non-Cash Investing, Capital & Financing Activities:		
Capital Assets Included in Accounts Payable at Year End	\$ 749,596	\$ 52,083
Capital Assets Contributed	-	-
	\$ 749,596	\$ 52,083
Cash Paid during the year for:		
Interest	\$ 118,149	\$ 145,162

See accompanying notes to financial statements.

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

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

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

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

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

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

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

CLARKSVILLE LIGHT AND WATER COMPANY
DEPARTMENTAL INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2016

CLARKSVILLE LIGHT & WATER COMPANY
Departmental Statement of Revenues and Expenses
For the Year Ended September 30, 2016

	Electric	Water	Sewer	Total
Operating Revenue				
Electric	\$ 18,311,445	\$ -	\$ -	\$ 18,311,445
Water	-	4,913,094	-	4,913,094
Sewer	-	-	2,155,750	2,155,750
Total Operating Revenue	<u>18,311,445</u>	<u>4,913,094</u>	<u>2,155,750</u>	<u>25,380,289</u>
Direct Operating Expenses	<u>(17,290,053)</u>	<u>(3,405,112)</u>	<u>(1,498,044)</u>	<u>(22,193,209)</u>
Operating Revenue less Direct Operating Expenses	1,021,392	1,507,982	657,706	3,187,080
General and Administrative Expenses	<u>(1,587,821)</u>	<u>(1,021,755)</u>	<u>(381,385)</u>	<u>(2,990,961)</u>
Operating Income (Loss)	<u>(566,429)</u>	<u>486,227</u>	<u>276,321</u>	<u>196,119</u>
Non-Operating Revenue (Expenses)				
Interest Income	13,890	13,889	13,889	41,668
Interest Expense	-	(139,336)	-	(139,336)
Gain on Sale of Assets	925	23,674	7,924	32,523
Total Non-Operating Revenue (Expenses)	<u>14,815</u>	<u>(101,773)</u>	<u>21,813</u>	<u>(65,145)</u>
Income (Loss) before contributions & transfers	<u>\$ (551,614)</u>	<u>\$ 384,454</u>	<u>\$ 298,134</u>	<u>\$ 130,974</u>

CLARKSVILLE LIGHT & WATER COMPANY
Schedule of Direct Operating Expenses
For the Year Ended September 30, 2016

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Depreciation	\$ 922,674	\$ 1,672,396	\$ 507,286	\$ 3,102,356
Education, Meetings, and Travel	5,655	10,220	4,740	20,615
Employee Benefits	183,051	206,230	155,113	544,394
Fuel	16,505	13,898	9,234	39,637
Generation Costs	49,620	-	-	49,620
Labor	894,275	768,682	586,302	2,249,259
Labor - Construction in Progress	(281,126)	(28,037)	(72,863)	(382,026)
Maintenance	129,541	92,627	42,365	264,533
Equip Expense - Construction in Progress	(176,801)	(18,028)	(71,803)	(266,632)
Payroll Taxes	64,495	53,696	40,874	159,065
Pension Expense	87,748	79,289	92,503	259,540
Power Purchased	15,384,523	-	-	15,384,523
Supplies	-	244,804	69,293	314,097
Uniforms	8,014	3,865	3,590	15,469
Utilities	326	302,338	128,916	431,580
Use Tax	1,553	3,132	2,494	7,179
Total	<u>\$ 17,290,053</u>	<u>\$ 3,405,112</u>	<u>\$ 1,498,044</u>	<u>\$ 22,193,209</u>

CLARKSVILLE LIGHT & WATER COMPANY
Schedule of General and Administrative Expense
For the Year Ended September 30, 2016

	Electric	Water	Sewer	Total
Advertising and Promotion	\$ 2,289	\$ 1,338	\$ 1,034	\$ 4,661
Bad Debts	35,199	6,857	3,657	45,713
Depreciation	48,445	48,445	48,445	145,335
Dues and Subscriptions	22,064	4,810	7,844	34,718
Education, Travel, and Meetings	17,475	10,607	3,306	31,388
Employee Benefits	159,379	98,527	23,247	281,153
Fuel	5,318	3,384	967	9,669
Insurance	109,737	69,833	19,952	199,522
Inventory Variances	12,547	5,667	2,596	20,810
Lab Fees and Tests	1,132	1,177	13,405	15,714
Labor	688,639	438,225	125,207	1,252,071
Maintenance	133,933	125,395	54,078	313,406
Miscellaneous	9,654	5,702	2,672	18,028
Office Supplies	31,965	20,640	5,683	58,288
Payroll Taxes	46,782	31,678	8,684	87,144
Pension	87,218	55,502	15,858	158,578
Professional Services	42,835	17,206	5,120	65,161
Services to City	41,626	29,265	13,797	84,688
Supplies	34,112	26,088	14,776	74,976
Uniforms	6,169	3,926	1,709	11,804
Utilities	51,303	17,483	9,348	78,134
Total	<u>\$ 1,587,821</u>	<u>\$ 1,021,755</u>	<u>\$ 381,385</u>	<u>\$ 2,990,961</u>

CLARKSVILLE LIGHT & WATER COMPANY

Notes to Financial Statements

September 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Accounting

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

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CLARKSVILLE LIGHT & WATER COMPANY

Notes to Financial Statements

September 30, 2017 and 2016

Cash and Cash Equivalents

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

Receivables and Uncollectible Accounts

Significant receivables include amounts due from customers primarily for utility services. The allowance for uncollectible accounts was \$65,000 for the year ended September 30, 2017 and \$65,000 for year ending September 30, 2016. The allowance of uncollectible accounts is based on historical trends and the periodic aging of accounts receivable.

Inventory Valuation

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

Capital Assets and Depreciation

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

Capitalized Interest

The Company capitalizes interest costs as part of the cost of constructing various electric, water, and sewer projects when material. There was no interest capitalized for the years ended September 30, 2017 and 2016.

Equity Classifications

The Company classifies net position into the following three components:

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

CLARKSVILLE LIGHT & WATER COMPANY

Notes to Financial Statements

September 30, 2017 and 2016

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

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

Income Taxes

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

Contributions

For the years ended September 30, 2017 and 2016, contributions in aid of construction totaled \$2,523,477 and \$102,850, respectively. This consisted of cash transferred from the Diamond Pipeline Escrow Funds to the Clarksville Light & Water to pay current year costs of constructing water intake improvements. See Note 11.

Compensated Absences

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

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions/deductions from the Plans' fiduciary net position have been determined on the basis as reported by Principal Financial Group. The measurement dates of the Plan are January 31, 2017 and 2016. Plan investments are reported at fair market value.

CLARKSVILLE LIGHT & WATER COMPANY

Notes to Financial Statements

September 30, 2017 and 2016

NOTE 2 - CASH AND INVESTMENTS

Deposits and Investments

All monies received by the Company shall be deposited by it in such a depository or depositories, as may be lawfully designated by the Board of Commissioners; subject to the giving of security as now or as hereafter may be required by law, and provided that such depositories shall hold membership in the Federal Deposit Insurance Corporation.

The bank balances and carrying amounts of the Company's deposits and short term investments held as of September 30, 2017 were as follows:

Description	Bank Balance	Book Balance
Cash on Hand	\$ -	\$ 750
Demand Deposits	7,008,330	6,172,953
Certificates of Deposit	7,759,914	7,715,268
Money Market Mutual Funds	4,060,400	4,081,884
	\$ 18,828,644	\$ 17,970,855

Money market mutual funds were held by the Company as of September 30, 2017 of \$119,442 in the Federated Treasury Obligations Fund in the Bond Fund held at Citizens Bank of Batesville. This fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. This fund is rated AAA by Standard and Poors. Money market mutual funds were held by the Company as of September 30, 2017 of \$3,962,442 in FDIC Insured Sweep funds held in the Diamond Pipeline Fund at Bancorp South.

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. The Company's policy is that deposits be insured or collateralized at a minimum of 100% of the deposits fair value. As of September 30, 2017, the Company's bank balances were \$18,828,644. As of September 30, 2017, the following collateral has been pledged for deposits over \$4,210,596:

CLARKSVILLE LIGHT & WATER COMPANY

Notes to Financial Statements

September 30, 2017 and 2016

FDIC Insured or Federal US Treasury Obligations	\$ 4,210,596
Collateralized:	
Collateral held by the pledging bank's trust	
department or agent in the Company's name	<u>14,616,201</u>
	<u>\$ 18,826,797</u>

NOTE 3 - RESTRICTED FUNDS

When both restricted and unrestricted resources are available for use, generally it is the Company's policy to use unrestricted resources first and to transfer restricted funds as needed. Currently funds in the Diamond Pipeline Escrow Fund will be used for improvements to water intake improvements. These restricted funds will be used in total before any unrestricted funds will be used for this project.

NOTE 4 – CONCENTRATIONS OF CREDIT RISK

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

CLARKSVILLE LIGHT & WATER COMPANY

Notes to Financial Statements

September 30, 2017 and 2016

NOTE 5 - MAJOR CUSTOMERS AND SUPPLIERS

The following tables set forth the major customers and suppliers for Clarksville Light & Water Company for the years ended September 30, 2017 and 2016. Amounts are presented in dollars and percent of totals. Accounts receivable from the following customers represent 49% of total accounts receivable as of September 30, 2017 and 34% of total accounts receivable as of September 30, 2016.

Customer	Year Ended 9/30/2017		Year Ended 9/30/2016	
	\$ Gross Revenues	% of Total Revenues	\$ Gross Revenues	% of Total Revenues
Tyson Foods	\$6,135,256	26%	\$5,753,268	23%
Hanesbrand, Inc.	3,657,953	16%	3,487,126	14%
Wal-Mart Supercenter and Distribution Center	1,691,429	6%	1,707,691	7%
Totals	\$11,484,638	48%	\$10,948,085	44%

Supplier	Year Ended 9/30/2017		Year Ended 9/30/2016	
	\$ Power Purchases	% of Total Power	\$ Power Purchases	% of Total Power
Independence County	\$ 2,019,984	12.82%	\$ 2,131,008	13.85%
Southwestern Power Administration	1,907,744	12.11%	1,978,682	12.86%
Oklahoma Municipal Power Association	11,828,911	75.07%	11,274,833	73.29%
Total	15,756,664	100.00%	15,384,523	100.00%
Total Power Purchased to Direct Operating Expenses	<u>\$15,756,664</u> \$22,320,851	70.59%	<u>\$15,384,523</u> \$22,196,209	69.31%

CLARKSVILLE LIGHT & WATER COMPANY

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NOTE 6 - CAPITAL ASSETS

	Balance 9/30/16	Additions	Deletions	Balance 9/30/17
Nondepreciable Assets				
Land - Electric	\$ 164,076	\$ 268,518	\$ -	\$ 432,594
Land - Water	300,799	228,698	-	529,497
Land - Sewer	216,214	-	-	216,214
Construction in Progress - Electric	1,918,036	2,034,141	(895,556)	3,056,621
Construction in Progress - Water	666,037	2,966,303	(390,123)	3,242,217
Construction in Progress - Sewer	121,707	250,449	(349,040)	23,116
Total Nondepreciable Assets	3,386,869	5,748,109	(1,634,719)	7,500,259
Depreciable Assets				
Office Building	1,210,536	1,990	-	1,212,526
Buildings - Electric	36,629	-	-	36,629
Warehouse	1,452,632	17,439	-	1,470,071
Electric System	25,874,027	626,846	-	26,500,873
Water System	53,359,322	187,933	-	53,547,255
Sewer System	14,792,059	405,992	-	15,198,051
Transportation Equipment	2,017,823	33,100	(66,200)	1,984,723
Generation Equipment	956,656	-	-	956,656
Office Equipment	1,384,299	18,945	-	1,403,244
Lab Equipment	74,278	-	-	74,278
Construction Equipment	868,120	-	-	868,120
Maintenance Equipment	1,474,851	153,482	-	1,628,333
Plant & Shop Equipment	511,458	-	-	511,458
Total Depreciable Assets	104,012,690	1,445,727	(66,200)	105,392,217
Total Assets at Historical Cost	107,399,559	7,193,836	(1,700,919)	112,892,476
Less: Accumulated Depreciation	(62,407,847)	(3,251,979)	66,200	(65,593,626)
Total Capital Assets, Net	\$ 44,991,712	\$ 3,941,857	\$ (1,634,719)	\$ 47,298,850

CLARKSVILLE LIGHT & WATER COMPANY

Notes to Financial Statements

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Depreciation expense was charged to departments as follows:

Direct Operating Expense - Electric	\$ 917,278
Direct Operating Expense - Water	1,658,806
Direct Operating Expense - Sewer	521,744
Direct Operating Expense - Electric	47,833
General & Administrative Expense - Electric	35,440
General & Administrative Expense - Water	35,439
General & Administrative Expense - Sewer	35,439
Total Depreciation Expense	<u>\$ 3,251,979</u>

NOTE 7 – OPERATING LEASES

Clarksville Light & Water Company leased postage equipment under an operating lease which expired September 22, 2016. The final payment for this lease was paid in the current year. Lease expense incurred under this operating lease was \$6,150 for 2017 and \$24,139 for 2016.

Additionally, Clarksville Light & Water Company leases office equipment under operating leases expiring at various dates. Lease expense incurred under these operating leases for the years ending September 30, 2017 and 2016 was \$2,136 and \$0, respectively.

Future minimum lease payments for non-cancellable operating leases at September 30, 2017 were approximately:

2018	\$ 2,625
2019	2,625
2020	2,625
2021	2,625
2022	489
	<u>\$ 10,989</u>

NOTE 8 – LONG TERM DEBT

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

On March 5, 2014, the City of Clarksville, Arkansas issued a Water and Sewer Improvement Note for up to \$5,000,000 to finance the cost of constructing improvements to the water and sewer systems, including, but not limited to, improvements to the water treatment plant. The note held by Centennial

CLARKSVILLE LIGHT & WATER COMPANY

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Bank has a variable interest rate which is initially 1.18% and is collateralized by two certificates of deposit with Centennial Bank totaling \$5,035,072 and a mortgage on the improvements constructed with the proceeds of the loan. The variable rate is .98% per annum above the applicable CD rate on the municipal funds held on deposit with Centennial Bank. Interest only payments shall be paid monthly commencing April 1, 2014 and monthly thereafter for twelve months. Commencing April 1, 2015 monthly payments of principal and interest shall be payable in equal monthly installments of \$106,696 amortized so that the final installment payment will be payable on February 26, 2019.

	9/30/2016	Increases	Decreases	9/30/2017	Due in One Year
	<u>Balance</u>			<u>Balance</u>	
Utility Revenue Construction Bonds Series 2013	\$ 3,180,000	\$ -	\$ (180,000)	\$ 3,000,000	\$ 180,000
Water and Sewer Improvement Note	<u>3,050,274</u>	-	<u>(1,252,255)</u>	<u>1,798,019</u>	<u>1,158,016</u>
	<u>\$ 6,230,274</u>	<u>\$ -</u>	<u>\$ (1,432,255)</u>	<u>\$ 4,798,019</u>	<u>\$ 1,338,016</u>

The maturity schedule is as follows:

	Principal	Interest
2017 - 2018	\$ 1,338,016	\$ 100,514
2018 - 2019	825,003	85,254
2019 - 2020	190,000	79,240
2020 - 2021	190,000	75,440
2021 - 2022	195,000	71,260
2023 - 2027	1,055,000	275,400
2028 - 2032	<u>1,005,000</u>	<u>93,760</u>
	<u>\$ 4,798,019</u>	<u>\$ 780,868</u>

NOTE 9 - RELATED PARTIES

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

CLARKSVILLE LIGHT & WATER COMPANY

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services to the City for September 30, 2017 of \$8,552. The transfer recorded as a distribution of equity for the year ended September 30, 2016 was \$281,198. The amount included in accounts receivable at September 30, 2016 from the City of Clarksville is \$27,284. The Company also provided other services to the city which are expensed as services to the City for September 30, 2016 of \$84,688.

NOTE 10 – RISK MANAGEMENT

The Company is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omission; injuries to employees; natural disasters; and employee health, dental and accident benefits. Commercial insurance and state pool coverage is purchased for claims arising from such matters other than business interruption. Settled claims have not exceeded coverage in any of the three preceding years and there has been no significant reduction in coverage in fiscal years 2017 and 2016.

NOTE 11 – OTHER COMMITMENTS

On August 17, 2016, Clarksville Light & Water Company entered in to a settlement agreement with Diamond Pipeline LLC for \$6,600,000 with additional funding up to \$8,000,000 possible to construct water intake improvements which would result in the water intake structures to be built upstream from the proposed pipeline crossing on Spadra Creek and Piney Bay. Currently, the water intake structures are downstream of the proposed pipeline crossing. As of September 30, 2017, \$2,626,327 has been expended on this project.

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

NOTE 12 - SUBSEQUENT EVENTS

Subsequent events have been reviewed through March 5, 2018 which is the date that the financial statements were available to be issued.

CLARKSVILLE LIGHT & WATER COMPANY

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NOTE 13 - DEFINED CONTRIBUTION PLAN

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

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

Contributions made by plan members for fiscal years 2017 and 2016 were \$87,050 and \$92,155.

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS

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

Early Retirement

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

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

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

- Annual Wages at Retirement (computed as regular hourly rate x 2,080 hours)

CLARKSVILLE LIGHT & WATER COMPANY

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

This benefit will end at age 62. Currently one retiree is participating in this early retirement benefit. The expenditures for this retiree were \$12,243 and \$0 for the years ended September 30, 2017 and 2016.

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

This benefit will end at age 62. Two retirees participated in the position elimination early retirement benefit. The expenditures for these two retirees were \$55,657 and \$43,415 for the years ended September 30, 2017 and 2016.

Sections 1) and 2) above are considered termination benefits and an estimated liability of \$97,468 has been accrued for future payments.

- 3) Health insurance coverage to Medicare eligibility at age 65 will be provided for the retiree. The retiree may elect to pay the difference in cost to carry a family plan rather than single coverage. If a retiree declines coverage, or if the Company's group health insurance policy does not permit continuation of coverage for retirees, the cost of single coverage as of the date of retirement may be paid directly to the retiree on a monthly basis. If coverage is initially provided and later terminated because of changes to the health insurance policy, the benefit payable to the retiree will be the amount paid for single coverage at the time of the change. The benefit will end at age 65, or earlier if Medicare eligibility occurs before age 65. Three retirees participated in the health insurance coverage benefit as of September 30, 2017. Two retirees participated as of September 30, 2016. The expenditures for the health insurance coverage for the retirees participating under this benefit option were \$14,997 in 2017 and \$10,023 in 2016. The accrued liability for the health insurance coverage benefit is discussed below under Accounting Disclosure Report for Other Postemployment Benefits.

Extended Medical Coverage

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

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Supplemental medical insurance is defined as the medical insurance coverage that helps pay Medicare co-payments and deductibles.

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

Benefits are not retroactive and will not begin until proof of supplemental medical insurance coverage is furnished to the Company. Early retirees may apply to the Company for this benefit at the time they become Medicare eligible. This benefit does not apply to the spouse of retiree, nor would any benefit transfer to an heir at the time of death. This benefit terminates when and if the qualified retiree elects not to carry supplemental medical insurance as defined in this policy. Currently, five retirees are participating in the extended medical coverage benefit. The amount paid to retirees for extended medical coverage benefit for years ended September 30, 2017 was \$10,367 and September 30, 2016 was \$10,111. The accrued liability for the extended medical coverage benefit is discussed below under Accounting Disclosure Report for Other Postemployment Benefits.

Accounting Disclosure Report for Other Postemployment Benefits

The Early Retirement benefit part 3) and the Extended Medical Coverage benefit listed above meets the definition of a single employer Postemployment Benefit Plans Other Than Pension Plans and require additional actuarial disclosures. The Extended Medical Coverage benefit was discontinued as of October 1, 2013 except for those retirees already receiving benefits or qualified to receive benefits at their retirement date. An actuarial valuation was prepared by an independent actuary as of September 30, 2016. Copies of this report may be obtained by contacting the Company. As allowed by Governmental Accounting Standards Board (GASB) Statement No. 45 – Accounting and Financial Reporting by Employer for Postemployment Benefit Plans Other Than Pension Plans, the actuarial valuation is prepared on a triennial basis.

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

The Governmental Accounting Standards Board (GASB) Statement No. 45 – Accounting and Financial Reporting by Employer for Postemployment Benefit Plans Other Than Pension Plans published standards for the accounting of postemployment benefits other than pension. This statement establishes uniform accounting and financial reporting standards for state and local governments related to

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postemployment benefits other than pensions. The Company has recorded a Net OPEB Obligation to estimate their long term financial obligation related to OPEB. In the year of transition of 2011, GASB Statement No. 45 was implemented prospectively.

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

The Accrued Actual Liability (AAL) is the present value of all future expected postemployment medical payments that are attributable to past service. The Annual Required Contribution (ARC) is the annual expense recognition of the postemployment benefit plan cost for the fiscal year and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL). The unfunded actuarial liability at transition is amortized over 30 years using level dollar method, which is the maximum allowed by GASB 45. The Net OPEB Obligation (NOO) is the cumulative difference between the ARC and the Company's contributions to the plan.

Net OPEB Obligation (NOO)	9/30/2017	9/30/2016	9/30/2015
Net OPEB Obligation - Beginning of Year	\$ 475,053	\$ 506,747	\$ 541,429
Annual Required Contribution	15,109	15,679	15,679
Interest on Net OPEB Obligation	14,252	15,202	16,243
Adjustment of Annual Required Contribution	<u>(39,787)</u>	<u>(42,441)</u>	<u>(45,346)</u>
Annual OPEB Cost (Expense)	(10,426)	(11,560)	(13,424)
Contributions and Payments	<u>(25,364)</u>	<u>(20,134)</u>	<u>(21,258)</u>
Increase (Decrease) in New OPEB Obligation	(35,790)	(31,694)	(34,682)
Net OPEB Obligation - End of Year	<u><u>\$ 439,263</u></u>	<u><u>\$ 475,053</u></u>	<u><u>\$ 506,747</u></u>

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

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

CLARKSVILLE LIGHT & WATER COMPANY

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

	9/30/2016	9/30/2013
	Unfunded Plan	Unfunded Plan
Comparison of AAL to plan assets		
Actuarial Accrued Liability (AAL)	\$ 175,122	\$ 181,718
Fair Value of Plan Assets	-	-
Weighted-average assumptions used to determine AAL		
Discount rate	3.00%	
Rate of compensation increase	N/A	
Trend rate	1.00%	

The Company does not plan to make contributions to this plan during the upcoming fiscal year other than the payment of current benefits. The plan has been historically financed on a pay-as-you-go basis. The period closes as of year-end.

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

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

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

Annual Required Contribution
Beginning 10/1/2016 and Ending 9/30/2017

Components of Annual Required Contribution (ARC) Unfunded Plan

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

CLARKSVILLE LIGHT & WATER COMPANY

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	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2)-(1)	Funded Ratio (1)/(2)	Annual Covered Payroll	UAAL As a % of Payroll (3)/(5)
9/30/2017	\$-	\$ 175,122	\$ 175,122	0%	N/A	N/A
9/30/2016	\$-	\$ 175,122	\$ 175,122	0%	N/A	N/A
9/30/2015	\$-	\$ 181,718	\$ 181,718	0%	N/A	N/A
9/30/2014	\$-	\$ 181,718	\$ 181,718	0%	N/A	N/A

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

A. General Information about the Pension Plan

Plan Description

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

CLARKSVILLE LIGHT & WATER COMPANY

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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, 2017 measurement date and the date this information was certified by Principal Financial Group on November 17, 2017.

Contributions

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

The actuarially determined employer contribution for the measurement period ending January 31, 2017 was \$451,996 and the expected employee contributions were \$86,662. The actuarially determined employer contribution for the upcoming measurement period ending January 31, 2018 is \$569,857 and the expected employee contributions are \$86,208. The actuarially determined employer contribution for the measurement period ending January 31, 2016 is \$422,124 and the expected employee contributions were \$88,149.

Allocated Insurance Contracts

Annuities were purchased for one member who retired during the measurement period. The amounts of the annuities purchased were \$564,759. The obligation for the payment of benefits for these members has been transferred to the annuity contracts. The plan has no further obligation for these members.

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<u>Employees Covered</u>	<u>9/30/2017</u>
Active plan members	60
Inactive plan members entitled to but not yet receiving benefits	16
Disabled plan members entitled to benefits	0
Retired plan members or beneficiaries currently receiving benefits	<u>0</u>
Total	<u>76</u>

B. Net Pension Liability

The historical information required to be disclosed is as follows:

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

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the total pension liability as a factor.

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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 Principal Financial Group are reported as follows:

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

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Assumptions

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

Valuation Date	1/31/2017
Measurement Date	1/31/2017
Actuarial Cost Method	Entry Age Cost Method, Level Percentage of Pay
Actuarial Assumptions	
Inflation Rate	2.00%
Payroll Growth	2.00%
Projected Salary Increase	3.88-6.18%
Municipal Bond Rate	4.07%
Mortality Table	RP-2006 from SOA RP-2014 Study based on experience data for private pension plans

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

Long-term return on plan assets

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

Discount Rate

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

The plan's fiduciary net position and benefit payments were projected to determine if the plan's fiduciary net position was greater than or equal to the expected benefit payments for each period from 2016 to 2105. Benefit payments after 2105 are projected to be \$0.

The long-term rate of return of 3.75% is used to calculate the actuarial present value of projected payments for each future period when the projected Fiduciary Net Position is greater than the projected expected benefit payments. Otherwise, a municipal bond rate of 4.07% is used. The municipal bond rate is from Barclays Municipal GO Long Term (17+ Y) Index, which includes 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher securities, as of the January 31, 2017 measurement date. The discount rate is a single rate that incorporates the long-term rate of return and municipal bond rate as described.

CLARKSVILLE LIGHT & WATER COMPANY

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C. Schedule of Changes in Net Pension Liability

Measurement Period Ending	1/31/2017	1/31/2016
Fiscal Year Ending	9/30/2017	9/30/2016
Total Pension Liability		
Service cost	351,998	335,823
Interest	302,759	300,400
Benefit payments	(564,759)	(267,216)
Differences between expected and actual experience	74,376	66,855
Changes in assumptions	616,239	(20,685)
Changes in benefit terms	-	-
Net change in Total Pension Liability	780,613	415,177
Balance, beginning of period	7,286,733	6,871,556
Balance, end of period	8,067,346	7,286,733
Fiduciary Net Position		
Employee contributions	77,537	88,419
Employer contributions	451,996	819,213
Other contributions	-	-
Net investment income	223,519	254,428
Benefit payments	(564,759)	(267,216)
Administrative expenses	(4,000)	-
Other expenses	-	-
Other deductions	(51,372)	(28,386)
Net Change in Fiduciary Net Position	132,921	866,458
Balance, beginning of period	5,985,592	5,119,134
Balance, end of period	6,118,513	5,985,592
Net Pension Liability	1,948,833	1,301,141
End of Period Assumptions		
Long-term rate of return	4.25%	4.25%
Discount rate	4.25%	4.25%
Salary increase assumption	S5 + 2.5%	S5 + 2.5%
Retirement age assumption	NRA	NRA
Plan changes	none	none

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Notes to Financial Statements

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Sensitivity to Changes in Discount Rate	1% decrease 2.75%	Discount Rate 3.75%	1% increase 4.75%
Net Pension Liability	\$ 3,285,984	\$ 1,949,103	\$ 812,814

D. Pension Expenses

The Pension Expenses for the fiscal years ended September 30, 2017 and 2016 are \$542,585 and \$418,117. Below are the components of pension expenses.

Components of Pension Expense	9/30/2017	9/30/2016
Service cost	\$ 351,998	\$ 335,823
Interest cost	302,759	300,400
Contributions from employees	(77,537)	(88,149)
Expected investment income	(238,699)	(226,227)
Other expenses	-	-
Other deductions	55,372	28,386
Recognition of deferred outflows and inflows due to:		
Differences between expected and actual experience	4,031	(4,345)
Changes in assumptions	136,353	66,957
Differences between expected and actual investment earnings	8,308	5,272
Total Pension Expense	<u>\$ 542,585</u>	<u>\$ 418,117</u>
 Rates used to determine pension expenses		
Discount Rate	4.25%	4.25%

CLARKSVILLE LIGHT & WATER COMPANY

Notes to Financial Statements

September 30, 2017 and 2016

E. Deferred Outflows and Inflows of Resources Related to Pensions

Recognition of Deferred Outflows and Inflows - Actuarial

<u>Date Established</u>	<u>Type</u>	<u>Initial or Prior Year Balance</u>	<u>Current Amount Recognized</u>	<u>Deferred Balance</u>	<u>Upcoming Amount Recognized</u>	<u>Years Remaining</u>
9/30/2017	Experience	\$ 74,376	\$ 8,376	\$ 66,000	\$ 8,376	7.88
9/30/2017	Assumption	616,239	69,396	546,843	69,396	7.88
9/30/2017	Investment Income	15,180	3,036	12,144	3,036	4.00
9/30/2016	Experience	59,674	7,181	52,493	7,181	7.31
9/30/2016	Assumption	(18,463)	(2,222)	(16,241)	(2,222)	7.31
9/30/2016	Investment Income	(22,561)	(5,640)	(16,241)	(5,640)	3.00
9/30/2015	Experience	(82,870)	(11,526)	(71,344)	(11,526)	6.19
9/30/2015	Assumption	497,401	69,179	428,222	69,179	6.19
9/30/2015	Investment Income	32,736	10,912	21,824	10,912	2.00
	Total	<u><u>\$ 1,171,712</u></u>	<u><u>\$ 148,692</u></u>	<u><u>\$ 1,023,700</u></u>	<u><u>\$ 148,692</u></u>	

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

<u>Fiscal Year ending 09/30</u>	<u>Amount to be Recognized</u>
2018	\$148,692
2019	148,692
2020	137,779
2021	143,420
2022	140,384
Thereafter	\$304,053

Deferred Outflow of Resources – Pension Contribution

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

CLARKSVILLE LIGHT & WATER COMPANY

Notes to Financial Statements

September 30, 2017 and 2016

F. Investments

Investment policy

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

	1/31/2017	1/31/2016
Principal Financial Group	\$ 5,695,792	\$ 5,607,744
Whole Life Insurance Reserves	422,451	377,579
Total Plan Assets	<u>\$ 6,118,243</u>	<u>\$ 5,985,323</u>

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

Concentrations

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

	9/30/2017	9/30/2016
Principal Financial Group	\$ 5,695,792	\$ 5,607,744

Method used to value investments

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

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

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Notes to Financial Statements

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Money-weighted Rate of Return

The money-weighted rate of return is calculated as a rate of return on pension plan investments incorporating the actual timing and amount of cash flows. This return is calculated net of investment expenses. The annual money-weighted rate of return on plan investments for the measurement period of 02/01/2016 to 01/31/2017 is 4.37% and 2/1/2015 to 1/31/2016 was 5.9%. The actual date and amount of each contribution benefit payment, and administrative expense payment was used in the calculation of the money-weighted rate of return.