

CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT AND WATER
AND SEWER DEPARTMENT
AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION
JUNE 30, 2012 AND 2011

CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
JUNE 30, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

To the Utility Committee
Clarksville Gas, Water & Sewer
Clarksville, Tennessee

We have audited the accompanying financial statements of the Gas Department, and Water and Sewer Department (collectively, "the Departments") of the City of Clarksville, Tennessee, as of and for the year ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Departments' management. 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Comptroller of the Treasury, State of Tennessee, as detailed in the Audit Manual. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Departments and do not purport to, and do not, present fairly the financial position of the City of Clarksville, Tennessee, as of June 30, 2012 and 2011, and the changes in its financial position, or, where applicable, its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Departments, as of June 30, 2012 and 2011, and the changes in financial position, and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2012, on our consideration of the Departments' 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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and additional required supplementary information on pages 5 through 10 and 34 through 35 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Departments as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of federal and state financial assistance is also presented for purposes of additional analysis as required by the Comptroller of the Treasury, State of Tennessee, as detailed in the Audit Manual, and is also not a required part of the financial statements. The schedule of federal and state financial assistance is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 as a whole. The supplementary information marked as unaudited in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Thurman Campbell Group, PLC

November 28, 2012

CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2012 and 2011

The Gas Department and Water and Sewer Department of the City of Clarksville Management's Discussion and Analysis is an overview of financial activities for the fiscal year ending June 30, 2012. Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities and resulting changes, please read this information in conjunction with accompanying financial statements.

FINANCIAL HIGHLIGHTS

- The Gas Department's total net assets decreased by \$0.5M (0.9%) as a result of this year's operations.
- Water and Sewer Department's total net assets increased by \$37.10M (22.6%) as a result of this year's operations which had significant investments in both the water and wastewater systems.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements that give information about the Gas, Water, and Sewer Departments' activities. Comparative summaries and tables are provided to aid in the discussion and analysis of such activities.

The Statements of Net Assets include all of the Departments' assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and obligations (liabilities).

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Assets. These statements measure the success of the Departments' operations over the past year and can be used to determine if the Departments recovered all of their operating cost through sales and other charges.

The primary purpose of the Statement of Cash Flows is to provide information about the Departments' cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital and capital financing activities. This statement also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

The financial statements are prepared in accordance with generally accepted accounting principles. The Departments use the accrual basis of accounting, which is similar to accounting methods used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

As required by state law, each entity is accounted for separately. However, state law allows water and sewer activities to be combined for the audited financial statements and are presented as such by the Departments. Accordingly, water and sewer activities will be combined in the discussion and analysis that follows.

FINANCIAL ANALYSIS OF THE DEPARTMENTS

The Financial Statements of the Departments include only activities from our gas operations and our water & sewer operations; however, the Departments have inter-fund transfers with the City of Clarksville for payments in lieu of taxes (PILOTS). The PILOTS are similar in purpose to property taxes. The Departments also pay a portion of the City Attorney Department, Human Resources Department, Internal Audit Department and the Purchasing Department expenses.

NET ASSETS

The Departments' net assets are one way to measure the Departments' financial health, or financial position. Over time, increases or decreases in net assets can show whether the business is improving or deteriorating. However, other non-financial factors such as economic conditions, weather, and changes in legislation should be considered.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Departments' activities for the year. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the financial position of the Departments is improving or deteriorating.

Summaries of each department's Statement of Net Assets are presented below. As shown, total net assets of the Gas Department decreased by \$0.47 million from 2011 to 2012. The decrease was a direct result of adjusting gas storage inventory to market value. The adjustment was a decrease of \$0.64M.

The Water & Sewer Department's total net assets increased by 37.10 million, or 22.6%, from FYE 2011 to FYE 2012. Capital assets increased from \$353.40 million in 2011 to \$396.77 million in 2012. For the year-ended 2012, the department received contributions of \$34.10 million in capital assets (in 2011 contributions were \$17.34 million). A significant portion, \$21.12 million of the contributed capital is related to supporting the new Hemlock Semiconductor facility. Infrastructure improvements such as a new water tower, water booster station, and an expansion of our water treatment plant were all part of supporting the Hemlock site. The total contributions should result in increased revenues for the utility and are a good indication of the continued growth in the Clarksville/Montgomery County area.

Table A-1

City of Clarksville, Tennessee
Gas Department and Water & Sewer Department
Condensed Statements of Net Assets (In Millions)
6/30/2012

	<u>Gas Department</u>			<u>Water & Sewer Department</u>		
	2012	2011	2010	2012	2011	2010
Current and other assets	\$ 24.26	\$ 24.34	\$ 22.17	\$ 45.57	\$ 38.93	\$ 32.32
Capital assets	43.19	44.07	44.59	396.77	353.40	313.86
Total assets	<u>67.45</u>	<u>68.41</u>	<u>66.76</u>	<u>442.34</u>	<u>392.33</u>	<u>346.18</u>
Current and other liabilities	4.79	4.63	4.69	28.49	25.27	28.52
Long-term liabilities	11.85	12.51	11.95	212.30	202.61	167.31
Total liabilities	<u>16.64</u>	<u>17.14</u>	<u>16.64</u>	<u>240.79</u>	<u>227.88</u>	<u>195.83</u>
Invested in capital assets, net of related debt	31.72	32.11	32.35	184.20	151.99	149.09
Restricted net assets	1.57	1.53	0.56	14.95	14.50	8.80
Unrestricted net assets (deficit)	17.52	17.63	17.21	2.40	(2.04)	(7.55)
Total net assets	<u>50.81</u>	<u>51.27</u>	<u>50.12</u>	<u>201.55</u>	<u>164.45</u>	<u>150.34</u>
Total liabilities and net assets	<u>\$ 67.45</u>	<u>\$ 68.41</u>	<u>\$ 66.76</u>	<u>\$ 442.34</u>	<u>\$ 392.33</u>	<u>\$ 346.17</u>

Table A-2

City of Clarksville, Tennessee
 Gas Department and Water & Sewer Department
 Condensed Statements of Revenues, Expenses, & Changes in Net Assets (In Millions)
 6/30/2012

	Gas Department			Water & Sewer Department		
	2012	2011	2010	2012	2011	2010
Operating revenues	\$ 23.72	\$ 32.66	\$ 33.76	\$ 50.08	\$ 47.25	\$ 44.63
Operating expenses	23.15	31.34	34.76	37.71	41.77	34.22
Operating income (loss)	0.57	1.32	(1.00)	12.37	5.48	10.41
Non-operating revenues (expenses)	(0.56)	(0.63)	(0.62)	(6.98)	(6.54)	(6.77)
Income (Loss) before contributions, transfers and extraordinary items	0.01	0.69	(1.62)	5.39	(1.06)	3.64
Capital contributions	0.03	1.10	2.12	34.10	17.34	14.50
Inter-fund transfers	(0.50)	(0.64)	(0.66)	(2.39)	(2.17)	(2.13)
Extraordinary loss	-	-	-	-	-	(13.54)
Changes in net assets	(0.46)	1.15	(0.16)	37.10	14.11	2.47
Net assets- beginning	51.27	50.12	50.28	164.45	150.34	147.87
Net assets - ending	\$ 50.81	\$ 51.27	\$ 50.12	\$ 201.55	\$ 164.45	\$ 150.34

While the Statements of Net Assets show the change in financial position of net assets, the Statements of Revenue, Expenses and Changes in Net Assets detail the nature and source of these changes. Revenues for the Gas Department are generated primarily by gas usage. Weather conditions have a significant impact on revenue since heating accounts for the majority of gas usage. The method used to determine gas usage is degree-days.

Degree-days measure how much the average daily temperature varies from 65 degrees. This temperature is the value in which heating should not be needed. The heating degree-days for FYE 2011 were 4,475; and for FYE 2012 there were 3,231 heating degree-days. Lower commodity pricing drove both operating revenues and to a greater extent, operating expenses lower.

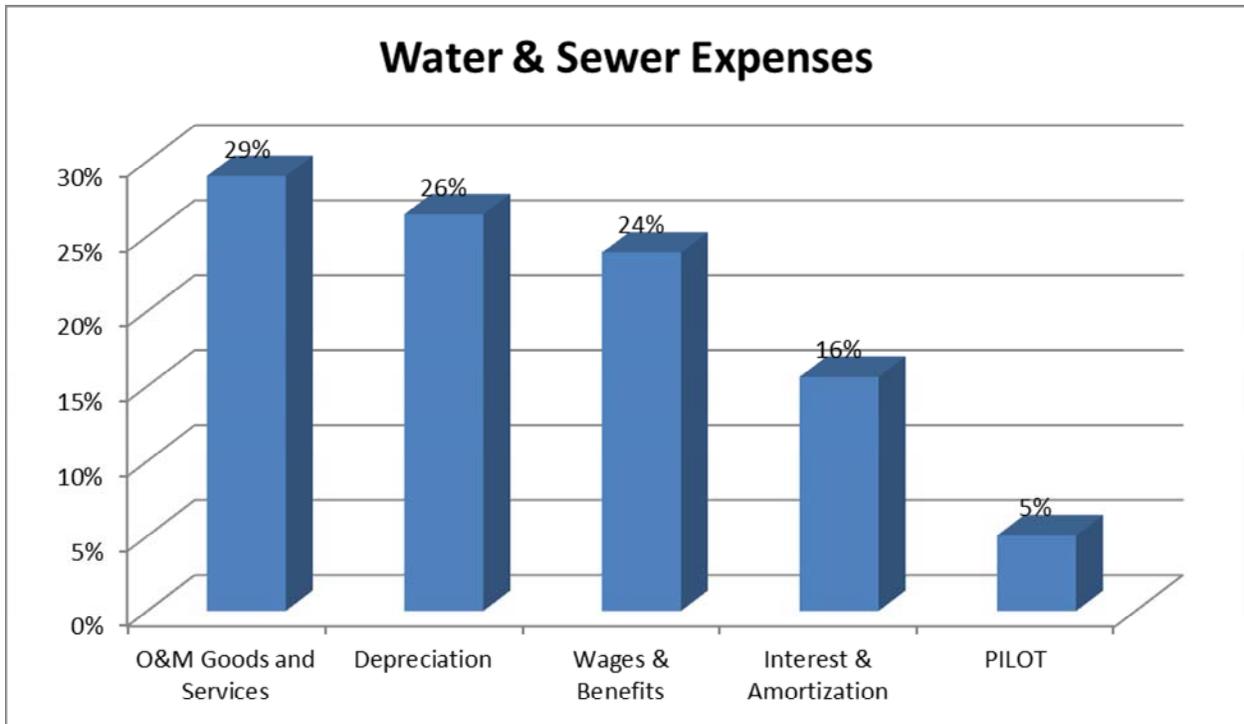
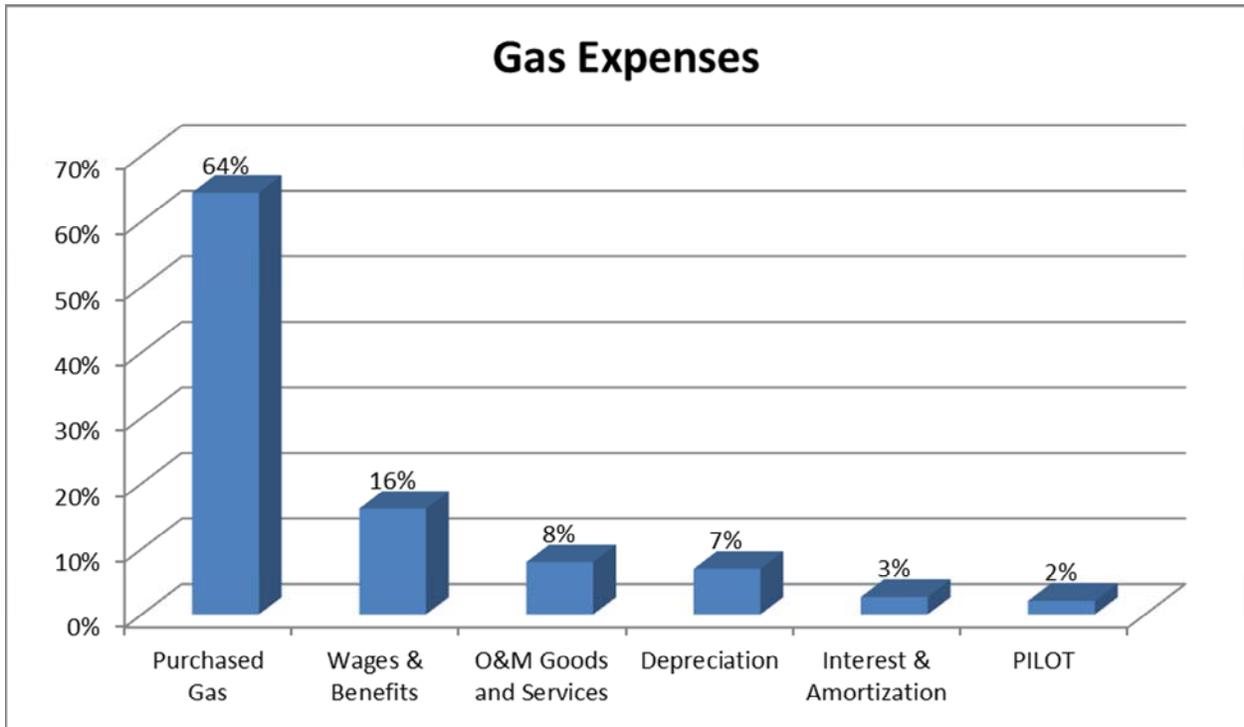
Operating expenses include work done on the system in the form of repairs and maintenance. Capital assets that are added to the system are capitalized as are the man-hours used to construct capital assets. However, repairs and maintenance and the man-hours used therein are operating expenses. During FYE 2012, the Gas Department responded to 723 gas leaks. A total of 123 regulator stations and 203 large commercial and industrial gas meters were tested and maintained.

The water construction department made 137 main repairs and 134 service line repairs in FYE 2012. They also replaced 76 service lines and 46 valves. There were 157 repairs and 29 replacements of fire hydrants. The water construction crews made 282 water taps and 41 sewer taps on existing lines.

The sewer construction department scheduled and cleaned 243,700 feet of mains. They also cleaned 133,811 feet on an emergency basis. They inspected, by closed circuit television, 39,205 feet and repaired 838 feet as well as installing 404 feet of mains. Further, the sewer construction department located 162 services and installed 312 clean outs. The sewer construction department also raised, lowered, or located 110 manholes and installed or replaced 1 manholes. Other work included smoke testing 26 lines and cleaning 38 rights of way.

EXPENSES

The following charts show the major areas of operating expenses of each of the departments.



CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2012, the Gas Department had \$43.19 million in net capital assets; the Water and Sewer Departments had \$396.77 million in net capital assets. Capital assets include construction in progress, transmission lines, distribution lines, collection lines, manholes, fire hydrants, land, land rights, structures, office furniture, vehicles, and equipment. Please see Tables A-3 and A-4 for an analysis of capital assets for the Gas Department and the Water and Sewer Departments, accordingly.

Table A-3
City of Clarksville, Tennessee
Gas Department
Capital Assets (in Millions)
6/30/2012

	2012	2011	Dollar Change	Percent Change
Construction in Progress	\$ 0.91	\$ 0.86	\$ 0.05	5.8%
Land	0.24	0.24	0.00	0.0%
Building	1.47	1.52	(0.05)	-3.3%
Infrastructure	39.77	40.70	(0.93)	-2.3%
Machinery and Equipment	0.56	0.49	0.07	14.2%
Vehicles	0.24	0.26	(0.02)	-7.6%
	<u>\$ 43.19</u>	<u>\$ 44.07</u>	<u>\$ (0.88)</u>	<u>-2.0%</u>

Table A-4
City of Clarksville, Tennessee
Water and Sewer Department
Capital Assets (in Millions)
6/30/2012

	2012	2011	Dollar Change	Percent Change
Construction in Progress	\$ 44.82	\$ 22.61	\$ 22.21	98.2%
Land	3.67	2.89	0.78	27.1%
Building	56.08	52.97	3.11	5.9%
Infrastructure	275.82	256.31	19.51	7.6%
Machinery and Equipment	15.34	17.31	(1.97)	-11.4%
Vehicles	1.04	1.30	(0.26)	-20.0%
	<u>\$ 396.77</u>	<u>\$ 353.39</u>	<u>\$ 43.38</u>	<u>12.3%</u>

LONG-TERM DEBT

Long-term debt increased for FYE 2012 due to drawing funds from the Tennessee Municipal Bond Fund Loan to finance various projects constructing, improving, repairing, and equipping the water and sewer systems of the Municipality. At year-end, the Departments had long-term debt of \$233.79 million. All operating revenues of the Departments are security for the long-term debt, collectively. The Notes in the audited financial statements give the details of the various components of the long-term debt and a detailed schedule of long-term debt obligations of the Departments by year. Please read it in conjunction with this summary.

CONTACTING THE DEPARTMENTS FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Departments finances. If you have any questions about this report or need any additional information contact the Chief Financial Officer, Clarksville Department of Gas, Water and Sewer, 2215 Madison Street, Clarksville, Tennessee 37043.

CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT
STATEMENTS OF NET ASSETS
JUNE 30, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and Cash Equivalents	\$ 19,043,397	\$ 19,833,284
Accounts Receivable, Net	872,771	1,443,747
Inventory	1,878,219	548,864
Prepaid Expense	<u>24,372</u>	<u>37,196</u>
Total Current Assets	<u>21,818,759</u>	<u>21,863,091</u>
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	490,487	454,858
Investments	<u>1,080,761</u>	<u>1,073,077</u>
Total Restricted Assets	<u>1,571,248</u>	<u>1,527,935</u>
Capital Assets:		
Capital Assets Not Depreciated	1,146,690	1,099,294
Capital Assets Depreciated, Net	<u>42,040,815</u>	<u>42,974,531</u>
Total Capital Assets	<u>43,187,505</u>	<u>44,073,825</u>
Other Assets:		
Unamortized Debt Expense	<u>878,292</u>	<u>945,936</u>
Total Noncurrent Assets	<u>45,637,045</u>	<u>46,547,696</u>
Total Assets	<u>\$ 67,455,804</u>	<u>\$ 68,410,787</u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT
STATEMENTS OF NET ASSETS (CONT'D)
JUNE 30, 2012 and 2011

LIABILITIES AND NET ASSETS

	2012	2011
Current Liabilities:		
Accounts Payable	\$ 1,027,006	\$ 1,643,288
Contracts and Retainage	536	1,159
Accrued Interest	233,211	194,632
Current Portion of Bonds Payable	615,950	555,000
Current Portion of Accrued Compensated Absences	136,713	77,279
Total Current Liabilities	2,013,416	2,471,358
Long-Term Liabilities:		
Accrued Compensated Absences (less current portion)	121,130	158,204
Bonds Payable (less current portion)	11,727,864	12,349,476
Total Long-Term Liabilities	11,848,994	12,507,680
Other Liabilities:		
OPEB Liability	1,460,756	1,153,427
Customer Deposits	1,318,154	1,010,244
Total Other Liabilities	2,778,910	2,163,671
Total Liabilities	16,641,320	17,142,709
Net Assets:		
Invested in Capital Assets, Net of Related Debt	31,721,983	32,115,286
Restricted for Debt Service-Expendable	1,571,248	1,527,935
Unrestricted Net Assets	17,521,253	17,624,857
Total Net Assets	50,814,484	51,268,078
Total Liabilities and Net Assets	\$ 67,455,804	\$ 68,410,787

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 and 2011

	2012	2011
Operating Revenues:		
Sales	\$ 21,618,128	\$ 30,635,247
Fort Campbell Operations	448,250	505,932
Other Income	1,648,150	1,523,213
Total Operating Revenues	23,714,528	32,664,392
Operating Expenses:		
Purchased Gas and Propane	15,385,323	23,348,770
Transmission and Distribution	3,081,952	3,382,776
Administrative and General	1,936,843	1,949,637
Customer Service	434,585	465,568
Engineering	171,617	154,131
Depreciation	1,666,483	1,633,050
Fort Campbell Operations	370,608	310,334
Other Expenses	93,837	100,142
Total Operating Expenses	23,141,248	31,344,408
Operating Income (Loss)	573,280	1,319,984
Nonoperating Income (Expenses):		
Interest Income	48,288	61,287
Other Income (Expense)	22,427	33,146
Interest and Amortization	(628,865)	(728,233)
Total Nonoperating Income (Expenses)	(558,150)	(633,800)
Income (Loss) before Contributions, Transfers and Extraordinary Items	15,130	686,184
Capital Contributions	29,181	1,105,324
Transfers to Primary Government	(497,905)	(643,332)
Change in Net Assets	(453,594)	1,148,176
Net Assets- Beginning of Year	51,268,078	50,119,902
Net Assets- End of Year	\$ 50,814,484	\$ 51,268,078

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 and 2011

	2012	2011
<u>Cash Flows from Operating Activities:</u>		
Receipts from Customers	\$ 24,285,502	\$ 33,721,871
Payments to Suppliers of Goods or Services	(18,851,950)	(25,871,614)
Payments to Employees for Services	(3,824,815)	(3,787,338)
Payments Connected with Interfund Services	(93,837)	(100,142)
Net Cash Provided (Used) by Operating Activities	1,514,900	3,962,777
<u>Cash Flows from Non-Capital Financing Activities:</u>		
Other Income (Expenses)	1,319	(22,336)
Transfer to City General (In lieu of tax payment)	(497,905)	(643,332)
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	(496,586)	(665,668)
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Proceeds from Long Term Debt	-	4,954,194
Capital Contributions	29,181	1,105,324
Proceeds from Sale of Fixed Assets	21,680	16,052
Debt Service Interest Paid	(536,556)	(711,231)
Debt Service Principal Paid	(555,001)	(5,277,100)
Purchase of Fixed Assets	(780,164)	(1,121,607)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,820,860)	(1,034,368)
<u>Cash Flows from Investing Activities:</u>		
Interest Received	48,288	61,286
Purchase of Securities	-	(1,073,077)
Net Cash Provided (Used) by Investing Activities	48,288	(1,011,791)
Net Increase (Decrease) in Cash and Cash Equivalents	(754,258)	1,250,950
Cash and Cash Equivalents - Beginning of the Year	20,288,142	19,037,192
Cash and Cash Equivalents - End of the Year	\$ 19,533,884	\$ 20,288,142

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT
STATEMENTS OF CASH FLOWS (CONT'D)
YEARS ENDED JUNE 30, 2012 and 2011

	2012	2011
Reconciliation of Operating Income		
To Net Cash Provided (Used) by Operating Activities:		
Operating Income	\$ 573,280	\$ 1,319,984
Adjustments to Reconcile Operating Income		
To Net Cash Provided (Used) by Operating Activities:		
Depreciation	1,666,483	1,633,050
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	570,976	1,057,478
(Increase) Decrease in Inventories	(1,329,355)	(166,188)
(Increase) Decrease in Prepaid Assets	12,824	(21,975)
Increase (Decrease) in Accounts Payable	(616,282)	(368,094)
Increase (Decrease) in Accrued Liabilities	-	(3,659)
Increase (Decrease) in Contracts and Retainage	(623)	(143,659)
Increase (Decrease) in Accrued Compensated Absences	22,360	4,004
Increase (Decrease) in OPEB	307,328	355,439
Increase (Decrease) in Customer Deposits	307,909	296,397
Net Cash Provided (Used) by Operating Activities	\$ 1,514,900	\$ 3,962,777

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
WATER AND SEWER DEPARTMENT
STATEMENTS OF NET ASSETS
JUNE 30, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and Cash Equivalents	\$ 15,536,134	\$ 9,490,777
Accounts Receivable, Net	5,278,315	4,527,795
Inventory	872,569	723,247
Prepaid Expense	<u>55,903</u>	<u>69,150</u>
Total Current Assets	<u>21,742,921</u>	<u>14,810,969</u>
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	4,390,783	4,018,142
Investments	<u>10,557,231</u>	<u>10,482,180</u>
Total Restricted Assets	<u>14,948,014</u>	<u>14,500,322</u>
Capital Assets:		
Capital Assets Not Depreciated	48,484,385	25,494,947
Capital Assets Depreciated, Net	<u>348,290,004</u>	<u>327,902,186</u>
Total Capital Assets	<u>396,774,389</u>	<u>353,397,133</u>
Other Assets:		
Unamortized Debt Expense	<u>8,876,046</u>	<u>9,622,596</u>
Total Noncurrent Assets	<u>420,598,449</u>	<u>377,520,051</u>
Total Assets	<u>\$ 442,341,370</u>	<u>\$ 392,331,020</u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
WATER AND SEWER DEPARTMENT
STATEMENTS OF NET ASSETS (CONT'D)
JUNE 30, 2012 and 2011

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current Liabilities:		
Accounts Payable	\$ 6,880,762	\$ 6,376,511
Contracts and Retainage	1,689,820	908,198
Accrued Interest	2,239,743	1,672,953
Current Portion of Bonds Payable	5,149,050	4,705,000
Current Portion of Notes Payable	4,192,311	4,013,076
Current Portion of Accrued Compensated Absences	369,928	219,060
Deferred Connection Fee Revenue	251,232	1,061,541
Total Current Liabilities	<u>20,772,846</u>	<u>18,956,339</u>
Long-Term Liabilities:		
Accrued Compensated Absences (less current portion)	192,016	305,928
Bonds Payable (less current portion)	116,708,001	122,048,909
Notes Payable (less current portion)	95,397,776	80,256,296
Total Long-Term Liabilities	<u>212,297,793</u>	<u>202,611,133</u>
Other Liabilities:		
OPEB Liability	3,761,693	3,020,273
Customer Deposits	3,960,822	3,295,442
Total Other Liabilities	<u>7,722,515</u>	<u>6,315,715</u>
Total Liabilities	<u>240,793,154</u>	<u>227,883,187</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	184,203,297	151,996,444
Restricted for Debt Service-Expendable	14,948,014	14,500,320
Unrestricted Net Assets (Deficit)	2,396,905	(2,048,931)
Total Net Assets	<u>201,548,216</u>	<u>164,447,833</u>
Total Liabilities and Net Assets	<u>\$ 442,341,370</u>	<u>\$ 392,331,020</u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Water Sales	\$ 19,673,265	\$ 18,999,188
Sewer Service Charges	24,244,986	22,875,389
Other Income - Water	2,886,415	2,652,947
Other Income - Sewer	3,275,248	2,723,685
Total Operating Revenues	<u>50,079,914</u>	<u>47,251,209</u>
Operating Expenses:		
Water Plant Operations	3,737,683	3,695,343
Transmission and Distribution	2,261,887	1,893,414
Discharge Collection Lines	1,577,580	2,159,593
Sewer Pumping	2,873,751	3,155,624
Treatment Plant Expense	6,225,442	8,234,588
Customer Service	1,663,168	1,594,315
Administrative and General	4,202,948	4,274,432
Depreciation	12,572,818	14,435,348
Engineering	2,335,859	2,127,010
Other Expenses	262,114	203,320
Total Operating Expenses	<u>37,713,250</u>	<u>41,772,987</u>
Operating Income (Loss)	<u>12,366,664</u>	<u>5,478,222</u>
Nonoperating Income (Expenses):		
Interest Income	104,061	94,916
Other Income (Expense)	200,820	428,205
Interest and Amortization	<u>(7,286,422)</u>	<u>(7,064,298)</u>
Total Nonoperating Income (Expenses)	<u>(6,981,541)</u>	<u>(6,541,177)</u>
Income (Loss) before Contributions, Transfers and Extraordinary Items	<u>5,385,123</u>	<u>(1,062,955)</u>
Capital Contributions:		
Developer Contributions - Water	26,049,080	12,264,813
Developer Contributions - Sewer	<u>8,058,104</u>	<u>5,075,967</u>
Total Capital Contributions	34,107,184	17,340,780
Transfers to Primary Government	<u>(2,391,924)</u>	<u>(2,174,943)</u>
Change in Net Assets	37,100,383	14,102,882
Net Assets- Beginning of Year	<u>164,447,833</u>	<u>150,344,951</u>
Net Assets- End of Year	<u>\$ 201,548,216</u>	<u>\$ 164,447,833</u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 and 2011

	2012	2011
<u>Cash Flows from Operating Activities:</u>		
Receipts from Customers	\$ 49,329,395	\$ 46,599,929
Payments to Suppliers of Goods or Services	(12,569,280)	(20,206,393)
Payments to Employees for Services	(10,580,275)	(10,909,644)
Payments Connected with Interfund Services	(207,642)	(203,319)
Net Cash Provided (Used) by Operating Activities	25,972,198	15,280,573
 <u>Cash Flows from Non-Capital Financing Activities:</u>		
Other Income (Expenses)	279,871	234,443
Transfer to City General (In lieu of tax payment)	(2,391,924)	(2,174,943)
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	(2,112,053)	(1,940,500)
 <u>Cash Flows from Capital and Related Financing Activities:</u>		
Proceeds from Long Term Debt	19,333,487	108,413,470
Capital Contributions	21,121,804	11,214,843
Proceeds from Sale of Fixed Assets	32,675	28,968
Swap Termination Fees	-	(6,449,500)
Debt Service Interest Paid	(6,297,238)	(7,212,034)
Debt Service Principal Paid	(8,717,771)	(64,847,085)
Purchase of Fixed Assets	(43,019,166)	(47,867,857)
Net Cash Provided (Used) by Capital and Related Financing Activities	(17,546,209)	(6,719,195)
 <u>Cash Flows from Investing Activities:</u>		
Interest Received	104,062	94,917
Purchase of Securities	-	(10,482,180)
Net Cash Provided (Used) by Investing Activities	104,062	(10,387,263)
 Net Increase (Decrease) in Cash and Cash Equivalents	6,417,998	(3,766,385)
 Cash and Cash Equivalents - Beginning of the Year	13,508,919	17,275,304
 Cash and Cash Equivalents - End of the Year	\$ 19,926,917	\$ 13,508,919

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS (CONT'D)
YEARS ENDED JUNE 30, 2012 and 2011

	2012	2011
Reconciliation of Operating Income		
To Net Cash Provided (Used) by Operating Activities:		
Operating Income	\$ 12,366,664	\$ 5,478,222
Adjustments to Reconcile Operating Income		
To Net Cash Provided (Used) by Operating Activities:		
Depreciation	12,572,818	14,435,347
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(750,518)	(651,281)
(Increase) Decrease in Inventories	(149,331)	(22,340)
(Increase) Decrease in Prepaid Assets	13,247	(5,673)
Increase (Decrease) in Accounts Payable	504,250	(5,062,330)
Increase (Decrease) in Accrued Liabilities	-	(18,757)
Increase (Decrease) in Contracts and Retainage	781,622	381,711
Increase (Decrease) in Accrued Compensated Absences	36,955	40,280
Increase (Decrease) in Deferred Connection Fees	(810,309)	(996,766)
Increase (Decrease) in OPEB	741,420	860,112
Increase (Decrease) in Customer Deposits	665,380	842,048
Net Cash Provided (Used) by Operating Activities	\$ 25,972,198	\$ 15,280,573
<u>Noncash Capital and Related Financing Activities</u>		
Capital Contributed	\$ 12,985,380	\$ 6,125,937

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The Water and Sewer Departments were begun in 1893 when a private water system was purchased by the City of Clarksville. The Gas Department was added to the City utility system in 1953. The Departments operate under the authority of the Utility Committee of the city of Clarksville and of the City Council as a whole. The service area of the Departments includes the City of Clarksville and certain surrounding portions of Montgomery County as well as portions of Cheatham and Robertson counties in Tennessee and Christian and Logan counties of Kentucky. The Departments are proprietary funds of the City of Clarksville, Tennessee. No other funds of the City of Clarksville are included in the financial statements of the Departments.

B. Basis of Presentation and Measurement Focus

The accounting system is organized and operated on a fund basis. A fund is designed as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus used. As a proprietary fund, the Departments use the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds account for business-type operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Allocations of costs, such as depreciation, are recorded in proprietary funds. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

C. Reporting Entity

The Departments are proprietary funds of the City of Clarksville, Tennessee. No other funds of the City of Clarksville are presented.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

E. Concentrations

Financial instruments that potentially subject the Departments to significant concentrations of credit risk consist principally of cash, cash equivalents, and accounts receivable. The Departments place cash and cash equivalents with federally insured financial institutions and limit the amount of credit exposure to any one institution by requiring collateral. With respect to accounts receivable, credit risk is dispersed across a large number of customers who are geographically concentrated in the Clarksville, Tennessee service area. The Departments perform an initial credit evaluation for new customers and obtain a security deposit or third-party guaranty where applicable.

F. Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Departments consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and local government investment pool to be cash and cash equivalents.

G. Inventories

Inventories are stated at average cost and are determined by the moving average inventory method. A perpetual inventory is maintained by the Departments with a physical inventory taken annually.

H. Restricted Assets

Restricted assets represent cash, cash equivalents and investments as required by the bond covenants to be set aside for the retirement of bond obligations. Restricted assets at June 30, 2012 and 2011, were \$16,519,262 and \$16,028,257, respectively.

I. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Capital assets are stated at the original cost of construction, which includes the cost of contracted services, direct labor, materials and overhead items. Contributions from others toward the construction of an asset is charged to the applicable capital asset accounts. Maintenance and repairs are charged to the appropriate maintenance accounts.

The Departments capitalize assets with a cost greater than \$5,000. Donated capital assets are reported at the estimated fair value at the time of acquisition. Capital assets are valued for impairment or abandonment when necessary. Capital assets, excluding land, are depreciated using the straight-line method over the following estimated useful lives:

Main Lines	50 years
Land Improvements	50 years
Machinery and Equipment	10 years
Buildings	40 years
Vehicles	5 years
Computers	5 years

J. Operating and Non-operating Revenues and Expenses

Operating revenues and expenses of the Departments are those that result from providing services and producing and delivering goods and/or services in connection with the departments ongoing operations. The principal operating revenue of the departments is charges for providing water and sewer services and natural gas supply. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

K. Recognition of Revenues and Expenses

As is the general practice of the industry, unbilled service revenue and the related unbilled cost from the date of the most recent meter reading to the balance sheet date is not recorded. Therefore, only billed revenue and expense is recognized in the financial statements. However, the effect is considered immaterial.

L. Receivables

Accounts receivables are presented net of any allowance for uncollectible accounts. The allowance for bad debt accounts was \$125,306 and \$211,997 for the years ended June 30, 2012 and 2011, respectively. Bad debts are charged to expense using the allowance-for-bad-debt method. The Departments policy is to reserve 50% of accounts 60 to 90 days past due and 100% for accounts 90 days or more past due. The bad debt expense for the years ended June 30, 2012 and 2011 was \$64,907 and \$99,740, respectively.

M. Deferred Connection Fee Revenue

Prior to March 12, 2008, the Water and Sewer Departments issued "blue coupons" to contractors/sub-dividers for the value of "off-site-improvements", as defined in the Clarksville City Code, that they have installed and donated to the Departments. The "blue coupons" are good for five years after issue and therefore the program will not be fully abolished until sometime in 2013. The contractor/sub-divider can use these "blue-coupons" later to offset connection fees otherwise due at that time. "Blue coupons" that are not expired or not redeemed are recorded as deferred connection fee revenue and expired and redeemed "blue coupons" are recorded as connection fee revenue.

N. Interest Capitalization

Interest costs are capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Total interest incurred for the Gas Department for the years ended June 30, 2012 and 2011, was \$575,137 and \$639,853, respectively. Interest capitalized was \$8,254 and \$0, and interest expensed was \$566,883 and \$639,853, for the years ended June 30, 2012 and 2011, respectively.

Total interest incurred for the Water and Sewer Department for the years ended June 30, 2012 and 2011, was \$6,864,028 and \$6,917,283. Interest capitalized was \$132,297 and \$137,434, and interest expensed was \$6,731,731 and \$6,779,849, for the years ended June 30, 2012 and 2011, respectively.

O. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the Departments policy to use restricted resources first, and then unrestricted resources as they are needed.

P. Unamortized Discount, Premium and Debt Expense

The debt expense, discount, and premium being amortized over the life of the bonds using the straight-line method which is not materially different from the interest method. Bonds payable are reported net of the applicable premiums and discounts. Debt expense is reported as deferred charges.

Q. Election in Accordance with GASB 20

The Departments have elected to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

R. Other Significant Accounting Policies

Other significant accounting policies are described throughout the notes section of this audit report or are disclosed in the statement formats.

2. DEPOSITS AND INVESTMENTS

The City adopted an official investment policy during the fiscal year. The primary objectives of investment activities in order of priority are safety of principal, liquidity to meet obligations as they become due and a reasonable yield on the City's investments. Investment types permitted are consistent with Government Finance Officers Association (GFOA) Policy Statement on State and Local Laws Concerning Investment Practices, and included but are not limited to : (1) U.S. government securities and obligations guaranteed by the U.S. government, (2) deposit accounts at state and federally chartered banks and savings and loan associations, and (3) the Local Government Investment Pool of the State of Tennessee.

Statement No. 40, "Deposit and Investment Risk Disclosures", of the Governmental Accounting Standards Board (GASB 40), is designed to inform financial statement users about the deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The Departments recognize its deposits and investments may have one or more of the following risks:

1. Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy minimizes this risk by limiting the types of securities to be purchased, pre-qualifying financial institutions, brokers/dealers, etc. that the City does business with and by requiring the diversification of the portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.
2. Concentration of credit risk: A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. Although the City's investment policy does not place a specific percentage limit on any type of investment, it recommends diversification, requires competitive biddings, and requires investment officials to operate under the prudent-person rule.
3. Interest rate risk: Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. Investments of the Departments have average weighted maturity

of one year. The City's investment policy provides that to the extent practicable, that investments should be matched with anticipated cash flow requirements and that a portion of the portfolio should be continuously invested in readily available funds such as a local government investment pool.

4. Custodial credit risk: Custodial credit risk is defined as the risk that a government will not be able to recover its deposits, investments or collateral from the bank in the event of bank failure. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to one hundred five percent (105%) of the value of the state deposit secured thereby, less so much of such amount as is protected by the federal deposit insurance corporation.

As of June 30, 2012 and 2011, the carrying amount of the Departments deposits was \$39,460,801 and \$33,797,061 and the bank balance of \$39,692,808 and \$34,146,720 was categorized as follows:

	Bank Balances	
	06/30/2012	06/30/2011
Insured by FDIC	\$ 468,821	\$ 461,144
Insured by Tennessee Bank Collateral Pool	18,048,569	12,798,223
Local Government Investment Pool	21,175,418	20,887,353
Total	<u>\$ 39,692,808</u>	<u>\$ 34,146,720</u>

Investments in debt and equity securities with readily determinable fair values are carried at fair value based on quoted prices in the active markets (all Level 1 measurements). Investments stated at fair value at June 30, 2012 and 2011 consists of the following:

	Category			Carrying Amount	Market Value
	1	2	3		
U.S. Agency Securities (06/30/2012)	\$ 11,637,992	\$ -	\$ -	\$ 11,637,992	\$ 11,637,992
U.S. Agency Securities (06/30/2011)	\$ 11,555,257	\$ -	\$ -	\$ 11,555,257	\$ 11,555,257

The Departments investments are categorized to give an indication of the level of risk assumed by the departments at June 30, 2012 and 2011. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the Departments or its agent in the Departments name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Departments name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, in its trust department or agent but not in the Departments name.

3. INTERFUND TRANSFERS

Permanent reallocations of resources between funds of the City of Clarksville, Tennessee are classified as inter-fund transfers. The transfer recorded in the Departments financial statements is the City of Clarksville's portion of in-lieu-of taxes. These in-lieu-of taxes occur on a routine basis and are similar in purpose to property taxes assessed by the City to nongovernmental entities.

Transfers From	Transfers To City of Clarksville-General Fund	
	06/30/2012	06/30/2011
Gas Department	\$ 497,905	\$ 643,332
Water & Sewer Department	2,391,924	2,174,943
Total	<u>\$ 2,889,829</u>	<u>\$ 2,818,275</u>

4. CAPITAL ASSETS

A summary of changes in capital assets are as follows:

<u>Gas Department</u>	Balance 6/30/2011	Increases	Decreases	Balance 6/30/2012
Capital Assets Not Depreciated:				
Land and Land Rights	\$ 236,659	\$ -	\$ -	\$ 236,659
Construction in Progress	862,635	780,163	(732,767)	910,031
Total Capital Assets Not Depreciated	<u>1,099,294</u>	<u>780,163</u>	<u>(732,767)</u>	<u>1,146,690</u>
Capital Assets Depreciated:				
Building, Plant and Equipment	61,182,209	732,767	(76,239)	61,838,737
Less: Accumulated Depreciation	<u>(18,207,678)</u>	<u>(1,666,483)</u>	<u>76,239</u>	<u>(19,797,922)</u>
Total Capital Assets Depreciated, Net	<u>42,974,531</u>	<u>(933,716)</u>	<u>-</u>	<u>42,040,815</u>
Total Capital Assets, Net	<u>\$ 44,073,825</u>	<u>\$ (153,553)</u>	<u>\$ (732,767)</u>	<u>\$ 43,187,505</u>
<u>Water and Sewer Department</u>				
Capital Assets Not Depreciated:				
Land and Land Rights	\$ 2,880,173	\$ 781,427	\$ -	\$ 3,661,600
Construction in Progress	22,614,774	56,010,917	(33,802,906)	44,822,785
Total Capital Assets Not Depreciated	<u>25,494,947</u>	<u>56,792,344</u>	<u>(33,802,906)</u>	<u>48,484,385</u>
Capital Assets Depreciated:				
Building, Plant and Equipment	437,674,496	33,802,906	(1,066,113)	470,411,289
Less: Accumulated Depreciation	<u>(109,772,310)</u>	<u>(12,572,818)</u>	<u>223,843</u>	<u>(122,121,285)</u>
Total Capital Assets Depreciated, Net	<u>327,902,186</u>	<u>21,230,088</u>	<u>(842,270)</u>	<u>348,290,004</u>
Total Capital Assets, Net	<u>\$ 353,397,133</u>	<u>\$ 78,022,432</u>	<u>\$ (34,645,176)</u>	<u>\$ 396,774,389</u>

Depreciation expense totaled \$14,239,301 and \$16,068,398 for the years ended June 30, 2012 and 2011, respectively. Of these amounts, \$1,666,483 and \$1,633,050 was charged to the Gas Department and \$12,572,818 and \$ 14,435,348 was charged to the Water and Sewer Departments for the years ended June 30, 2012 and 2011, respectively.

5. ACCUMULATED UNPAID VACATION AND SICK LEAVE

Eligible employees earn one day (eight hours) of vacation for each month of employment. For every year of service over ten years, 8 additional hours are accrued per year. On the employee's anniversary date, any unused vacation time over 240 hours is transferred to sick leave. Sick leave does not vest and is not limited in the amount that can accrue. Upon termination, the Departments pay out any accrued vacation pay but do not pay for unused sick leave.

6. LONG-TERM DEBT

Long-term debt outstanding at June 30, 2012 is as follows:	Gas	Water & Sewer
Series 2002 Water, Sewer, and Gas Revenue Refunding bonds due in annual installments of \$1,425,000 to \$1,920,000 to February 2018 at 4.65% to 5.25% interest	\$1,529,250	\$8,665,750
Series 2007 Water, Sewer, and Gas Revenue Bonds due in installments of \$1,270,000 to \$5,370,000 to February 2032 at 4.35% interest	6,059,350	49,025,650
Series 2011 Water, Sewer and Gas Revenue Refunding bonds due in annual installments of \$1,745,000 to \$12,550,000 to February 2025 at 3.00% to 5.00% interest	4,594,100	61,035,900
Series 1994 Tennessee Municipal Bond Fund Loan due in annual installments of \$720,000 to \$882,000 at a variable rate of interest	-	2,478,000
Loan from the Tennessee State Revolving Loan Fund for waste water treatment plant expansion due in monthly installments of \$154,342 to \$209,678 to July 2022, at 3.216% interest	-	21,701,738
Loan from Tennessee State Revolving Loan Fund due in monthly installments from \$246,912 to \$306,162 through 2024 at 2.76% interest	-	3,435,450
Series 2005 Tennessee Municipal Bond Fund Loan due in annual installments of 1,322,295 to 3,341,372 to May 2032 at variable rate of interest	-	43,722,934
Series 2010 Tennessee Municipal Bond Fund Loan due a lump sum in December 2013 at a variable rate of interest	-	28,251,965
Face Value of Long-Term Debt	12,182,700	218,317,387
Add: Premium	275,147	3,767,492
Less: Unamortized Debt Discount and Deferred Loss on Defeasance	(114,034)	(637,741)
Less: Current Portion	(615,950)	(9,341,361)
Net Long-Term Debt	\$11,727,863	\$212,105,777

The bonds are collateralized by the operating revenues of the Departments. Bond covenants also require the establishment of a debt service fund from which to pay interest and principal maturities as they become due. At June 30, 2012 and 2011, principal and interest to maturity was \$290,997,974 and \$285,983,300, respectively.

On the Series 1994 and Series 2005 TMBF Loans, the variable interest rate is based on the adjusted program loan rate, plus a letter of credit fee of 0.20% and 0.15%, respectively. On the Series 2010 TMBF Loan, the variable interest rate is based on adjusted LIBOR rate, plus 0.15%.

Future payments on Long-Term Debt are as follows:

Year Ending June 30,	Bonds Payable	Notes Payable	Total Principal	Total Interest
2013	\$ 5,765,000	\$ 4,192,311	\$ 9,957,311	\$ 7,332,984
2014	5,985,000	32,631,734	38,616,734	7,001,457
2015	6,250,000	4,575,706	10,825,706	6,370,629
2016	7,500,000	3,838,357	11,338,357	5,966,553
2017	7,870,000	3,988,957	11,858,957	5,501,454
2018-2022	45,440,000	22,430,642	67,870,642	19,960,405
2023-2027	43,480,000	12,742,664	56,222,664	6,780,582
2028-2032	<u>8,620,000</u>	<u>15,189,716</u>	<u>23,809,716</u>	<u>1,583,823</u>
Total Long-Term Debt Including Current Portions	<u>\$ 130,910,000</u>	<u>\$ 99,590,087</u>	<u>\$ 230,500,087</u>	<u>\$ 60,497,887</u>

Changes in long-term debt and other noncurrent liabilities (including current portions) for the year ended June 30, 2012, were as follows:

	Balance 6/30/2011	Additions	Reductions	Balance 6/30/2012	Amount Due in 6/30/2013
<u>Gas Department and Water and Sewer Department</u>					
Accrued compensated absences	\$ 760,471	\$ 557,978	\$ (498,662)	\$ 819,787	\$ 506,641
Customer deposits	4,305,686	2,579,590	(1,606,300)	5,278,976	-
<u>Bonds and notes payable:</u>					
Bonds and notes	220,439,372	19,333,487	(9,272,772)	230,500,087	9,957,311
Premiums on bonds	4,337,553	-	(294,914)	4,042,639	-
Unamortized discount and deferred loss on defeasance	(849,168)	-	97,394	(751,774)	-
Total Bonds and notes payable	<u>223,927,757</u>	<u>19,333,487</u>	<u>(9,470,292)</u>	<u>233,790,952</u>	<u>9,957,311</u>
Total Gas, Water and Sewer Department	<u>\$ 228,993,914</u>	<u>\$ 22,471,055</u>	<u>\$ (11,575,254)</u>	<u>\$ 239,889,715</u>	<u>\$ 10,463,952</u>

7. PENSION PLAN

Plan Description- TCRS

Employees of the City of Clarksville are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. The City of Clarksville has authorized Mandatory Retirement for its Public Safety Officers. Public Safety Officers can retire at age of 55 with five years of service or at any age with 25 years of service and receive a supplemental bridge payment between the mandatory retirement age and 62. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after 5 years of service and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated

(TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions, such as the City, participate in the TCRS as individual entities and are liable for all costs associated with the operations and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issued a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

The City has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5% of annual covered payroll.

The City is required to contribute at an actuarially determine rate; the rate for the fiscal years ending June 30, 2012 and 2011 was 15.49% and 15.47%, respectively, of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the years ending June 30, 2012 and 2011, the City’s annual pension cost of \$6,865,720 and \$6,655,681, respectively, to TCRS was equal to the City’s required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investment over a ten year period. The City’s unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 14 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost(APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2012	\$ 6,865,720	100%	\$0.00
6/30/2011	\$ 6,655,681	100%	\$0.00
6/30/2010	\$ 5,396,038	100%	\$0.00

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 77.89% funded. The actuarial accrued liability for benefits was \$137.06 million, and the actuarial value of assets was \$106.75 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$30.31 million. The covered payroll (annual payroll of active employees covered by the plan) was \$43.35 million, and the ratio of the UAAL to the covered payroll was 69.91 percent.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to AAL’s for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$ 106,753	\$ 137,058	\$ 30,306	77.89%	\$ 43,351	69.91%
July 1, 2009	\$ 84,793	\$ 109,152	\$ 24,359	77.68%	\$ 38,821	62.75%
July 1, 2007	\$ 77,538	\$ 93,093	\$ 15,555	83.29%	\$ 36,938	42.11%

Prior to April 1, 1993, the City was the administrator of a single-employer public employee retirement system (PERS) established and administered by the City to provide pension benefits for its employees. Current retirees and former employees vested in the City's PERS were not eligible to join TCRS. Annuities were purchased for these individuals from Plan assets, effective September 1, 1993.

8. OTHER POST EMPLOYMENT BENEFITS

The Departments implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2008. These provisions were applied prospectively with respect to the Departments' postemployment benefit plans. GASB Statement No. 45 requires the accrual of other postemployment benefit obligations over the working careers of plan members rather than as benefits are paid.

Plan Description - The Departments are part of the City of Clarksville's Retired Employees' Benefit Plan ("Plan"), hereafter, the Plan will refer to the Departments portion of the City plan . The Plan is a single-employer defined benefit medical, dental, and life insurance plan administered by the City of Clarksville. The plan is provided for in Section 1-1340 through Section 1-1348 of the Official Code of the City of Clarksville. The Plan provides medical, dental, and life insurance benefits to eligible retirees. Retirees are able to obtain medical and dental insurance at the City group rates for their spouses. Employees hired prior to July 1, 1997 must have attained the age of 55 and accrued at least 5 years of service (including any unused sick leave) or have at least 20 years of service (including any unused sick leave) to be eligible for benefits provided by the Plan. Employees hired on or after July 1, 1997 but before July 1, 2006 must have attained the age of 55 and accrued at least 10 years of service (including any unused sick leave) to be eligible. Employees hired on or after July 1, 2006 are not eligible under the Plan. The Plan has a total of 231 participants of which 64 are retired participants and 167 are active participants. The Plan does not issue a publicly available financial report that includes financial statements and required supplementary information.

Funding Policy - The contribution requirements of the Departments is determined by an actuary study performed as of July 1, 2010. The level of actual funding is determined by the Clarksville City Council during the budget process. The City Council approved funding the estimated cost of insurance for current premiums. The City will continue to pay current premiums on a pay-as-you-go basis. Funds approved in fiscal year 2012 were sufficient to pay the current cost of premiums for other post employment benefits for eligible retirees in fiscal year 2012. For fiscal year 2012 and 2011, the Departments paid a total of \$309,776 and \$304,093, respectively, for current premiums for retiree insurance coverage.

Annual OPEB Cost and Net OPEB Obligation - The Departments annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement 45. The ARC 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 liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 15.49% of annual covered payroll.

The following table shows the components of the Departments' annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Departments' net OPEB obligation:

Net OPEB Obligation- July 1	\$ 4,173,700
Annual Required Contribution	1,367,706
Interest on Net OPEB Obligation	166,948
Adjustment on Annual Required Contribution	<u>(176,129)</u>
Annual OPEB Cost	<u>1,358,525</u>
Employer Payments for Retiree Benefits	<u>(309,776)</u>
Total Contribution	<u>(309,776)</u>
Increase in Net OPEB Obligation	<u>1,048,749</u>
Net OPEB Obligation- June 30	<u>\$ 5,222,449</u>

The Departments annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2011 and 2010 is as follows:

Fiscal Year End	Annual OPEB Cost	Annual Required Contribution	Actual Contributions	% of ARC Contributed	Net Ending OPEB Obligation (Asset)
6/30/2010	\$ 1,682,961	\$ 1,328,201	\$ 293,696	22.11%	\$ 2,958,149
6/30/2011	\$ 1,215,551	\$ 1,320,385	\$ 304,093	23.03%	\$ 4,173,700
6/30/2012	\$ 1,048,749	\$ 1,367,706	\$ 309,776	22.65%	\$ 5,222,449

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$18.74 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$18.74 million. The covered payroll (annual payroll of active employees covered by the plan) was \$8.83 million, and the ratio of the UAAL to the covered payroll was 212.20 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the health and dental care, and life insurance cost trend. Amounts actuarially determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and as new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - 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 each valuation and the historical pattern of cost sharing between the employer and plan members. 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.

In the July 1, 2010 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is the rate of the expected long-term investment returns on the plan's assets, and an annual healthcare cost trend rate of 10.5 percent initially, reduced by uniform decrements to an ultimate rate of 5.0 percent over an eleven year period. Dental costs are assumed to increase 4.0 percent annually. The rate of inflation (assumed rate of increase in payroll) was assumed at 4.0 percent. The actuarial value of assets was not applicable to the actuarial valuation. The UAAL is being amortized as a level percentage of projected payroll. The plan is closed to any employees hired on or after July 1, 2006. The remaining amortization period as of the July 1, 2010 study date was thirty years.

9. SELF-INSURANCE

The City, with the exception of the Department of Electricity, is self-insured for worker's compensation and automobile liability claims. The City withdrew from the Worker's Compensation statute and has implemented an "on-the-job" injury program. The City must pay all medical and related expenses of injured employees including 75% of the employee's salary. The City is subject to the Governmental Tort Liability Act (T.C.A. 29-20-101 to 29-20-407), which sets the maximum liability at \$700,000 per occurrence and \$300,000 per individual.

The City is also self-insured on its general liability claims and maintains reinsurance for claims in excess of \$1,000,000 and up to \$5,000,000 annual aggregate. The policy of the City is to recognize as an expense, claims actually filed plus claims estimated by the City to have been incurred but not yet reported based on historical data. This expense is charged to other funds when claims are actually paid. At June 30, 2012, the amount of these estimated insurance liabilities was \$1,573,912. Changes in the reported liability are as follows:

	Balance at Beginning of <u>Fiscal Year</u>	Claims and Changes in <u>Estimates</u>	Claim <u>Payments</u>	Balance at End of <u>Fiscal Year</u>
2001-2002	753,000	724,204	522,006	955,198
2002-2003	955,198	576,618	629,407	902,409
2003-2004	902,409	358,474	416,213	844,670
2004-2005	844,670	2,251,075	738,245	2,357,500
2005-2006	2,357,500	1,010,989	1,062,389	2,306,100
2006-2007	2,306,100	2,494,518	1,365,618	3,435,000
2007-2008	3,435,000	333,897	3,197,336	571,561
2008-2009	571,561	1,918,111	464,324	2,025,348
2009-2010	2,025,348	2,185,320	1,983,450	3,118,008
2010-2011	3,118,008	(206,471)	710,537	2,201,000
2011-2012	2,201,000	895,127	1,522,215	1,573,912

10. COMMITMENTS AND CONTINGENCIES

The Departments have contractual commitments for various construction projects totaling \$43.4 million as of June 30, 2012.

Effective January 31, 2004, the Gas Department entered into an easement agreement with the U.S. Department of the Army that expires on January 30, 2053. Pursuant to this contract, the Gas Department will manage the construction, operation, maintenance, repair or replacement of the natural gas utility system at Fort Campbell Army post. The Gas Department will be compensated for these services on a cost-plus basis.

The Departments are exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. See note 9 for information on self-insurance.

The Departments are parties to various lawsuits, many of which occur in the normal course of governmental operations. The ultimate outcome of the actions is not determinable; however, the Departments' management and legal counsel believes that the ultimate outcome, either singularly or in the aggregate, will not have a material adverse effect on the accompanying financial statements. The Departments exposure to property loss and general

liability is handled through the purchase of commercial insurance. Insurance coverage was adequate to cover settlements for the past three fiscal years.

On June 27, 2006, The Natural Gas Acquisition Corporation of the City of Clarksville issued bonds of \$240,525,000. The bonds were issued to purchase for the City of Clarksville Gas Department (“CGW”) \$218,834,969 of prepaid natural gas and for the Humphreys County Utility District (“HCUD”) \$21,216,030 of prepaid natural gas. The bonds were issued to purchase a 15-year supply of natural gas from Merrill Lynch Commodities, Inc. The contracts between NGAC and CGW and between NGAC and HCUD guarantee a minimum discount to index of thirty cents per MMBtu. An additional fifteen cents per MMBtu is available, first, to pay operating expenses of NGAC, and second, to provide CGW and HCUD additional savings at the discretion of the NGAC Board of Directors. In order to structure the initial prepayment, both CGW and HCUD determined the quantity of natural gas needed on a monthly basis for fifteen years. A fixed natural gas curve was then determined by Merrill Lynch Commodities, Inc., based on a proprietary forward natural gas curve at the time of the pricing of the bonds, which when multiplied by the prepaid quantity, resulted in the amount needed to fund the prepayment. On a monthly basis, over the life of the delivery schedule, if the current market price is less than the prepaid price then CGW and HCUD will receive additional gas up to the initial monthly dollar amount funded. Alternatively, if the market price is higher than the prepaid price then CGW and HCUD receive a lower quantity of gas. Over the 15-year period of the prepayment, CGW is expected to receive 37,362,903 MMBtus of natural gas and HCUD is expected to receive 3,786,410 MMBtus of natural gas. Those amounts will fluctuate based on future natural gas prices as described above.

On February 23, 2012 the Sewer Department received a Tennessee Department of Environment and Conservation (TDEC) Commissioner issued enforcement order (this order supersedes all requirements of previous Commissioner’s order in 2004). From the period September 2011 through November 2011 the Sewer Department’s wastewater discharges exceeded TDEC National Pollutant Discharge Elimination System Permit limits and provisions. In order to comply with TDEC Commissioner’s order, the Sewer Department must develop several response and corrective action plans, complete assessments and maintenance, construct and rehabilitate flood damaged sewer treatment plants, and issue reports on the status of the compliance with the order. All projects are to be completed by December 31, 2016. The consequences of not complying with the Commissioner’s order include civil penalties up to \$287,300 total. In addition, noncompliance with the order could be a factor in future enforcement actions. The Sewer Department currently estimates it will cost approximately \$15 million to comply with this consent order with \$2 million being spent in fiscal year 2013. Noncompliance with the order is not anticipated.

The Federal Energy Regulatory Commission (FERC) regulates the rates charged to the Department for the transportation and storage of natural gas. FERC has retroactively adjusted charges in the past and may do so in the future. No estimate of any future adjustments can be made. However, the Departments have been able to pass through past adjustments approved by FERC. Management believes any further rate adjustments will be recovered through amounts charged to affected customers.

11. DEFEASED DEBT

On June 28, 2001, the Departments issued Sewer and Gas Revenue Refunding and Improvement Bonds, Series 2001, to, among other things, refund \$1,130,000 Series 1991 Bonds, refund \$7,244,138 Series 1992 capital appreciation bonds, and refund \$10,200,000 Series 1997 bonds. Sufficient proceeds were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the balance sheet. At June 30, 2012 and 2011, bonds outstanding of \$2,046,947 and \$2,260,710, respectively, were considered defeased.

On April 25, 2011 the City of Clarksville issued \$67,645,000 in water, sewer and gas revenue refunding bonds, series 2011, with interest rates ranging from 3% to 5%. The bonds were issued to (i) currently refund 2001 and 2004 series bonds, (ii) fund a debt service reserve fund, (iii) pay the termination fee related to the interest rate swap agreement on the 2004 series bonds and (iv) pay the cost of issuing the 2011 series bonds.

12. FLOOD RECOVERY

Excessive rainfall on May 1st and 2nd, 2010 resulted in the Cumberland River eventually cresting at 62.58 feet, well above the flood stage of 46 feet. This resulted in extensive damage to the wastewater treatment facility and several components of the wastewater collection system. Work is continuing on all the affected components of the treatment system and it will likely be 2015 before all permanent solutions are in place.

For funding purposes, the Federal Emergency Management Agency (FEMA) has divided the damages into smaller components referred to as projects. Since many of the projects are considered “improved projects” the Departments need to await approval from FEMA before beginning the work. The Departments were notified that many of the projects at the wastewater treatment plant had been defunded by FEMA. The reason for the defunding was related to flood plain elevations at the plant. The Departments have retained legal counsel and the defunded projects are currently being appealed.

The Departments estimate the total cost of the recovery will be in excess of \$130 million. The projects defunded represent the majority of the costs related to the flood. The approved projects total approximately \$1.4 million and the Departments expect to recover those costs. Completion of the projects at the Waste Water Treatment Plant is not anticipated before December 2015. The Departments have spent approximately \$55 million to date.

13. LEASES

The Departments have entered into a number of leases, and with the exception of the non-cancelable leases, these leases have cancellation provisions and are renewable on monthly basis. Rent payments for all types of leases during the years ended June 30, 2012 and 2011 were \$957,683 and \$2,465,069.

Future minimum lease payments under non-cancelable leases are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Minimum</u> <u>Lease Payments</u>
2013	\$ 4,740
2014	4,740
2015	4,740
2016	4,740
2017	790
Total	<u>\$ 19,748</u>

14. UNRESTRICTED NET ASSETS

The statement of net assets-gas department reports unrestricted net assets of \$17,521,253 and \$17,624,857, of which \$1,541,525 and \$1,219,717 is designated by the management for meeting other post employment benefits (OPEB) for the years ended June 30, 2012 and 2011, respectively.

The statement of net assets-water and sewer department reports unrestricted net assets of \$2,396,905, all of which is designated by the management for meeting other post employment benefits (OPEB) for the year ended June 30, 2012.

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 2012

SCHEDULE OF FUNDING PROGRESS FOR PENSION PLAN

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$ 106,753	\$ 137,058	\$ 30,306	77.89%	\$ 43,351	69.91%
July 1, 2009	\$ 84,793	\$ 109,152	\$ 24,359	77.68%	\$ 38,821	62.75%
July 1, 2007	\$ 77,538	\$ 93,093	\$ 15,555	83.29%	\$ 36,938	42.11%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into affect during the year of the 2007 actuarial valuation.

SEE AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 2012

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS

Plan Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/2010	\$ -	\$ 15,516,612	\$ 15,516,612	0.00%	\$ 8,375,362	185.26%
6/30/2011	\$ -	\$ 17,666,725	\$ 17,666,725	0.00%	\$ 8,475,429	208.45%
6/30/2012	\$ -	\$ 18,739,920	\$ 18,739,920	0.00%	\$ 8,831,152	212.20%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

A. Plan Description

The Schedule of Funding Progress is reported as historical trend information. The Schedule of Funding Progress is presented to measure the progress being made to accumulate sufficient assets to pay benefits when due.

The comparability of trend information may be 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 net post employment benefit obligation as a factor.

B. Summary of Actuarial Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation Date	July 1, 2010
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Basis
Asset Valuation Method	Not Applicable

Actuarial Assumptions:

Investment Rate of Return	4%
Salary Increase Rate	4%
Health Care Cost Trend Rate	10.5%; 5% ultimate
Dental Insurance Cost Trend Rate	4%
Life Care Cost Trend Rate	3%

SEE AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE
 JUNE 30, 2012

<u>CFDA Number</u>	<u>Governmental Agency/ Program Name</u>	<u>Contract Number</u>	<u>Beginning (Receivables) 7/1/2010</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Ending (Receivables) 6/30/2011</u>
<u>Tennessee Department of Military,</u>						
<u>Tennessee Emergency Management Agency</u>						
97.036	FEMA Disaster# 1909	34101-0000006186	\$ (13,830)	\$ 103,708	\$ 153,641	* \$ (63,763)
<u>Tennessee Department of Finance and Administration</u>						
Passed through the Industrial Development Board of the Montgomery County						
N/A	State Reimbursement Grant-Hemlock	SBC Project No. 529/000-04-2009	<u>(1,621,566)</u>	<u>20,202,971</u>	<u>21,068,398</u>	<u>(2,486,993)</u>
	Total Awards		<u>\$ (1,635,396)</u>	<u>\$ 20,306,679</u>	<u>\$ 21,222,039</u>	<u>\$ (2,550,756)</u>

NOTES – Basis of Presentation

This schedule of federal and state financial assistance includes the grant activity of the City of Clarksville, Tennessee, Gas Department and Water and Sewer Department and is presented on the accrual basis of accounting.

Compliance Audit Scope

Audit procedures on compliance requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133 were performed as part of the Single Audit of the City of Clarksville, Tennessee. These procedures encompass funds accounted for in the City's governmental and enterprise funds, including the Departments. This schedule has been provided to comply with State of Tennessee reporting requirements. The audit report on compliance requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 will be issued in conjunction with the audit of the City of Clarksville and will encompass federal/state awards received by the Departments.

*Under GASBS Number 33, Voluntary Non-Exchange Transactions are accounted for in the period when all eligibility requirements have been met. At June 30, 2012 and 2011, certain eligibility requirements, relative to flood recovery expenditures, had not been met. These expenditures, therefore, have not been included in this schedule, either as expenditures or receivables, until the period during which all eligibility criteria have been met. Expenditures incurred in 2010 and 2011, for which the eligibility requirements have been met, are included in this schedule.

SEE AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
DIRECTORY OF UTILITY COMMITTEE AND MANAGEMENT PERSONNEL
(UNAUDITED)
JUNE 30, 2012

PUBLIC UTILITY COMMITTEE

Jeff Burkhart	Chairperson
James R. Lewis	Committee Member
Marc Harris	Committee Member

MANAGEMENT PERSONNEL

Pat Hickey	General Manager
Fred Klein	Chief Financial Officer
Brian Goodwin	Engineering Manager
Michael Young	Manager - Gas Division
Chris Lambert	Manager - Water & Sewer Division
Charlie Gentry	Manager - Shared Services

SEE AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 SCHEDULE OF BONDS, NOTES AND INTEREST MATURITIES (JOINTLY ISSUED)
 (UNAUDITED)
 JUNE 30, 2012

Years Ending June 30,	Series 2002		Series 2007		Series 2011		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
		4.65-5.25%		4.35%		3%-5%		
2013	\$ 1,495,000	\$ 528,200	\$ 2,320,000	\$ 2,549,800	\$ 1,950,000	\$ 2,857,050	\$ 5,765,000	\$ 5,935,050
2014	1,570,000	453,500	2,420,000	2,433,800	1,995,000	2,798,550	5,985,000	5,685,850
2015	1,645,000	372,600	2,545,000	2,312,800	2,060,000	2,718,750	6,250,000	5,404,150
2016	1,735,000	287,100	3,220,000	2,185,550	2,545,000	2,615,750	7,500,000	5,088,400
2017	1,830,000	196,900	4,295,000	2,024,550	1,745,000	2,488,500	7,870,000	4,709,950
2018	1,920,000	100,800	4,505,000	1,809,800	1,830,000	2,401,250	8,255,000	4,311,850
2019	-	-	4,935,000	1,584,550	3,740,000	2,309,750	8,675,000	3,894,300
2020	-	-	5,145,000	1,374,813	3,915,000	2,122,750	9,060,000	3,497,563
2021	-	-	5,370,000	1,149,718	4,090,000	1,927,000	9,460,000	3,076,718
2022	-	-	4,780,000	908,069	5,210,000	1,722,500	9,990,000	2,630,569
2023	-	-	1,270,000	692,969	11,815,000	1,462,000	13,085,000	2,154,969
2024	-	-	1,325,000	637,406	12,185,000	989,400	13,510,000	1,626,806
2025	-	-	1,385,000	579,436	12,550,000	502,000	13,935,000	1,081,436
2026	-	-	1,445,000	518,842	-	-	1,445,000	518,842
2027	-	-	1,505,000	455,625	-	-	1,505,000	455,625
2028	-	-	1,575,000	387,900	-	-	1,575,000	387,900
2029	-	-	1,645,000	317,025	-	-	1,645,000	317,025
2030	-	-	1,720,000	243,000	-	-	1,720,000	243,000
2031	-	-	1,800,000	165,600	-	-	1,800,000	165,600
2032	-	-	1,880,000	84,600	-	-	1,880,000	84,600
	<u>\$ 10,195,000</u>	<u>\$ 1,939,100</u>	<u>\$ 55,085,000</u>	<u>\$ 22,415,852</u>	<u>\$ 65,630,000</u>	<u>\$ 26,915,250</u>	<u>\$ 130,910,000</u>	<u>\$ 51,270,202</u>

SEE AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
SCHEDULE OF BONDS, NOTES AND INTEREST MATURITIES (JOINTLY ISSUED) (CONT'D)
(UNAUDITED)
JUNE 30, 2012

Years	TMBF1994		SRF97-1042004		DWF 01-044		TMBF2005		TMBF2010		Totals	
Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
		0.53%		3.22%		2.76%		0.82%		0.93%		
2013	\$ 771,000	\$ 13,135	\$ 1,852,104	\$ 670,800	\$ 246,912	\$ 91,700	\$ 1,322,295	\$ 358,425	\$ -	\$ 263,874	\$ 4,192,311	\$1,397,934
2014	825,000	9,048	1,912,548	610,300	253,812	84,800	1,388,409	347,585	28,251,965	263,874	32,631,734	1,315,607
2015	882,000	4,676	1,974,972	547,900	260,904	77,700	1,457,830	336,203	-	-	4,575,706	966,479
2016	-	-	2,039,436	483,500	268,200	70,400	1,530,721	324,253	-	-	3,838,357	878,153
2017	-	-	2,106,000	416,900	275,700	62,900	1,607,257	311,704	-	-	3,988,957	791,504
2018	-	-	2,174,736	348,200	283,404	55,200	1,687,620	298,529	-	-	4,145,760	701,929
2019	-	-	2,245,704	277,200	291,324	47,300	1,772,001	284,694	-	-	4,309,029	609,194
2020	-	-	2,319,012	203,900	299,472	39,200	1,860,601	270,168	-	-	4,479,085	513,268
2021	-	-	2,394,696	128,200	307,836	30,800	1,953,631	254,915	-	-	4,656,163	413,915
2022	-	-	2,472,852	50,000	316,440	22,200	2,051,313	238,900	-	-	4,840,605	311,100
2023	-	-	209,678	600	325,284	13,300	2,153,879	222,084	-	-	2,688,841	235,984
2024	-	-	-	-	306,162	4,200	2,261,573	204,428	-	-	2,567,735	208,628
2025	-	-	-	-	-	-	2,374,651	185,888	-	-	2,374,651	185,888
2026	-	-	-	-	-	-	2,493,384	166,422	-	-	2,493,384	166,422
2027	-	-	-	-	-	-	2,618,053	145,982	-	-	2,618,053	145,982
2028	-	-	-	-	-	-	2,748,956	124,520	-	-	2,748,956	124,520
2029	-	-	-	-	-	-	2,886,403	101,985	-	-	2,886,403	101,985
2030	-	-	-	-	-	-	3,030,724	78,323	-	-	3,030,724	78,323
2031	-	-	-	-	-	-	3,182,260	53,478	-	-	3,182,260	53,478
2032	-	-	-	-	-	-	3,341,373	27,392	-	-	3,341,373	27,392
	<u>\$ 2,478,000</u>	<u>\$ 26,859</u>	<u>\$ 21,701,738</u>	<u>\$ 3,737,500</u>	<u>\$ 3,435,450</u>	<u>\$ 599,700</u>	<u>\$ 43,722,934</u>	<u>\$ 4,335,878</u>	<u>\$ 28,251,965</u>	<u>\$ 527,748</u>	<u>\$ 99,590,087</u>	<u>\$ 9,227,685</u>

SEE AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER SUPPLEMENTAL INFORMATION (UNAUDITED)
 JUNE 30, 2012

1. GAS RATES

Residential and Commercial

Listed below are the gas rates per 100 cubic feet effective June 1, 2012

Residential

	Within the City of Clarksville	Outside the City of Clarksville
First 300 Cubic Feet (Flat Rate)	\$ 6.39	\$ 6.89
Next 3,700 Cubic Feet	0.5768	0.7161
All Over 4,000 Cubic Feet	0.5198	0.6508
Minimum Bill	6.39	6.89

General Commercial and Industrial

	Within the City of Clarksville	Outside the City of Clarksville
First 500 Cubic Feet (Flat Rate)	\$ 9.40	\$ 10.49
Next 19,500 Cubic Feet	0.7136	0.8484
Next 180,000 Cubic Feet	0.5758	0.6935
All Over 200,000 Cubic Feet	0.5402	0.6535
Minimum Bill	9.40	10.49

Large Commercial and Industrial

	Within the City of Clarksville	Outside the City of Clarksville
First 10,400 Cubic Feet (Flat Rate)	\$ 86.33	\$ 100.54
Next 49,600 Cubic Feet	0.4866	0.5858
All Over 60,000 Cubic Feet	0.4446	0.5389
Minimum Bill	86.33	100.54

Number and Classification of Customers

Residential	21,301
Commercial	3,160
Industrial	12
	24,473

2. GAS SYSTEM CUSTOMER BASE AND USAGE

Fiscal Year	Residential	Commercial & Industrial	Total Customers	Revenue Residential	Revenue Comm/Ind	Total Revenue
2008	18,978	2,893	21,871	\$ 12,105,035	\$ 34,419,837	\$ 46,524,872
2009	19,314	2,909	22,223	11,699,017	33,678,410	45,377,427
2010	20,101	2,965	23,066	7,487,149	24,138,048	31,625,197
2011	20,967	3,143	24,110	8,412,564	22,222,683	30,635,247
2012	21,301	3,172	24,473	6,472,831	15,145,297	21,618,128

SEE AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER SUPPLEMENTAL INFORMATION (CONT'D) (UNAUDITED)
 JUNE 30, 2012

3. TEN LARGEST GAS SYSTEM CUSTOMERS

Customer	Annual Sales	Percentage of Total Sales
1 FLORIM USA INC	\$ 3,260,423	15%
2 MW-MB, LLC	1,861,039	9%
3 BRIDGESTONE METALPHA USA	949,083	4%
4 POST ENGINEERS	881,918	4%
5 CONTECH CASTINGS LLC	813,581	4%
6 AUSTIN PEAY STATE UNIV	577,950	3%
7 MCASPHALT LLC	377,248	2%
8 CLARKSVILLE MONT CO SCHOOL	352,723	2%
9 TRANE COMPANY	274,796	1%
10 CONWOOD CO L P	179,061	1%
Total Top Ten Customers	<u>\$ 9,527,822</u>	<u>44%</u>
Total Revenue from All Customers	<u>\$ 21,618,128</u>	<u>100%</u>

4. OPERATING HISTORY OF GAS SYSTEM

	2008	2009	2010	2011	2012
Operating Revenue	\$ 48,844,550	\$ 47,274,234	\$ 33,756,182	\$ 32,664,392	\$ 23,714,528
Operating Expense	45,786,140	39,815,145	34,752,863	31,344,408	23,141,248
Operating Income (Loss)	3,058,410	7,459,089	(996,681)	1,319,984	573,280
Other Income (Expense)	(73,486)	(470,335)	(611,635)	(633,800)	(558,150)
Operating Income (Loss) Before Contributions and Transfers	2,984,924	6,988,754	(1,608,316)	686,184	15,130
Capital Contributions	46,355	107	2,120,942	1,105,324	29,181
Transfers to Primary Government	(678,057)	(688,857)	(662,070)	(643,332)	(497,905)
Extraordinary Loss	-	-	(12,499)	-	-
Change in Net Assets	<u>\$ 2,353,222</u>	<u>\$ 6,300,004</u>	<u>\$ (161,943)</u>	<u>\$ 1,148,176</u>	<u>\$ (453,594)</u>

SEE AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER SUPPLEMENTAL INFORMATION (CONT'D) (UNAUDITED)
 JUNE 30, 2012

5. WATER RATES

Residential and Commercial

Listed below are the water rates per 1,000 gallons which became effective August 9, 2008

	<u>Within the City of Clarksville</u>	<u>Outside the City of Clarksville</u>
Per 1,000 gallons	\$ 3.54	\$ 7.08
Meter Charge per Month		
<u>Meter Size</u>	<u>Within the City of Clarksville</u>	<u>Outside the City of Clarksville</u>
Up to 3/4"	\$ 3.00	\$ 3.00
1"	5.00	5.00
1 1/2"	10.00	10.00
2"	16.00	16.00
3"	44.00	44.00
4"	84.00	84.00
6"	175.00	175.00
8"	175.00	175.00
10"	175.00	175.00
12" or Larger	Negotiated	Negotiated

Industrial

Listed below are the water rates per 1,000 gallons which became effective January 1, 2012

	<u>Within the City of Clarksville</u>	<u>Outside the City of Clarksville</u>
Per 1,000 gallons	\$ 4.1534	\$ 5.3995

Number and Classification of Customers

Residential	54,324
Commercial	4,070
Industrial	11
	<u>58,405</u>

6. WATER SYSTEM CUSTOMER BASE AND USAGE

<u>Fiscal Year</u>	<u>Number of Customers</u>	<u>Gallons into System (Thousands)</u>	<u>Gallons Sold (Thousands)</u>	<u>Total Revenue</u>
2008	51,035	5,443,805	4,262,070	\$ 16,574,119
2009	53,266	5,400,058	4,266,126	17,210,178
2010	52,588	5,483,395	4,011,681	17,497,501
2011	56,726	5,718,455	4,309,813	18,999,187
2012	58,405	5,847,638	4,434,753	\$ 19,673,265

SEE AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER SUPPLEMENTAL INFORMATION (CONT'D) (UNAUDITED)
 JUNE 30, 2012

7. TEN LARGEST WATER SYSTEM CUSTOMERS

	Customer	Annual Sales	% of Total Sales
1	WOODLAWN UTILITY DISTRICT	\$ 1,133,012	6%
2	HEMLOCK SEMICONDUCTOR LLC	309,335	2%
3	CLARKSVILLE MONT CO SCHOOL	269,003	1%
4	AUSTIN PEAY STATE UNIV	248,184	1%
5	BRIDGESTONE METALPHA USA	216,045	1%
6	MW-MB, LLC	207,463	1%
7	FREEMAN WEBB CLARKSVILLE NINE, LLC.	191,111	1%
8	CLARKSVILLE HOUSING AUTHORITY	165,542	1%
9	FLORIM USA INC	134,326	1%
10	TRANE COMPANY	134,037	1%
Total Top Ten Customers		\$ 3,008,058	15%
Total Revenue from All Customers		\$ 19,637,265	100%

8. SCHEDULE OF UNACCOUNTED FOR WATER

The Water Department tracks all water produced and then later metered and sold. The difference is considered unaccounted for water. The Water Department is continuing to implement conservation measures to mitigate unaccounted for water. Unaccounted for water for the fiscal year 2012 is as follows (all amounts in gallons):

Water Treated and Purchased:		
Water Pumped (potable)	5,847,638,000	
Water Purchased	0	
Total Water Treated and Purchased		5,847,638,000
Accounted for Water:		
Water Sold	4,434,752,900	
Metered for Consumption (in house usage)	70,507,826	
Fire Department(s) Usage	30,849,349	
Flushing	22,779,322	
Tank Cleaning/Filling	3,551,254	
Street Cleaning	42,067	
Bulk Sales	0	
Water Bill Adjustments/ plus or (minus)	0	
Total Accounted for Water		4,562,482,718
Unaccounted for Water		1,285,155,282
Percent Unaccounted for Water		21.98%
Other (explain)	See below	
Explain Other:	None	

All amounts in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

SEE AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER SUPPLEMENTAL INFORMATION (CONT'D) (UNAUDITED)
 JUNE 30, 2012

9. SEWER RATES

Residential and Commercial

Listed below are the water rates per 1,000 gallons which became effective July 1, 2009

	Within the City of Clarksville	Outside the City of Clarksville
First 2,000 gallons	\$ 5.61	\$ 10.45
All over 2,000 gallons	5.61	9.34

Minimum bill per month based on 2,000 gallons

Industrial

Listed below are the water rates per 1,000 gallons which became effective January 1, 2012

	Within the City of Clarksville	Outside the City of Clarksville
Fist 300,000 gallons	\$ 10.4238	\$ 13.5509
Next 700,000 gallons	10.42	12.51
Next 2,000,000 gallons	10.42	11.47
All over 3,000,000 gallons	10.42	10.42

Minimum bill per month based on 300,000 gallons

Number and Classification of Customers

Residential	47,261
Commercial	3,185
Industrial	7
	50,453

10. SEWER SYSTEM CUSTOMER BASE AND USAGE

Fiscal Year	Number of Customers	Usage (Thousand Gallons)		Total Revenue
2008	43,135	3,218,071	\$	17,254,869
2009	45,578	3,106,280		19,865,731
2010	46,780	3,047,704		21,703,953
2011	48,964	3,289,675		22,875,390
2012	50,453	3,444,105		24,244,986

SEE AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER SUPPLEMENTAL INFORMATION (CONT'D) (UNAUDITED)
 JUNE 30, 2012

11. TEN LARGEST SEWER SYSTEM CUSTOMERS

Customer	Annual Sales	Percentage of Total Sales
1 TRANE COMPANY	\$ 436,045	2%
2 AKEBONO BRAKE, CLARKSVILLE PLANT	350,455	1%
3 CLARKSVILLE MONT CO SCHOOL	347,105	1%
4 AUSTIN PEAY STATE UNIV	266,489	1%
5 FREEMAN WEBB CLARKSVILLE NINE, LLC.	262,559	1%
6 CLARKSVILLE HOUSING AUTHORITY	253,457	1%
7 MW-MB, LLC	188,970	1%
8 BRIDGESTONE METALPHA USA	182,171	1%
9 TN WASTE WATER SYSTEMS, INC	122,440	1%
10 MONTGOMERY CO JAIL	83,965	0%
Total Top Ten Customers	<u>\$ 2,493,657</u>	<u>10%</u>
Total Revenue from All Customers	<u>\$ 24,244,986</u>	<u>100%</u>

12. OPERATING HISTORY OF WATER AND SEWER SYSTEM

	2008	2009	2010	2011	2012
Operating Revenue	\$ 38,192,012	\$ 42,057,880	\$ 44,625,593	\$ 47,251,209	\$ 50,079,914
Operating Expense	28,238,613	30,525,061	34,216,295	41,772,977	37,713,250
Operating Income (Loss)	9,953,399	11,532,819	10,409,298	5,478,232	12,366,664
Other Income (Expense)	(6,604,037)	(8,322,782)	(6,769,033)	(6,541,187)	(6,981,541)
Operating Income (Loss) Before Contributions and Transfers	3,349,362	3,210,037	3,640,265	(1,062,955)	5,385,123
Capital Contributions	15,530,249	8,503,759	14,496,199	17,340,780	34,107,184
Transfers to Primary Government	(1,731,603)	(1,994,706)	(2,125,308)	(2,174,943)	(2,391,924)
Extraordinary Loss	-		(13,536,279)	-	
Change in Net Assets	<u>\$ 17,148,008</u>	<u>\$ 9,719,090</u>	<u>\$ 2,474,877</u>	<u>\$ 14,102,882</u>	<u>\$ 37,100,383</u>

SEE AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER SUPPLEMENTAL INFORMATION (CONT'D) (UNAUDITED)
 JUNE 30, 2012

13. HISTORICAL REVENUE COVERAGE- DEBT SERVICE REQUIREMENTS

	2008	2009	2010	2011	2012
Operating Revenue	\$ 87,036,562	\$ 89,332,114	\$ 78,381,775	\$ 79,915,601	\$ 73,794,442
Operating Expense	74,024,753	70,340,206	68,969,158	73,117,395	60,854,498
Operating Income (Loss) (GAAP Basis)	13,011,809	18,991,908	9,412,617	6,798,206	12,939,944
Add: Depreciation	11,725,008	12,686,503	13,343,784	16,068,398	14,239,301
Add: Other Income (Expense) Excluding Interest Expense	1,507,988	584,796	258,813	617,554	375,596
Net Revenue per Bond Resolution	<u>\$ 26,244,805</u>	<u>\$ 32,263,207</u>	<u>\$ 23,015,214</u>	<u>\$ 23,484,158</u>	<u>\$ 27,554,841</u>
 <i>Debt Service Requirements</i>					
Principal	\$ 9,712,681	\$ 8,137,263	\$ 9,619,913	\$ 8,791,760	\$ 9,272,772
Interest	7,514,187	9,097,355	7,388,097	7,557,135	7,439,165
Total Debt Service	<u>\$ 17,226,868</u>	<u>\$ 17,234,618</u>	<u>\$ 17,008,010</u>	<u>\$ 16,348,895</u>	<u>\$ 16,711,937</u>
 Debt Coverage	 1.52	 1.87	 1.35	 1.44	 1.65

14. BILLING AND COLLECTIONS

Monthly bills for gas, water and sewer are calculated by the department. The data is then sent to a third party who prints and mails the invoices. Bills are due 10 days after the billing date. If a customer has not paid by the due date, a 10% penalty is applied. If a bill has not been paid 20 days after the bill is due, the customer's service is discontinued.

Unpaid bills are sent to a collection agency and if the bill remains outstanding after 1 year, the balance is charged to allowance for doubtful accounts.

Amounts charged to Allowance for Doubtful Accounts

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 205,853
2009	334,867
2010	201,729
2011	113,103
2012	150,601

SEE AUDITOR'S REPORT.

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER SUPPLEMENTAL INFORMATION (CONT'D) (UNAUDITED)
 JUNE 30, 2012

15. HISTORICAL REVENUE COVERAGE- DEBT SERVICE REQUIREMENTS

Proposed Water Projects

Fiscal Year	Amount
2013	\$ 5,984,000
2014	1,250,000
2015	1,500,000
2016	1,500,000
2017	1,500,000
Total	<u>\$ 11,734,000</u>

Proposed Sewer Projects

Fiscal Year	Amount
2013	\$ 49,367,000
2014	32,405,000
2015	14,607,000
2016	7,000,000
2017	4,000,000
Total	<u>\$ 107,379,000</u>

Proposed Gas Projects

Fiscal Year	Amount
2013	\$ 9,875,000
2014	9,100,000
2015	1,300,000
2016	1,600,000
2017	1,600,000
Total	<u>\$ 23,475,000</u>

SEE AUDITOR'S REPORT.



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

To the Utility Committee
Clarksville Gas, Water & Sewer
Clarksville, Tennessee

We have audited the financial statements of the Gas Department, and Water and Sewer Department (collectively, “the Departments”) of the City of Clarksville, Tennessee, as of and for the year ended June 30, 2012 and 2011, and have issued our report thereon dated November 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Comptroller of the Treasury, State of Tennessee, as detailed in the Audit Manual.

Internal Control Over Financial Reporting

Management of the Departments is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Departments’ internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Departments’ internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Departments’ internal control over financial reporting.

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.

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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Departments’ 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Utility Committee, City Council, others within the entity, and federal or state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Thurman Campbell Group, PLC

November 28, 2012