

CITY OF CLARKSVILLE, TENNESSEE

GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT

AUDITED FINANCIAL STATEMENTS AND OTHER INFORMATION JUNE 30, 2014 AND 2013



CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
JUNE 30, 2014 AND 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Gas Department, and Water and Sewer Department (collectively, "the Departments") proprietary funds of the City of Clarksville, Tennessee, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Departments' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gas Department, and Water and Sewer Department of the City of Clarksville, Tennessee, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As discussed in Note A, the financial statements present only the Gas Department, and Water and Sewer Department proprietary funds of the City of Clarksville, Tennessee, and do not purport to, and do not present fairly the financial position of the City of Clarksville, TN, as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Departments' basic financial statements. The directory of utility committee and management personnel, schedule of bonds, and interest maturities, schedule of notes and interest maturities, and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Tennessee, and is also not a required part of the basic financial statements.

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



The directory of utility committee and management personnel, schedule of bonds and interest maturities, schedule of notes and interest maturities, and other supplemental Information have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014, 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* in considering the Departments' internal control over financial reporting and compliance.

Crosslin + Associates, P.C.

Nashville, Tennessee
November 19, 2014

CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014 AND 2013

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 ended June 30, 2014 and 2013. 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 position increased by \$3.05M (6.0%). Volumes were 8.0% higher due to a colder than usual winter and commodity prices averaged 16.6% higher than the previous year.
- Water and Sewer Department's total net position increased by \$27.29M (13.0%). Operating income was 14.2% higher than last year primarily due to an increase in sewer service charges.

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 Position include all of the Departments' assets and deferred outflows of resources less liabilities and deferred inflows of resources with the difference being net position. Net position is presented in three components: net investment in capital assets, restricted and unrestricted. This report provides 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 Position. 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 U.S. 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 POSITION

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Departments' activities for the year. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the Departments are improving or deteriorating. However, other non-financial factors such as economic conditions, weather, and changes in legislation should be considered.

Summaries of each department's Statement of Net Position are presented below. As shown, the net position of the Gas Department increased by \$3.06 million from 2013 to 2014. The increase is attributed to an 8.0% increase in volumetric gas sales combined with slightly lower operating costs (excluding the cost of gas).

The net position of the Water & Sewer Department increased by \$27.29 million from 2013 to 2014. Capital assets increased from \$422.56 million in 2013 to \$446.50 million in 2014. For the year-ended 2014, the department received contributions of \$8.50 million in capital assets (in 2013 capital contributions were \$17.45 million). The decline in contributed capital is related to the completion of infrastructure projects to supporting the new Hemlock Semiconductor facility. The expansion of the water treatment plant was the final phase of the overall infrastructure improvements.

Table A-1

City of Clarksville, Tennessee
 Gas Department and Water & Sewer Department
 Condensed Statements of Net Position (In Millions)
 6/30/2014

	Gas Department			Water & Sewer Department		
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 27.44	\$ 25.28	\$ 23.39	\$ 55.73	\$ 36.75	\$ 36.70
Capital Assets	43.02	42.66	43.19	446.50	422.56	396.77
Total Assets	\$ 70.46	\$ 67.94	\$ 66.58	\$ 502.23	\$ 459.31	\$ 433.47
Current and other liabilities	\$ 5.73	\$ 5.59	\$ 4.80	\$ 34.61	\$ 28.23	\$ 28.49
Long-term liabilities	10.59	11.27	11.96	230.54	221.29	212.94
Total liabilities	16.32	16.86	16.76	265.15	249.52	241.43
Net investment in capital assets - as restated	31.68	30.82	30.73	196.35	187.86	174.69
Restricted net position	1.58	1.57	1.57	18.50	16.12	14.95
Unrestricted net position	20.88	18.69	17.52	22.23	5.81	2.40
Total net position	54.14	51.08	49.82	237.08	209.79	192.04
Total liabilities and net position	\$ 70.46	\$ 67.94	\$ 66.58	\$ 502.23	\$ 459.31	\$ 433.47

REVENUES, EXPENSES AND CHANGES IN NET POSITION

While the Statements of Net Position shows the change in assets and liabilities, the Statements of Revenue, Expenses and Changes in Net Position detail the nature and source of these changes. Revenues for the Gas Department are generated primarily by gas usage. Weather conditions can have a significant impact on revenue since heating accounts for a significant portion of gas usage. The method used to determine gas usage for heating 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 2014 were 4,652 and for FYE 2013 there were 4,197 degree-days.

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 2014, the Gas Department responded to 705 odor complaints. A total of 122 regulator stations and 247 large commercial and industrial gas meters were tested and maintained.

The water construction department made 154 main repairs and 261 service line repairs in FYE 2014. They also replaced 2,159 feet of main, 2,498 feet of service line and 18 valves. There were 110 repairs and 23 replacements of fire hydrants.

The sewer construction department scheduled and cleaned 202,492 feet of main and 8,104 feet of lateral lines. On an emergency basis, 132,309 feet of mains and 16,236 feet of laterals were cleaned. They inspected, by closed circuit television, 110,118 feet of mains and 19,142 feet of laterals. Repairs were made to 1,136 feet and 3,215 feet of main and lateral lines respectively. Further, the sewer construction department located 130 services and installed 217 clean outs. The sewer construction department also raised, lowered, or located 62 manholes and installed or replaced 12 manholes. Other work included smoke testing 14 lines and cleaning 33 rights of way.

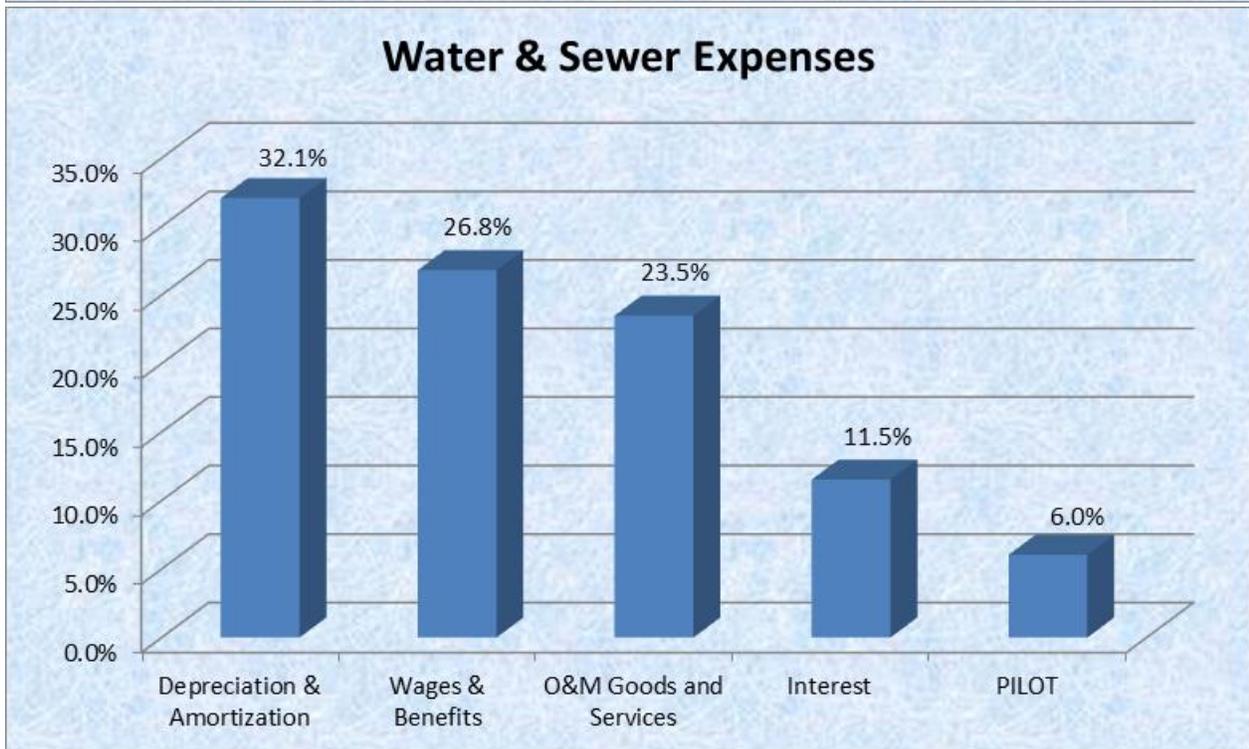
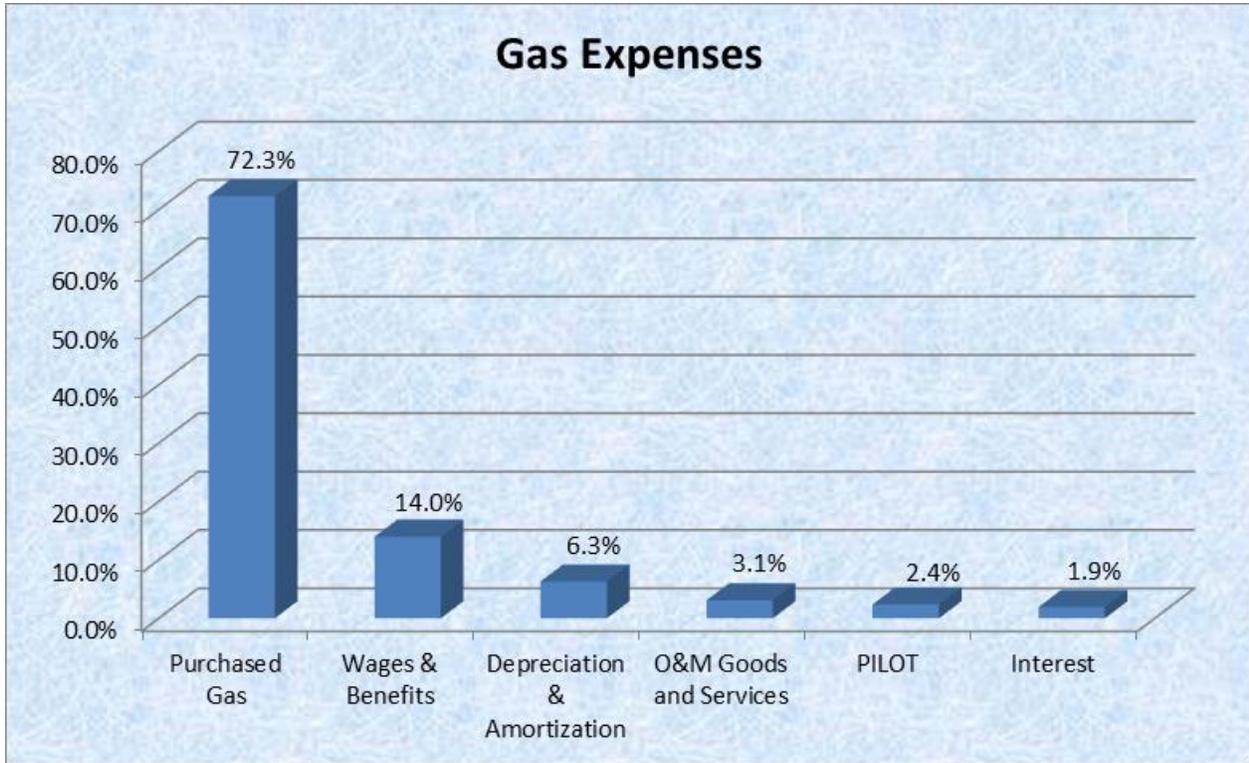
Table A-2

City of Clarksville, Tennessee
Gas Department and Water & Sewer Department
Condensed Statements of Revenues, Expenses & Changes in Net Position (In Millions)
6/30/2014

	Gas Department			Water & Sewer Department		
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 30.28	\$ 24.91	\$ 23.71	\$ 50.16	\$ 47.74	\$ 50.08
Operating expenses	26.23	22.57	23.14	39.20	38.14	37.71
Operating income	<u>4.05</u>	<u>2.34</u>	<u>0.57</u>	<u>10.96</u>	<u>9.60</u>	<u>12.37</u>
Non-operating expenses	(0.44)	(0.46)	(0.47)	10.67	(6.71)	(6.16)
Income before contributions and transfers	<u>3.61</u>	<u>1.88</u>	<u>0.10</u>	<u>21.63</u>	<u>2.89</u>	<u>6.21</u>
Capital contributions	0.07	-	0.03	8.50	17.45	34.11
Inter-fund transfers	(0.63)	(0.62)	(0.50)	(2.84)	(2.58)	(2.39)
Changes in net position	<u>3.05</u>	<u>1.26</u>	<u>(0.37)</u>	<u>27.29</u>	<u>17.76</u>	<u>37.93</u>
Net position - beginning	51.08	49.82	50.19	209.79	192.03	154.10
Net position - ending	<u>\$ 54.13</u>	<u>\$ 51.08</u>	<u>\$ 49.82</u>	<u>\$ 237.08</u>	<u>\$ 209.79</u>	<u>\$ 192.03</u>

EXPENSES

The following charts show the major areas of operating expenses of each of department for the year ended June 30, 2014.



CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2014, the Gas Department had \$43.02 million in net capital assets and the Water and Sewer Departments had \$446.50 million of 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.

Table A-3
City of Clarksville, Tennessee
Gas Department
Capital Assets (in Millions)
6/30/2014

	2014	2013	Dollar Change	Percent Change
Construction in Progress	\$ 2.03	\$ 0.60	\$ 1.43	238.3%
Land	0.23	0.22	0.01	4.5%
Building	1.58	1.42	0.16	11.3%
Infrastructure	37.59	38.84	(1.25)	-3.2%
Machinery and Equipment	1.10	1.28	(0.18)	-14.1%
Vehicles	0.49	0.30	0.19	63.3%
	<u>\$ 43.02</u>	<u>\$ 42.66</u>	<u>\$ 0.36</u>	<u>0.8%</u>

Table A-4
City of Clarksville, Tennessee
Water and Sewer Department
Capital Assets (in Millions)
6/30/2014

	2014	2013	Dollar Change	Percent Change
Construction in Progress	\$ 42.10	\$ 20.13	\$ 21.97	109.1%
Land	5.27	4.93	0.34	6.9%
Building	54.72	56.05	(1.33)	-2.4%
Infrastructure	314.18	309.37	4.81	1.6%
Machinery and Equipment	28.69	30.59	(1.90)	-6.2%
Vehicles	1.54	1.49	0.05	3.3%
	<u>\$ 446.50</u>	<u>\$ 422.56</u>	<u>\$ 23.94</u>	<u>5.7%</u>

LONG-TERM DEBT

Long-term debt increased for FYE 2014 due to drawing funds from the Tennessee Municipal Bond Fund Loan to finance various projects at the waste-water treatment facility of the Municipality. At year-end, the Departments had long-term debt of \$242.72 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 Position
June 30, 2014 and 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Current Assets		
Cash and Cash Equivalents	\$ 23,585,296	\$ 20,894,368
Accounts Receivable, Net	1,209,573	1,351,430
Inventory	1,023,648	1,422,784
Prepaid Expense	37,239	35,047
Total Current Assets	25,855,756	23,703,629
Noncurrent Assets		
Restricted Assets		
Cash and Cash Equivalents	489,894	490,046
Investments	1,086,310	1,083,268
Total Restricted Assets	1,576,204	1,573,314
Capital Assets		
Capital Assets Not Depreciated	2,251,913	821,593
Capital Assets Depreciated, Net	40,772,183	41,843,299
Total Capital Assets	43,024,096	42,664,892
Total Noncurrent Assets	44,600,300	44,238,206
Total Assets	\$ 70,456,056	\$ 67,941,835

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

City of Clarksville, Tennessee - Gas Department
Statements of Net Position
June 30, 2014 and 2013

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
Current Liabilities		
Accounts Payable	\$ 1,479,857	\$ 1,355,236
Contracts and Retainage	391	2,058
Accrued Interest Payable	208,590	221,517
Current Portion of Bonds Payable	670,900	641,350
Current Portion of Accrued Compensated Absences	152,961	150,989
Total Current Liabilities	2,512,699	2,371,150
Noncurrent Liabilities		
Accrued Compensated Absences (less current portion)	96,019	84,748
Bonds Payable (less current portion)	10,490,291	11,180,869
Total Noncurrent Liabilities	10,586,310	11,265,617
Other Noncurrent Liabilities		
OPEB Liability	2,004,042	1,829,411
Customer Deposits	1,218,985	1,395,207
Total Other Liabilities	3,223,027	3,224,618
Total Liabilities	16,322,036	16,861,385
Net Position		
Net Investment in Capital Assets	31,680,071	30,819,191
Restricted for Debt Reserve	1,576,204	1,573,314
Unrestricted Net Position	20,877,745	18,687,945
Total Net Position	54,134,020	51,080,450
Total Liabilities and Net Position	\$ 70,456,056	\$ 67,941,835

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

City of Clarksville, Tennessee - Gas Department
Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Sales	\$ 28,805,906	\$ 23,554,670
Fort Campbell Operations	612,864	665,297
Other Income	862,065	693,218
Total Operating Revenues	<u>30,280,835</u>	<u>24,913,185</u>
Operating Expenses:		
Purchased Gas	18,948,428	15,246,226
Transmission and Distribution	2,803,669	3,117,636
Administrative and General	1,140,215	1,203,904
Customer Service	827,909	653,226
Engineering	156,677	159,725
Depreciation	1,709,933	1,645,386
Fort Campbell Operations	525,985	443,874
Other Expenses	112,239	95,326
Total Operating Expenses	<u>26,225,055</u>	<u>22,565,303</u>
Operating Income	<u>4,055,780</u>	<u>2,347,882</u>
Non-operating Income (Expense)		
Interest Income	43,053	42,566
Other Income	20,064	23,948
Interest Expense	(518,713)	(548,013)
Amortization of Bond Premium	19,678	19,678
Total Non-operating Expense	<u>(435,918)</u>	<u>(461,821)</u>
Income before Contributions and Transfers	<u>3,619,862</u>	<u>1,886,061</u>
Contributions and Transfers		
Capital Contributions	71,252	4,180
Transfers to Primary Government	(637,544)	(631,950)
Total Contributions and Transfers	<u>(566,292)</u>	<u>(627,770)</u>
Change in Net Position	<u>3,053,570</u>	<u>1,258,291</u>
Net Position - Beginning of Year	<u>51,080,450</u>	<u>49,822,159</u>
Net Position - End of Year	<u>\$ 54,134,020</u>	<u>\$ 51,080,450</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

City of Clarksville, Tennessee - Gas Department
Statements of Cash Flows
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Customers	\$ 30,422,692	\$ 24,434,552
Payments to Suppliers of Goods or Services	(20,109,540)	(15,955,487)
Payments to Employees for Services	(3,921,169)	(3,694,471)
Payments Connected with Interfund Services	(112,239)	(95,326)
<i>Net cash provided by operating activities</i>	6,279,744	4,689,268
<u>Cash Flows from Non-Capital and Related Financing Activities:</u>		
Other Income (Expense)	26,604	(11,690)
Transfers to City General (In lieu of tax payment)	(637,544)	(631,950)
<i>Net cash used by noncapital financing activities</i>	(610,940)	(643,640)
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Capital Contributions	71,252	4,180
Proceeds from Sale of Capital Assets	10,443	22,656
Debt Service Interest Paid	(531,640)	(559,708)
Debt Service Principal Paid	(641,350)	(615,950)
Purchase of Capital Assets	(1,929,786)	(1,088,842)
<i>Net cash used by capital and related financing activities</i>	(3,021,081)	(2,237,664)
<u>Cash Flows from Investing Activities:</u>		
Interest Received	43,053	42,566
<i>Net cash provided by investing activity</i>	43,053	42,566
Net Increase in Cash and Cash Equivalents	2,690,776	1,850,530
Cash and Cash Equivalents - Beginning of Year	21,384,414	19,533,884
Cash and Cash Equivalents - End of Year	\$ 24,075,190	\$ 21,384,414

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

City of Clarksville, Tennessee - Gas Department
Statements of Cash Flows
Years ended June 30, 2014 and 2013

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

	<u>2014</u>	<u>2013</u>
Operating Income	\$ 4,055,780	\$ 2,347,882
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,709,933	1,645,386
Changes in Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	141,857	(478,633)
Decrease in Inventory	399,136	455,435
Increase in Prepaid Assets	(2,192)	(10,674)
Increase in Accounts Payable	124,621	328,230
Adjustment for Capital Asset Related Accounts Payable	(159,376)	(23,482)
(Decrease) Increase in Contracts and Retainage	(1,667)	1,522
Increase (Decrease) in Accrued Compensated Absences	13,243	(22,106)
Increase in OPEB Liability	174,631	368,655
(Decrease) Increase in Customer Deposits	(176,222)	77,053
Net cash provided by operating activities	<u>\$ 6,279,744</u>	<u>\$ 4,689,268</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

City of Clarksville, Tennessee - Water and Sewer Department
Statements of Net Position
June 30, 2014 and 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and Cash Equivalents	\$ 15,187,748	\$ 16,848,579
Accounts Receivable, Net	2,992,369	2,781,202
Receivable - Federal Awards	18,155,915	0
Inventory	779,939	902,303
Prepaid Expense	122,251	105,515
Total Current Assets	37,238,222	20,637,599
Noncurrent Assets:		
Restricted Assets		
Cash and Cash Equivalents	6,731,984	4,385,579
Investments	11,767,140	11,734,190
Total Restricted Assets	18,499,124	16,119,769
Capital Assets:		
Capital Assets Not Depreciated	46,546,576	24,505,785
Capital Assets Depreciated, Net	399,950,272	398,050,834
Total Capital Assets	446,496,848	422,556,619
Total Noncurrent Assets	464,995,972	438,676,388
Total Assets	\$ 502,234,194	\$ 459,313,987

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

City of Clarksville, Tennessee - Water and Sewer Department
Statements of Net Position
June 30, 2014 and 2013

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
Current Liabilities		
Accounts Payable	\$ 10,214,208	\$ 3,728,387
Contracts and Retainage	1,188,083	1,655,748
Accrued Interest Payable	3,239,591	2,147,583
Current Portion of Bonds Payable	8,339,100	9,223,650
Current Portion of Notes Payable	2,339,830	2,213,409
Current Portion of Accrued Compensated Absences	455,550	481,635
Total Current Liabilities	25,776,362	19,450,412
Noncurrent Liabilities		
Accrued Compensated Absences (less current portion)	126,502	68,562
Bonds Payable (less current portion)	170,226,681	179,323,179
Notes Payable (less current portion)	60,187,493	41,894,230
Total Noncurrent Liabilities	230,540,676	221,285,971
Other Noncurrent Liabilities		
OPEB Liability	5,445,167	4,860,481
Customer Deposits	3,387,096	3,924,026
Total Other Liabilities	8,832,263	8,784,507
Total Liabilities	265,149,301	249,520,890
Net Position		
Net Investment in Capital Assets	196,352,600	187,864,077
Restricted for Debt Reserve	18,499,124	16,119,769
Unrestricted Net Position	22,233,169	5,809,251
Total Net Position, as restated	237,084,893	209,793,097
Total Liabilities and Net Position	\$ 502,234,194	\$ 459,313,987

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

City of Clarksville, Tennessee - Water and Sewer Department
Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Water Sales	\$ 18,948,359	\$ 18,859,895
Sewer Service Charges	25,183,697	23,278,728
Other Income - Water	3,070,827	2,891,023
Other Income - Sewer	2,956,876	2,708,903
Total Operating Revenues	<u>50,159,759</u>	<u>47,738,549</u>
Operating Expenses:		
Water Plant Operations	3,357,137	3,681,064
Water Transmission & Distribution	3,639,151	2,755,998
Sewer Treatment Plant Operations	3,823,265	4,515,666
Sewer Discharge Collection and Pumping	4,822,097	4,988,060
Customer Service	3,983,865	3,738,291
Administrative & General	2,265,381	2,474,170
Engineering	1,721,257	1,721,863
Depreciation	15,341,259	14,074,185
Other Expenses	246,273	194,157
Total Operating Expenses	<u>39,199,685</u>	<u>38,143,454</u>
Operating Income	<u>10,960,074</u>	<u>9,595,095</u>
Nonoperating Income (Expenses)		
Interest Income	75,651	80,670
Other Expense	(126,110)	(432,584)
Interest Expense	(8,198,819)	(6,626,311)
Amortization of Bond Premium	757,399	275,236
Total Nonoperating Income (Expense)	<u>(7,491,879)</u>	<u>(6,702,989)</u>
Income before Contributions and Transfers	<u>3,468,195</u>	<u>2,892,106</u>
Contributions and Transfers		
Capital Contributions - Water	4,421,175	10,932,945
Capital Contributions - Sewer	4,078,857	6,514,745
Transfers to Primary Government	(2,837,484)	(2,581,129)
Federal Awards	18,161,053	0
Total Contributions and Transfers	<u>23,823,601</u>	<u>14,866,561</u>
Change in Net Position	27,291,796	17,758,667
Net Position - Beginning of Year	<u>209,793,097</u>	<u>192,034,430</u>
Net Position - End of Year	<u>\$ 237,084,893</u>	<u>\$ 209,793,097</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

City of Clarksville, Tennessee - Water and Sewer Department
Statements of Cash Flows
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Customers	\$ 49,948,592	\$ 50,235,663
Payments to Suppliers of Goods or Services	(12,439,907)	(11,650,093)
Payments to Employees for Services	(11,977,216)	(11,534,428)
Payments Connected with Interfund Services	(247,841)	(192,589)
<i>Net cash provided by operating activities</i>	25,283,628	26,858,553
<u>Cash Flows from Non-Capital and Related Financing Activities:</u>		
Other Income (Expense)	(331,000)	(928,137)
Transfers to City General (In lieu of tax payment)	(2,837,484)	(2,581,129)
<i>Net cash used by noncapital financing activities</i>	(3,168,484)	(3,509,266)
<u>Cash flows from capital and related financing activities:</u>		
Proceeds from Long Term Debt	20,416,506	92,749,851
Capital Contributions	1,203,687	6,906,820
Proceeds from Sale of Fixed Assets	18,655	23,457
Debt Service Interest Paid	(7,347,813)	(6,922,750)
Debt Service Principle Paid	(11,437,059)	(82,379,533)
Purchase of Capital Assets	(24,359,197)	(32,500,561)
<i>Net cash used by capital and related financing activities</i>	(21,505,221)	(22,122,716)
<u>Cash Flows from Investing Activities:</u>		
Interest Received	75,651	80,670
<i>Net cash provided by investing activity</i>	75,651	80,670
Net Increase in Cash and Cash Equivalents	685,574	1,307,241
Cash and Cash Equivalents - Beginning of Year	21,234,158	19,926,917
Cash and Cash Equivalents - End of Year	\$ 21,919,732	\$ 21,234,158

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

City of Clarksville, Tennessee - Water and Sewer Department
Statements of Cash Flows
Years ended June 30, 2014 and 2013

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

	<u>2014</u>	<u>2013</u>
Operating Income	\$ 10,960,074	\$ 9,595,095
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	15,341,259	14,074,185
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(211,167)	2,497,114
Decrease (Increase) in Inventory	122,364	(29,741)
Increase in Prepaid Assets	(16,736)	(49,612)
Increase (Decrease) in Accounts Payable	6,488,958	(3,152,378)
Adjustment for Capital Asset Related Accounts Payable	(7,013,070)	3,158,950
Decrease in Contracts and Retainage	(467,665)	(34,072)
Increase (Decrease) in Accrued Compensated Absences	31,855	(11,747)
Increase (Decrease) in Deferred Connection Fees	-	(251,232)
Increase in OPEB Liability	584,686	1,098,788
Decrease in Customer Deposits	(536,930)	(36,797)
Net cash provided (used) by operating activities	<u>\$ 25,283,628</u>	<u>\$ 26,858,553</u>
Noncash Capital and Related Financing Activities		
Capital Contributed NonCash	\$ 7,296,345	10,540,870

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 Todd 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 proprietary funds, 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 resources 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 position.

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 U.S. 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, 2014 and June 30, 2013, were \$20,075,328 and \$17,693,083 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 are 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 and construction in progress 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 revenues of the departments are charges for providing water and sewer services and natural gas supply. This 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 statement of net position date is not recorded. Therefore, only billed revenues and expenses are 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 doubtful accounts was \$146,104 and \$105,628 as of June 30, 2014 and 2013, respectively. Bad debts are charged to expense using the allowance-for-bad-debt method. The Departments policy is to reserve 50% of all accounts 60 to 90 days past due and 100% for accounts more than 90 days past due. The bad debt expense for the years ended June 30, 2014 and 2013 was \$92,760 and \$91,548, respectively.

M. 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, 2014 and June 30, 2013, was \$518,713 and \$548,013 respectively. No interest was capitalized in either year. Interest expense was \$518,713 and \$548,013 for the years ended June 30, 2014 and June 30, 2013 respectively.

Total interest incurred for the Water and Sewer Department for the years ended June 30, 2014 and June 30, 2013, was \$8,453,233 and \$6,830,591 respectively. Interest capitalized was \$254,414 and \$204,280 and interest expense was \$8,198,819 and \$6,626,311, for the years ended June 30, 2014 and June 30, 2013, respectively.

N. 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.

O. Unamortized Discount, Premium and Debt Expense

Discounts and premiums are 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 issuance costs are expensed in the period that debt is incurred.

2. DEPOSITS AND INVESTMENTS

The City has adopted an official investment policy. 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 their deposits and investments may have one or more of the following risks:

- A. 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.
- B. 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.

- C. 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.
- D. 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, 2014 and 2013, the carrying amounts of the Departments' deposits were \$45,994,922 and \$42,618,572 and the bank balance of \$46,074,332 and \$42,658,395 was categorized as follows:

	Bank Balances	
	<u>6/30/2014</u>	<u>6/30/2013</u>
Insured by FDIC	\$ 448,747	\$ 626,851
Insured by Tennessee Bank Collateral Pool	19,372,492	19,407,236
Local Government Investment Pool	26,253,093	22,624,308
Total	<u>\$ 46,074,332</u>	<u>\$ 42,658,395</u>

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.

<u>Transfers From</u>	Transfers To City of Clarksville - General Fund	
	<u>6/30/2014</u>	<u>6/30/2013</u>
Gas Department	\$ 637,544	\$ 631,950
Water & Sewer Department	2,837,484	2,581,129
	<u>\$ 3,475,028</u>	<u>\$ 3,213,079</u>

4. CAPITAL ASSETS

A summary of changes in capital assets are as follows:

<u>Gas Department</u>	Balance 6/30/2013	Increases	Decreases	Balance 6/30/2014
Capital Assets Not Depreciated:				
Land and Land Rights	\$ 223,626	\$ -	\$ -	223,626
Construction in Progress	<u>597,967</u>	<u>2,069,138</u>	<u>(638,818)</u>	<u>2,028,287</u>
Total Capital Assets Not Depreciated	<u>821,593</u>	<u>2,069,138</u>	<u>(638,818)</u>	<u>2,251,913</u>
Capital Assets Depreciated:				
Building, Plant and Equipment	62,906,027	638,817	(76,000)	63,468,844
Less: Accumulated Depreciation	<u>(21,062,728)</u>	<u>(1,709,933)</u>	<u>76,000</u>	<u>(22,696,661)</u>
Total Capital Assets Depreciated, Net	<u>41,843,299</u>	<u>(1,071,116)</u>	<u>-</u>	<u>40,772,183</u>
Total Capital Assets, Net	<u>\$ 42,664,892</u>	<u>\$ 998,022</u>	<u>\$ (638,818)</u>	<u>\$ 43,024,096</u>
<u>Water and Sewer Department</u>				
Capital Assets Not Depreciated:				
Land and Land Rights	\$ 4,371,588	\$ 74,515	\$ -	\$ 4,446,103
Construction in Progress	<u>20,134,197</u>	<u>38,604,940</u>	<u>(16,638,664)</u>	<u>42,100,473</u>
Total Capital Assets Not Depreciated	<u>24,505,785</u>	<u>38,679,455</u>	<u>(16,638,664)</u>	<u>46,546,576</u>
Capital Assets Depreciated:				
Building, Plant and Equipment	532,225,367	16,638,664	(692,182)	548,171,849
Less: Accumulated Depreciation	<u>(134,174,533)</u>	<u>(15,341,259)</u>	<u>1,294,215</u>	<u>(148,221,577)</u>
Total Capital Assets Depreciated, Net	<u>398,050,834</u>	<u>1,297,405</u>	<u>602,033</u>	<u>399,950,272</u>
Total Capital Assets, Net	<u>\$ 422,556,619</u>	<u>\$ 39,976,860</u>	<u>\$ (16,036,631)</u>	<u>\$ 446,496,848</u>

Depreciation expense totaled \$17,051,192 and \$15,719,571 for the years ended June 30, 2014 and June 30, 2013 respectively. Of these amounts, \$1,709,933 and \$1,645,386 was charged to the Gas Department and \$15,341,259 and \$ 14,074,185 was charged to the Water and Sewer Departments for the years ended June 30, 2014 and June 30, 2013, respectively. Included in depreciation expense are charges for assets that were impaired or abandoned. The Gas Department charges were \$0 for the year ended June 30, 2014 and \$932 for the year ended June 30, 2013. The Water and Sewer Department charges were \$788,784 for the year ended June 30, 2014 and \$965,792 and for the year ended June 30, 2013.

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, 2014 is as follows:

	<u>Gas</u>	<u>Water & Sewer</u>
Series 2002 Water, Sewer, and Gas Revenue Refunding bonds due in annual installments of \$1,570,000 to \$1,920,000 to February 2018 at 5.15% to 5.25% interest	\$1,069,500	\$6,060,500
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	5,537,950	44,807,050
Series 2011 Water, Sewer and Gas Revenue Refunding bonds due in annual installments of \$1,950,000 to \$12,550,000 to February 2025 at 4.25% to 5.00% interest	4,317,950	57,367,050
Series 2013A Water, Sewer and Gas Revenue Refunding bonds due in annual installments of \$375,000 to \$3,740,000 to February 2038 at 3.00% to 5.00% interest	-	46,535,000
Series 2013B Water, Sewer and Gas Revenue Refunding bonds due in annual installments of \$2,760,000 to \$3,880,000 to February 2019 at 2.00% to 5.00% interest	-	14,500,000
Series 1994 TML Bond Pool Loan due in annual installments of \$825,000 to \$882,000 to February 2015 at a variable rate of interest	-	882,000
Series 2005 Tennessee Municipal Bond Fund Loan due in annual installments of \$1,388,409 to \$3,341,373 to May 2032 at variable rate of interest	-	41,012,230
Series 2013 Tennessee Municipal Bond Fund Loan due in a lump sum July 1, 2016 at variable rate of interest	-	20,633,093
Face Value of Long-Term Debt	<u>10,925,400</u>	<u>231,796,923</u>
Add: Premium	235,791	9,296,181
Less: Current Portion	(670,900)	(10,678,930)
Net Long-Term Debt	<u>\$10,490,291</u>	<u>\$230,414,174</u>

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, 2014 and June 30, 2013 principal and interest to maturity was \$322,122,132 and \$321,069,704 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.

Future payments on Long-Term Debt are as follows:

Year Ending June 30,	Bonds Payable	Notes Payable	Total Principal	Total Interest
2015	\$ 9,010,000	\$ 2,339,830	\$ 11,349,830	\$ 8,972,297
2016	10,345,000	22,163,814	32,508,814	8,244,067
2017	10,830,000	1,607,257	12,437,257	7,699,101
2018	11,335,000	1,687,620	13,022,620	7,168,812
2019	11,905,000	1,772,001	13,677,001	6,582,784
2020-2024	69,030,000	10,280,997	79,310,997	23,709,725
2025-2029	29,325,000	13,121,447	42,446,447	10,378,705
2030-2034	16,980,000	9,554,357	26,534,357	5,180,318
2035-2038	11,435,000	-	11,435,000	1,464,000
Total Long-Term Debt Including Current Portion	<u>\$ 180,195,000</u>	<u>\$ 62,527,323</u>	<u>\$ 242,722,323</u>	<u>\$ 79,399,809</u>

Changes in long-term debt and other noncurrent liabilities (including current portions) for the year ended June 30, 2014 were as follows:

<u>Gas Department and Water & Sewer Department</u>	Balance 6/30/2013	Additions	Reductions	Balance 6/30/2014	Amount Due Year Ending 6/30/2015
Accrued compensated absences	\$ 785,934	\$ 641,678	\$ (596,580)	\$ 831,032	\$ 608,511
Customer deposits	5,319,233	1,534,679	(2,247,831)	4,606,081	-
<u>Bonds and notes payable:</u>					
Bonds and notes	\$ 234,167,640	\$ 20,633,092	\$ (12,078,409)	\$ 242,722,323	\$ 11,349,830
Premiums on bonds	10,309,048	-	(777,076)	9,531,972	-
Total long-term debt and other non-current liabilities	<u>\$ 250,581,855</u>	<u>\$ 22,809,449</u>	<u>\$ (15,699,896)</u>	<u>\$ 257,691,408</u>	<u>\$ 11,958,341</u>

7. PENSION PLAN

Plan Description

Employees of the Departments 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 five 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 Departments have authorized Mandatory Retirement for its Public Safety Officers. Public Safety Officers can retire at age 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 become 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 five years of service and members joining prior to July 1, 1979 were vested after four 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 Departments participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues 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 Departments have adopted a noncontributory retirement plan for employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

The Departments are required to contribute at an actuarially determined rate; the rate for the fiscal years ending June 30, 2014 and 2013 were 15.43%, and 15.42%, respectively, of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirements for the Departments are established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the years ending June 30, 2014 the City's annual pension cost of \$7,241,024 to TCRS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2011 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 investments over a ten-year period. The Departments' unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 17 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2014	\$7,241,024	100%	\$0.00
6/30/2013	\$7,061,753	100%	\$0.00
6/30/2012	\$6,865,720	100%	\$0.00

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 79.50% funded. The actuarial accrued liability for benefits was \$154.50 million, and the actuarial value of assets was \$122.83 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$31.68 million. The covered payroll (annual payroll of active employees covered by the plan) was \$45.89 million, and the ratio of the UAAL to the covered payroll was 69.02 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.

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 when 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 222 participants of which 66 are retired participants and 156 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, 2012. 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 2014 were sufficient to pay the current cost of premiums for other post-employment benefits for eligible retirees in fiscal year 2014. For fiscal year 2014 and 2013, the Departments paid a total of \$380,251 and \$317,465, 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 14.27% 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:

Annual Required Contribution	\$ 1,415,610
Interest on Net OPEB Obligation	267,596
Actuarial Adjustments	(226,701)
Adjustment on Annual Required Contribution	<u>(316,937)</u>
Annual OPEB Expense	1,139,568
Contributions Made	<u>(380,251)</u>
Increase in Net OPEB Obligations	759,317
Net OPEB Obligation - beginning of year	<u>6,689,892</u>
Net OPEB Obligation - end of year	<u>\$ 7,449,209</u>

The Departments annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2013 and 2012 is as follows:

Fiscal Year End	Annual OPEB Cost	Annual Required Contribution	Employer Contributions	% of ARC Contributed	Net Ending OPEB Obligation (Asset)
6/30/2014	\$ 1,139,568	\$ 1,415,610	\$ 380,251	26.86%	7,449,209
6/30/2013	1,784,928	1,317,298	317,465	24.10%	6,689,892
6/30/2012	1,385,240	1,367,706	237,354	17.35%	5,222,429

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The Departments' portion of actuarial accrued liability for benefits was \$16.0 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$16.0 million. The covered payroll (annual payroll of active employees covered by the plan) was \$9.92 million, and the ratio of the UAAL to the covered payroll was 161.2 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, 2012 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 2.0 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, 2012 study date was 25 years.

9. SELF-INSURANCE

The Departments are exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions; injury to employees; and natural disasters.

The Departments are part of the City of Clarksville self-insurance plan for workers compensation and automobile liability. 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 Departments through the City are 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. At June 30, 2014, the amount of these estimated insurance liabilities recorded in the accounting records of the City was \$1,207,239. Changes in the reported liability for the last three fiscal years are as follows:

	Balance at Beginning of <u>Fiscal Year</u>	Claims and Changes in <u>Estimates</u>	Claim Payments	Balance at End of <u>Fiscal Year</u>
2011-2012	\$2,201,000	\$895,127	\$1,522,215	\$1,573,912
2012-2013	1,573,912	229,388	966,292	837,008
2013-2014	837,008	1,292,462	922,231	1,207,239

10. COMMITMENTS AND CONTINGENCIES

The Departments have contractual commitments for various construction projects totaling \$56.2 million as of June 30, 2014.

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 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.

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.

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 an additional \$5 million to comply with this consent order. To date, the Department has spent \$10 million. Noncompliance with the order is not anticipated.

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, 2014 and 2013, bonds outstanding of \$1,270,668 and \$1,644,041, respectively, were considered defeased.

On July 1, 2013, the City of Clarksville secured a loan agreement for up to \$50M through the Tennessee Municipal Bond Fund at a variable interest rate based on SIFMA. The loan is a draw loan for the purpose of financing the construction of the Waste Water Treatment Plant. As of June 30, 2014, \$29.3M remains available on the loan. The loan becomes due July 15, 2016, at which time the Departments intend to convert the full amount to long term debt.

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 2016 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. The Departments were notified in 2011 that many of the projects at the wastewater treatment plant had been defunded by FEMA. The Departments appealed the defunding and in May of 2014, were informed by FEMA that the appeal was successful and projects totaling \$18.1 million had been re-obligated.

The Departments estimate the total cost of the recovery will be in excess of \$130 million. Since FEMA will reimburse for actual costs, the Departments anticipated receiving an amount greater than the \$18.35 million listed on the project worksheets. Completion of the projects at the Waste Water Treatment Plant is not anticipated before April 2016. The Departments have spent approximately \$75 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, 2014 and 2013, were \$57,196 and \$322,402.

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>
2015	\$ 4,740
2016	4,740
2017	790
2018	-
2019	-
Total	<u>\$ 10,270</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF FUNDING PROGRESS (UNAUDITED)
 JUNE 30, 2014

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, 2013	\$ 122,828	\$ 154,504	\$ 31,676	79.50%	\$ 45,891	69.02%
July 1, 2011	\$ 106,753	\$ 137,058	\$ 30,306	77.89%	\$ 43,351	69.91%
July 1, 2009	\$ 84,793	\$ 88,205	\$ 3,412	96.13%	\$ 38,821	8.79%

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 effect 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
 SCHEDULES OF FUNDING PROGRESS (UNAUDITED)
 JUNE 30, 2014

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS

Plan Year Ending	Actuarial Value of 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)
6/30/2014	\$ -	\$ 15,999,029	15,999,029	0.00%	\$ 9,923,358	161.23%
6/30/2013	-	14,935,497	14,935,497	0.00%	9,728,782	153.52%
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, 2012
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	2%
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.

OTHER INFORMATION

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
 JUNE 30, 2014

CFDA Number	Governmental Agency/ Program Name	Contract Number	Beginning (Receivables) 7/1/2013	Receipts	Expenditures	Adjustments	Ending (Receivables) 6/30/2014
<u>Federal Awards:</u>							
	Department of Homeland Security Passed through the Tennessee Emergency Management Agency						
97.036 *	FEMA Disaster # 1909	34101-0000006186	(63,763)	-	10,520,590	(7,571,562)	(18,155,915)
<u>State Financial Assistance:</u>							
	Tennessee Department of Finance and Administration Passed through the Industrial Development Board of the Montgomery County						
N/A	State Reimbursement Grant-Hemlock	SBC Project No. 529/000-04-2009	(293,715)	661,122	1,080,774	-	(713,367)
	Total Awards		<u>\$ (357,478)</u>	<u>\$ 661,122</u>	<u>\$ 11,601,364</u>	<u>\$ (7,571,562)</u>	<u>\$ (18,869,282)</u>

* Tested as a major program

NOTES – Basis of Presentation

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

Compliance Audit Scope

This schedule has been provided to comply with OMB Circular A-133 and State of Tennessee reporting requirements.

CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
DIRECTORY OF UTILITY COMMITTEE AND MANAGEMENT PERSONNEL (UNAUDITED)
JUNE 30, 2014

PUBLIC UTILITY COMMITTEE

Jeff Burkhart	Chairperson
Valerie Guzman	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

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 SCHEDULE OF BONDS AND INTEREST MATURITIES (JOINTLY ISSUED) (UNAUDITED)
 JUNE 30, 2014

FYE June 30	Series 2002		Series 2007		Series 2011	
	Principal	Interest	Principal	Interest	Principal	Interest
	Fixed	5.15%-5.25%	Fixed	4.35%	Fixed	4.25%-5.0%
2015	1,645,000	372,600	2,545,000	2,312,800	2,060,000	2,718,750
2016	1,735,000	287,100	3,220,000	2,185,550	2,545,000	2,615,750
2017	1,830,000	196,900	4,295,000	2,024,550	1,745,000	2,488,500
2018	1,920,000	100,800	4,505,000	1,809,800	1,830,000	2,401,250
2019	-	-	4,935,000	1,584,550	3,740,000	2,309,750
2020	-	-	5,145,000	1,374,813	3,915,000	2,122,750
2021	-	-	5,370,000	1,149,718	4,090,000	1,927,000
2022	-	-	4,780,000	908,069	5,210,000	1,722,500
2023	-	-	1,270,000	692,969	11,815,000	1,462,000
2024	-	-	1,325,000	637,406	12,185,000	989,400
2025	-	-	1,385,000	579,436	12,550,000	502,000
2026	-	-	1,445,000	518,844	-	-
2027	-	-	1,505,000	455,625	-	-
2028	-	-	1,575,000	387,900	-	-
2029	-	-	1,645,000	317,025	-	-
2030	-	-	1,720,000	243,000	-	-
2031	-	-	1,800,000	165,600	-	-
2032	-	-	1,880,000	84,600	-	-
2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
2035	-	-	-	-	-	-
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
	<u>\$ 7,130,000</u>	<u>\$ 957,400</u>	<u>\$ 50,345,000</u>	<u>\$ 17,432,254</u>	<u>\$ 61,685,000</u>	<u>\$ 21,259,650</u>

FYE June 30	Series 2013A		Series 2013B		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
	Fixed	3.0%-5.0%	Fixed	2.0%-5.0%		
2015		2,259,700	2,760,000	611,750	9,010,000	8,275,600
2016		2,259,700	2,845,000	528,950	10,345,000	7,877,050
2017		2,259,700	2,960,000	415,150	10,830,000	7,384,800
2018		2,259,700	3,080,000	296,750	11,335,000	6,868,300
2019	375,000	2,259,700	2,855,000	142,750	11,905,000	6,296,750
2020	3,390,000	2,240,950			12,450,000	5,738,513
2021	3,565,000	2,071,450			13,025,000	5,148,168
2022	3,740,000	1,893,200			13,730,000	4,523,769
2023	1,625,000	1,706,200			14,710,000	3,861,169
2024	1,605,000	1,624,950			15,115,000	3,251,756
2025	1,670,000	1,557,800			15,605,000	2,639,236
2026	1,755,000	1,474,300			3,200,000	1,993,144
2027	1,840,000	1,389,100			3,345,000	1,844,725
2028	1,930,000	1,297,100			3,505,000	1,685,000
2029	2,025,000	1,200,600			3,670,000	1,517,625
2030	2,130,000	1,099,350			3,850,000	1,342,350
2031	2,210,000	1,014,150			4,010,000	1,179,750
2032	2,300,000	925,750			4,180,000	1,010,350
2033	2,410,000	818,750			2,410,000	818,750
2034	2,530,000	698,250			2,530,000	698,250
2035	2,655,000	571,750			2,655,000	571,750
2036	2,785,000	439,000			2,785,000	439,000
2037	2,925,000	299,750			2,925,000	299,750
2038	3,070,000	153,500			3,070,000	153,500
	<u>\$ 46,535,000</u>	<u>\$ 33,774,400</u>	<u>\$ 14,500,000</u>	<u>\$ 1,995,350</u>	<u>\$ 180,195,000</u>	<u>\$ 75,419,054</u>

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 SCHEDULE OF NOTES AND INTEREST MATURITIES (JOINTLY ISSUED) (UNAUDITED)
 JUNE 30, 2014

FYE June 30	1994 TML		TMBF 2005		TMBF 2013		Totals	
	Principal Variable	Interest 0.8885%	Principal Variable	Interest 0.8579%	Principal Variable	Interest 0.9033%	Principal	Interest
2015	882,000	506	1,457,830	339,941	-	356,250	2,339,830	696,697
2016	-	-	1,530,721	327,434	20,633,093	39,583	22,163,814	367,017
2017	-	-	1,607,257	314,301	-	-	1,607,257	314,301
2018	-	-	1,687,620	300,512	-	-	1,687,620	300,512
2019	-	-	1,772,001	286,034	-	-	1,772,001	286,034
2020	-	-	1,860,601	270,832	-	-	1,860,601	270,832
2021	-	-	1,953,631	254,869	-	-	1,953,631	254,869
2022	-	-	2,051,313	238,108	-	-	2,051,313	238,108
2023	-	-	2,153,879	220,510	-	-	2,153,879	220,510
2024	-	-	2,261,573	202,031	-	-	2,261,573	202,031
2025	-	-	2,374,651	182,629	-	-	2,374,651	182,629
2026	-	-	2,493,384	162,256	-	-	2,493,384	162,256
2027	-	-	2,618,053	140,865	-	-	2,618,053	140,865
2028	-	-	2,748,956	118,404	-	-	2,748,956	118,404
2029	-	-	2,886,403	94,820	-	-	2,886,403	94,820
2030	-	-	3,030,724	70,057	-	-	3,030,724	70,057
2031	-	-	3,182,260	44,056	-	-	3,182,260	44,056
2032	-	-	3,341,373	16,755	-	-	3,341,373	16,755
	\$ 882,000	\$ 506	\$ 41,012,230	\$ 3,584,415	\$ 20,633,093	\$ 395,833	\$ 62,527,323	\$ 3,980,755

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER INFORMATION (UNAUDITED)
 JUNE 30, 2014

1. GAS RATES

Listed below are the gas rates per 100 cubic feet effective June 1, 2014

	Residential	
	Within the City of Clarksville	Outside the City of Clarksville
First 300 Cubic Feet (Flat Rate)	\$ 7.8200	\$ 8.4200
Next 3,700 Cubic Feet	0.7618	0.9273
All Over 4,000 Cubic Feet	0.6941	0.8497
Minimum Bill	7.8200	8.4200

	General Commercial and Industrial	
	Within the City of Clarksville	Outside the City of Clarksville
First 500 Cubic Feet (Flat Rate)	\$ 11.5500	\$ 12.8500
Next 19,500 Cubic Feet	0.9243	1.0844
Next 180,000 Cubic Feet	0.7606	0.9004
All Over 200,000 Cubic Feet	0.6161	0.8529
Minimum Bill	11.5500	12.8500

	Large Commercial and Industrial	
	Within the City of Clarksville	Outside the City of Clarksville
First 10,400 Cubic Feet (Flat Rate)	\$ 110.5300	\$ 127.4100
Next 49,600 Cubic Feet	0.6547	0.7725
All Over 60,000 Cubic Feet	0.6047	0.7168
Minimum Bill	110.5300	127.4100

Number and Classification of Customers

Residential	21,887
Commercial	3,237
Industrial	12
	25,136

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER INFORMATION (UNAUDITED)
 JUNE 30, 2014

2. GAS SYSTEM CUSTOMER BASE AND USAGE

Fiscal Year	Total Customers	Gas Sold Mcf	Total Revenue Residential	Total Revenue Comm/Ind	Total Revenue	Miles of Gas Lines
2014	25,136	4,211,867	\$ 9,726,161	\$ 19,079,745	\$ 28,805,906	1,041
2013	24,652	3,901,631	7,569,057	15,985,613	23,554,670	1,031
2012	24,473	3,436,139	6,472,831	15,145,297	21,618,128	1,021
2011	24,110	4,520,922	8,412,564	22,222,683	30,635,247	1,022
2010	23,066	4,262,192	7,487,149	24,138,048	31,625,197	986

3. TEN LARGEST GAS SYSTEM CUSTOMERS

Customer	Annual Sales	Percentage of Total Sales
1 FLORIM USA INC	\$ 5,031,962	17.5%
2 MW-MB LLC	1,838,798	6.4%
3 BRIDGESTONE METALPHA USA	1,091,518	3.8%
4 AUSTIN PEAY STATE UNIV	850,306	3.0%
5 CLARKSVILLE MONT CO SCHOOL	567,636	2.0%
6 CONWOOD TOBACCO	517,406	1.8%
7 TRANE COMPANY	410,805	1.4%
8 MCASPHALT LLC	301,940	1.0%
9 AHC CLARKSVILLE INC	230,059	0.8%
10 CLARKSVILLE HOUSING AUTHORITY	200,098	0.7%
Total Top Ten Customers	\$ 11,040,528	38.4%
Total Revenue from All Customers	\$ 28,805,906	100.0%

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER INFORMATION (UNAUDITED)
 JUNE 30, 2014

4. OPERATING HISTORY OF GAS SYSTEM

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenue	\$ 30,280,835	\$ 24,913,185	\$ 23,714,528	\$ 32,664,392	\$ 33,756,182
Operating Expense	26,225,055	22,565,303	23,141,248	31,344,408	34,752,863
Operating Income (Loss)	4,055,780	2,347,882	573,280	1,319,984	(996,681)
Other Income (Expense)	(435,918)	(461,821)	(476,490)	(633,800)	(611,635)
Operating Income (Loss) Before					
Contributions and Transfers	3,619,862	1,886,061	96,790	686,184	(1,608,316)
Capital Contributions	71,252	4,180	29,181	1,105,324	2,120,942
Transfers to Primary Government	(637,544)	(631,950)	(497,905)	(643,332)	(662,070)
Extraordinary Loss	-	-	-	-	(12,499)
Change in Net Position	<u>\$ 3,053,570</u>	<u>\$ 1,258,291</u>	<u>\$ (371,934)</u>	<u>\$ 1,148,176</u>	<u>\$ (161,943)</u>

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER INFORMATION (UNAUDITED)
 JUNE 30, 2014

5. WATER RATES

Residential and Commercial

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

		Within the City of Clarksville	Outside the City of Clarksville
Per 1,000 gallons		\$ 3.54	\$ 7.08
		Within the City of Clarksville	Outside the City of Clarksville
Meter Charge per Month	<u>Meter Size</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, 2014

	Within the City of Clarksville	Outside the City of Clarksville
Per 1,000 gallons	\$ 4.3786	\$ 5.6921

Number and Classification of Customers

Residential	56,410
Commercial	4,250
Industrial	6
	60,666

6. WATER SYSTEM CUSTOMER BASE AND USAGE

Fiscal Year	Number of Customers	Gallons into System (Thousands)	Gallons Sold (Thousands)	Total Revenue	Miles of Water Lines
2014	60,666	5,692,170	4,186,288	\$ 18,948,359	1,037
2013	58,694	5,535,166	4,187,341	18,859,895	1,032
2012	58,405	5,847,638	4,434,753	19,673,265	1,030
2011	56,726	5,718,455	4,309,813	18,999,188	1,008
2010	52,588	5,483,395	4,011,681	17,497,501	992

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER INFORMATION (UNAUDITED)
 JUNE 30, 2014

7. TEN LARGEST WATER SYSTEM CUSTOMERS

Customer	Annual Sales	Percentage of Total Sales
1 WOODLAWN UTILITY DISTRICT	\$ 1,046,047	5.5%
2 HEMLOCK SEMICONDUCTOR LLC	287,129	1.5%
3 AUSTIN PEAY STATE UNIVERSITY	286,177	1.5%
4 BRIDGESTONE METALPHA USA	252,430	1.3%
5 CLARKSVILLE MONTGOMERY CO SCHOOL	242,758	1.3%
6 MW-MB LLC	227,432	1.2%
7 FREEMAN WEBB CLARKSVILLE NINE LLC	178,317	0.9%
8 FLORIM USA INC	164,658	0.9%
9 CLARKSVILLE HOUSING AUTHORITY	140,640	0.7%
10 GATEWAY MEDICAL CENTER	102,547	0.5%
Total Top Ten Customers	\$ 2,928,135	15.3%
Total Revenue from All Customers	\$ 18,948,359	100.0%

8. AWWA WATER SCHEDULE

AWWA WLCC Free Water Audit Software: Reporting Worksheet					
Copyright ©2010, American Water Works Association. All Rights Reserved.				WASv4.2	
<input type="button" value="Back to"/>					
Water Audit Report for: Clarksville Gas & Water Reporting Year: 2014 / 7/2013 - 6/2014					
Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades					
All volumes to be entered as: MILLION GALLONS (US) PER YEAR					
<< Enter grading in column 'E'					
WATER SUPPLIED					
	?	10	5,692.170	Million gallons (US)/yr (MG/Yr)	
Volume from own sources:					
Master meter error adjustment (enter positive value):				MG/Yr	
Water imported:		n/a	0.000	MG/Yr	
Water exported:		n/a	0.000	MG/Yr	
WATER SUPPLIED:			5,692.170	MG/Yr	
AUTHORIZED CONSUMPTION					
Billed metered:		10	4,186.288	MG/Yr	
Billed unmetered:		n/a	0.000	MG/Yr	
Unbilled metered:		10	63.546	MG/Yr	
Unbilled unmetered:		10	76.164	MG/Yr	
AUTHORIZED CONSUMPTION:			4,325.998	MG/Yr	
Click here: <input below<br="" buttons="" for="" help="" option="" type="button" using="" value="?"/> Use buttons to select percentage of water supplied OR value					
WATER LOSSES (Water Supplied - Authorized Consumption)					
			1,366.172	MG/Yr	
Apparent Losses					
Unauthorized consumption:		?	14.230	MG/Yr	
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed					
Customer metering inaccuracies:		?	8	223.675	MG/Yr
Systematic data handling errors:		?	10	10.706	MG/Yr
Apparent Losses:			248.612		
Real Losses (Current Annual Real Losses or CARL)					
Real Losses = Water Losses - Apparent Losses:		?	1,117.560	MG/Yr	
WATER LOSSES:			1,366.172	MG/Yr	
NON-REVENUE WATER					
NON-REVENUE WATER:			1,505.882	MG/Yr	
= Total Water Loss + Unbilled Metered + Unbilled Unmetered					
SYSTEM DATA					
Length of mains:		?	10	1,037.0	miles
Number of active AND inactive service connections:		?	9	64,607	
Connection density:		?	62	62	conn./mile main
Average length of customer service line:		?	6	10.0	ft
(pipe length between curbstop and customer customer meter or property boundary)					
Average operating pressure:		?	10	74.2	psi
COST DATA					
Total annual cost of operating water system:		?	10	\$17,396,003	\$/Year
Customer retail unit cost (applied to Apparent Losses):		?	9	\$10.54	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):		?	10	\$333.19	\$/Million gallons
PERFORMANCE INDICATORS					
Financial Indicators					
Non-revenue water as percent by volume of Water Supplied:				26.5%	
Non-revenue water as percent by cost of operating system:				17.5%	
Annual cost of Apparent Losses:				\$2,620,369	
Annual cost of Real Losses:				\$372,360	
Operational Efficiency Indicators					
Apparent Losses per service connection per day:				10.54	gallons/connection/day
Real Losses per service connection per day*:				47.39	gallons/connection/day
Real Losses per length of main per day*:				N/A	
Real Losses per service connection per day per psi pressure:				0.64	gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):		?			439.26
				million gallons/year	
From Above, Real Losses = Current Annual Real Losses (CARL):				1,117.56	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:				2.54	
* only the most applicable of these two indicators will be calculated					
WATER AUDIT DATA VALIDITY SCORE:					
*** YOUR SCORE IS: 94 out of 100 ***					
A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score					
PRIORITY AREAS FOR ATTENTION:					
Based on the information provided, audit accuracy can be improved by addressing the following components:					
1: Unauthorized consumption					
2: Customer metering inaccuracies					
3: Customer retail unit cost (applied to Apparent Losses)					
<input type="button" value="For more information, click here to see the Grading Matrix worksheet"/>					

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER INFORMATION (UNAUDITED)
 JUNE 30, 2014

9. SEWER RATES

Residential and Commercial

Listed below are the sewer rates per 1,000 gallons which became effective July 1, 2013

	Within the City of Clarksville	Outside the City of Clarksville
First 2,000 gallons	\$ 6.14	\$ 11.44
All over 2,000 gallons	6.14	10.23

Minimum bill per month based on 2,000 gallons

Industrial

Listed below are the sewer rates per 1,000 gallons which became effective January 1, 2014

	Within the City of Clarksville	Outside the City of Clarksville
Fist 300,000 gallons	\$ 8.9510	\$ 11.6363
Next 700,000 gallons	8.9510	10.7412
Next 2,000,000 gallons	8.9510	9.8461
All over 3,000,000 gallons	8.9510	8.9510

Minimum bill per month based on 300,000 gallons

Number and Classification of Customers

Residential	49,206
Commercial	3,303
Industrial	7
	52,516

10. SEWER SYSTEM CUSTOMER BASE AND USAGE

Fiscal Year	Number of Customers	Treated (Thousand Gallons)	Total Revenue	Miles of Sewer Lines
2014	52,516	3,642,597	\$ 25,183,697	915
2013	50,628	3,241,508	23,278,728	906
2012	50,453	3,444,105	24,244,986	893
2011	48,964	3,289,675	22,875,390	871
2010	46,780	3,047,704	21,703,953	860

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER INFORMATION (UNAUDITED)
 JUNE 30, 2014

11. TEN LARGEST SEWER SYSTEM CUSTOMERS

Customer	Annual Sales	Percentage of Total Sales
1 AUSTIN PEAY STATE UNIVERSITY	\$ 350,750	1.4%
2 CLARKSVILLE MONT CO SCHOOL	349,370	1.4%
3 FREEMAN WEBB CLARKSVILLE NINE LLC	264,049	1.0%
4 TRANE COMPANY	232,961	0.9%
5 CLARKSVILLE HOUSING AUTHORITY	232,304	0.9%
6 MW-MB LLC	221,494	0.9%
7 BRIDGESTONE METALPHA USA	202,936	0.8%
8 HEMLOCK SEMICONDUCTOR LLC	149,679	0.6%
9 JOSTENS	137,739	0.5%
10 TN WASTE WATER SYSTEMS, INC	112,124	0.4%
Total Top Ten Customers	\$ 2,253,406	8.9%
Total Revenue from All Customers	\$ 25,183,697	100.0%

12. OPERATING HISTORY OF WATER AND SEWER SYSTEM

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenue	\$ 50,159,759	\$ 47,738,549	\$ 50,079,914	\$ 47,251,210	\$ 44,625,593
Operating Expense	39,199,685	38,143,454	37,713,250	41,772,987	34,216,295
Operating Income (Loss)	10,960,074	9,595,095	12,366,664	5,478,223	10,409,298
Other Income (Expense)	(7,486,740)	(6,702,989)	(6,151,614)	(6,541,185)	(6,769,033)
Operating Income (Loss) Before Contributions and Transfers	3,473,334	2,892,106	6,215,050	(1,062,962)	3,640,265
Capital Contributions	8,500,032	17,447,690	34,107,184	17,340,780	14,496,199
Transfers to Primary Government	(2,837,484)	(2,581,129)	(2,391,924)	(2,174,943)	(2,125,308)
Federal Awards	18,161,053	-	-	-	-
Extraordinary Loss	-	-	-	-	(13,536,279)
Change in Net Position	\$ 27,296,935	\$ 17,758,667	\$ 37,930,310	\$ 14,102,875	\$ 2,474,877

CITY OF CLARKSVILLE, TENNESSEE
 GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
 OTHER INFORMATION (UNAUDITED)
 JUNE 30, 2014

13. HISTORICAL REVENUE COVERAGE- DEBT SERVICE REQUIREMENTS

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenue	\$ 80,440,594	\$ 72,651,734	\$ 73,794,442	\$ 79,915,602	\$ 78,381,775
Operating Expense	<u>65,424,740</u>	<u>60,708,757</u>	<u>60,854,498</u>	<u>73,117,395</u>	<u>68,969,158</u>
Operating Income (Loss) (GAAP Basis)	15,015,854	11,942,977	12,939,944	6,798,207	9,412,617
Add: Depreciation	17,051,192	15,719,571	14,239,301	16,068,397	13,343,784
Add: Other Income (Expense) Excluding Interest Expense	<u>794,874</u>	<u>(285,400)</u>	<u>375,596</u>	<u>617,545</u>	<u>258,813</u>
Net Revenue per Bond Resolution	\$ 32,861,920	\$ 27,377,148	\$ 27,554,841	\$ 23,484,149	\$ 23,015,214
 <i>Debt Service Requirements</i>					
Principal	\$ 12,078,409	\$ 9,957,330	\$ 9,272,772	\$ 8,791,760	\$ 9,619,913
Interest	<u>7,879,453</u>	<u>7,482,417</u>	<u>7,439,165</u>	<u>7,557,135</u>	<u>7,388,097</u>
Total Debt Service	\$ 19,957,862	\$ 17,439,747	\$ 16,711,937	\$ 16,348,895	\$ 17,008,010
 Debt Coverage	 1.65	 1.57	 1.65	 1.44	 1.35

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 20 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 10 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

Fiscal Year	Amount
2014	\$ 80,149
2013	99,839
2012	150,601
2011	113,103
2010	201,729

CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
OTHER INFORMATION (UNAUDITED)
JUNE 30, 2014

15. CAPITAL IMPROVEMENT PROGRAM

Proposed Water Projects

Fiscal Year	Amount
2015	\$ 1,410,000
2016	1,200,000
2017	1,500,000
2018	3,000,000
2019	3,000,000
Total	<u>\$ 10,110,000</u>

Proposed Sewer Projects

Fiscal Year	Amount
2015	\$ 46,948,000
2016	12,750,000
2017	9,250,000
2018	4,550,000
2019	5,450,000
Total	<u>\$ 78,948,000</u>

Proposed Gas Projects

Fiscal Year	Amount
2015	\$ 6,350,000
2016	9,100,000
2017	4,750,000
2018	1,300,000
2019	1,300,000
Total	<u>\$ 22,800,000</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Gas Department, and Water and Sewer Department (collectively, "the Departments"), proprietary funds of the City of Clarksville, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated November 19, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Departments' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.



To the Utility Committee
Clarksville Gas, Water & Sewer

Purpose of this Report

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

Crosslin + Associates, P.C.

Nashville, Tennessee
November 19, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of the Gas Department, and Water and Sewer Department (collectively, "the Departments"), proprietary funds of the City of Clarksville, Tennessee, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Departments' major federal programs for the year ended June 30, 2014. The Departments' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Departments' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Departments' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Departments' compliance.

Opinion on the Major Federal Program

In our opinion, the Departments complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.



Report on Internal Control over Compliance

Management of the Departments is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Departments' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Departments' internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crosslin + Associates, P.C.

Nashville, Tennessee
November 19, 2014

CITY OF CLARKSVILLE, TENNESSEE
GAS DEPARTMENT AND WATER AND SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
Material weakness(es) identified? yes x no
Significant deficiency(ies) identified not considered to
be material weaknesses? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? yes x no
Significant deficiency(ies) identified not considered to
be material weaknesses? yes x none reported

Type of auditor's report issued on compliance for
major programs: Unmodified

Any audit findings disclosed that are required to be reported
in accordance with Section 510(a) of Circular A-133? yes x no

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
97.036	FEMA Disaster #1909

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes x no

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None reported.

The Departments had no prior year findings as questioned costs.