

CITY OF CLARKSVILLE, TENNESSEE

GAS, WATER AND SEWER DEPARTMENTS

AUDITED FINANCIAL STATEMENTS AND OTHER INFORMATION JUNE 30, 2016 AND 2015



CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 JUNE 30, 2016 AND 2015

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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, Water and Sewer Departments (collectively, "the Departments") proprietary funds of the City of Clarksville, Tennessee, as of and for the year ended June 30, 2016 and 2015, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gas, Water and Sewer Departments of the City of Clarksville, Tennessee, as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As described in Note 1, the financial statements present only the Gas, Water and Sewer Departments, proprietary funds of the City of Clarksville, Tennessee, and does not purport to, and do not, present fairly the position of the City of Clarksville, TN as of June 30, 2016 and 2015, 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 changes in the net pension liability and related ratios and the schedule of pension contributions based on participation in the public employee pension plan of TCRS, 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Departments basic financial statements. The accompanying schedules of non-revenue water, 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 accompanying schedule of expenditures of federal awards and state financial assistance, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is also not a required part of the financial statements.

The schedule of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate 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 2016 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.



To the Utility Committee
Clarksville Gas, Water & Sewer

The schedule of non-revenue water, 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 audit 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 22, 2016, 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, PLLC

Nashville, Tennessee
November 22, 2016

CITY OF CLARKSVILLE, TENNESSEE
GAS, WATER AND SEWER DEPARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNADITED)
JUNE 30, 2016 AND 2015

The Gas, Water and Sewer Departments of the City of Clarksville Management's Discussion and Analysis is an overview of financial activities for the fiscal years ended June 30, 2016 and 2015. 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 the accompanying financial statements.

FINANCIAL HIGHLIGHTS

The Gas Department's volumes were down 7.2% and commodity prices averaged 33.7% lower than the previous year resulting in a minor (0.4%) change in net position.

The Water Department's revenues were relatively flat while net position increased 6.3% to \$119.73M

The Sewer Department's total net position increased by \$12.47M (9.3%), which includes federal awards of \$4.81M.

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 as 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 economic resources measurement focus and 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.

FINANCIAL ANALYSIS OF THE DEPARTMENTS

The Financial Statements of the Departments include only activities from our gas, water and 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.

CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNADITED)
 JUNE 30, 2016 AND 2015

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 \$0.24 million from 2015 to 2016. Volumetric gas sales were down 7.2% compared to 2015 and commodity prices were lower by 33.7%

From 2015 to 2016, the net position of the Water Department increased by \$7.12 million.

In 2016, the net position of the Sewer Department increased by \$12.47 million over 2015. This includes federal awards of \$4.81 million. Capital assets increased from \$302.87 million in 2014 to \$343.90 million in 2016 as the reconstruction of the waste water treatment plan nears completion.

Table A-1

City of Clarksville, Tennessee
 Gas, Water and Sewer Departments
 Condensed Statements of Net Position (In Millions)
 6/30/2016

	Gas Department			Water Department			Sewer Department		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Current and other assets	\$ 26.04	\$29.51	\$ 27.44	\$ 25.73	\$ 25.10	\$ 19.00	\$ 42.90	\$ 36.87	\$ 36.74
Capital assets	44.03	42.24	43.02	142.30	141.92	143.62	343.90	334.31	302.87
Deferred outflows	0.39	0.38	-	0.57	0.56	-	0.61	0.59	-
Total assets and deferred outflows	\$ 70.46	\$72.13	\$ 70.46	\$168.60	\$ 167.58	\$162.62	\$387.41	\$371.77	\$339.61
Current and other liabilities	\$ 2.24	\$ 2.08	\$ 2.51	\$ 4.47	\$ 4.58	\$ 4.52	\$ 15.85	\$ 17.15	\$ 21.26
Long-term liabilities	12.21	13.88	13.81	43.85	49.25	49.73	224.83	219.73	189.64
Deferred inflows	0.36	0.77	-	0.55	1.15	-	0.56	1.19	-
Total liabilities and deferred inflows	14.81	16.73	16.32	48.87	54.98	54.25	241.24	238.07	210.90
Net investment in capital assets	35.42	31.68	31.68	103.40	97.33	88.50	113.60	107.76	98.80
Restricted net position	1.36	1.62	1.58	5.05	5.80	5.64	11.79	13.23	12.86
Unrestricted net position	18.87	22.10	20.88	11.28	9.47	14.23	20.78	12.71	17.05
Total net position	55.65	55.40	54.14	119.73	112.60	108.37	146.17	133.70	128.71
Total liabilities, deferred inflows and net position	\$ 70.46	\$72.13	\$ 70.46	\$168.60	\$ 167.58	\$162.62	\$387.41	\$371.77	\$339.61

CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNADITED)
 JUNE 30, 2016 AND 2015

REVENUES, EXPENSES AND CHANGES IN NET POSITION

While the Statements of Net Position show the change in assets and deferred outflows of resources and liabilities and deferred inflows of resources, 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 2016 were 2,995 and for FYE 2015 there were 4,401 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 2016, the Gas Department responded to 707 odor complaints. A total of 107 regulator stations and 267 large commercial and industrial gas meters were tested and maintained. In addition, 35,329 feet of mains and 399 services were installed.

The Water Department made 76 main repairs and 350 service line repairs in FYE 2016. They also replaced 2,152 feet of mains and 7,379 feet of service lines. There were 67 repairs and 27 replacements of fire hydrants.

The Sewer Department cleaned 234,725 feet of mains and 8,984 feet of lateral lines. They inspected, by closed circuit television, 92,906 feet of mains and 23,336 feet of laterals. Repairs or replacements were made to 1,102 feet and 2,259 feet of mains and lateral lines, respectively.

Table A-2

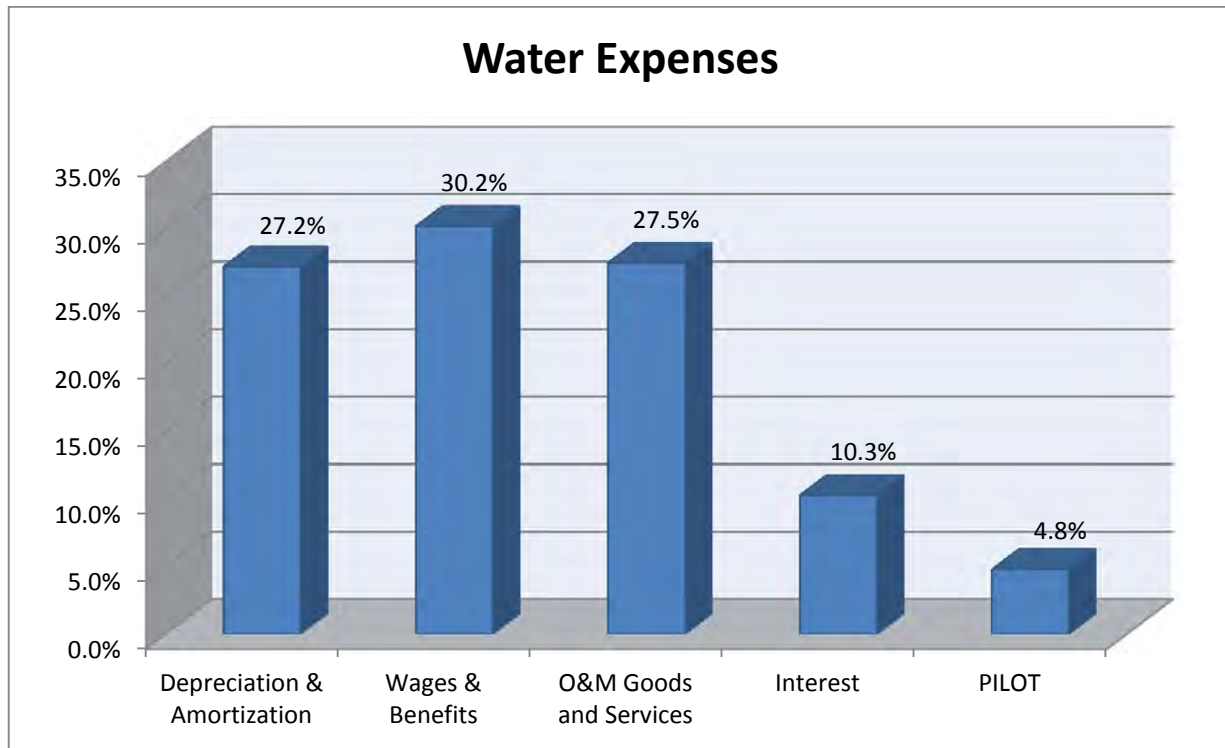
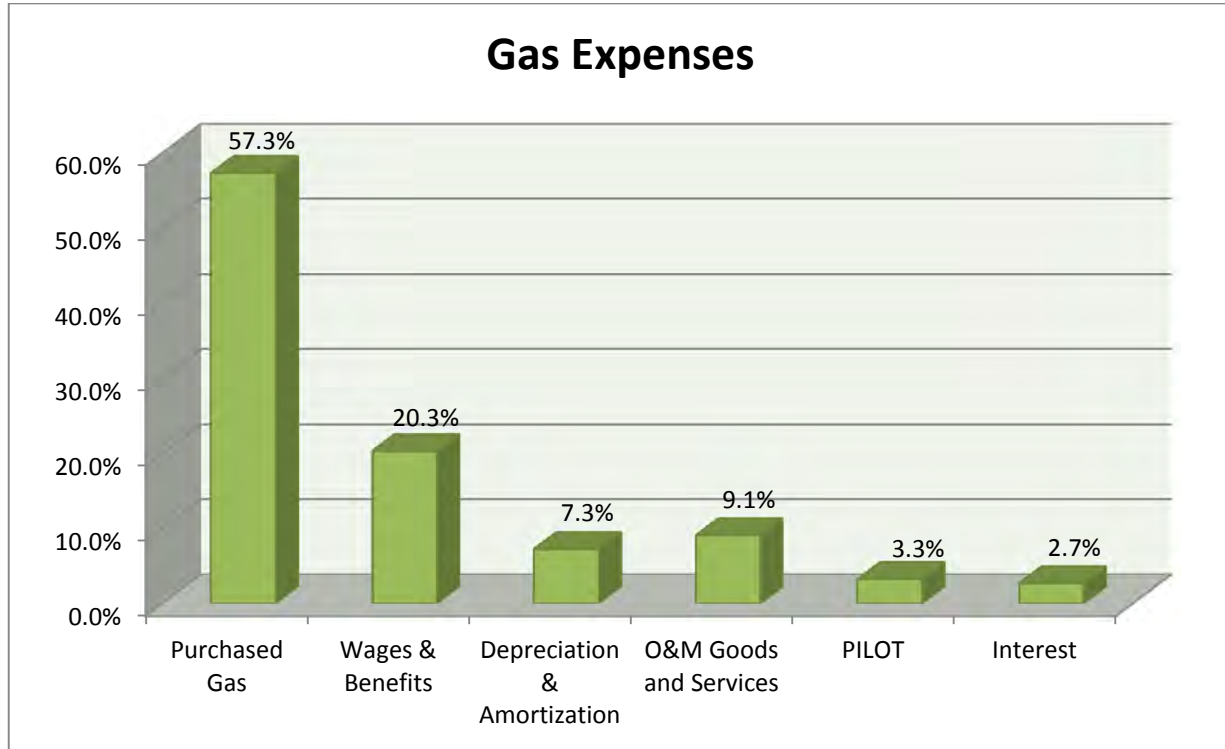
City of Clarksville, Tennessee
 Gas, Water and Sewer Departments
 Condensed Statements of Revenues, Expenses & Changes in Net Position (In Millions)
 6/30/2016

	Gas Department			Water Department			Sewer Department		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Operating revenues	\$ 20.29	\$ 28.74	\$ 30.28	\$ 22.82	\$ 23.10	\$ 22.02	\$ 33.27	\$ 30.70	\$ 28.14
Operating expenses	19.05	25.12	26.23	17.48	17.49	17.40	22.50	21.02	21.80
Operating income	1.24	3.62	4.05	5.34	5.61	4.62	10.77	9.68	6.34
Non-operating expenses	(0.34)	(0.39)	(0.44)	(1.61)	(1.73)	(1.82)	(5.60)	(5.39)	(5.67)
Income before contributions and transfers	0.90	3.23	3.61	3.73	3.88	2.80	5.17	4.29	0.67
Capital contributions	-	-	0.07	4.36	3.38	4.42	4.73	4.10	4.08
Inter-fund transfers	(0.66)	(0.60)	(0.63)	(0.97)	(0.99)	(0.97)	(2.24)	(1.98)	(1.87)
Federal awards	-	-	-	-	-	-	4.81	0.69	18.16
Changes in net position	0.24	2.63	3.05	7.12	6.27	6.25	12.47	7.10	21.04
Net position - beginning, as restated	55.40	52.77	51.08	112.61	106.34	102.12	133.70	126.60	107.67
Net position - ending	\$ 55.64	\$ 55.40	\$ 54.13	\$ 119.73	\$ 112.61	\$ 108.37	\$ 146.17	\$ 133.70	\$ 128.71

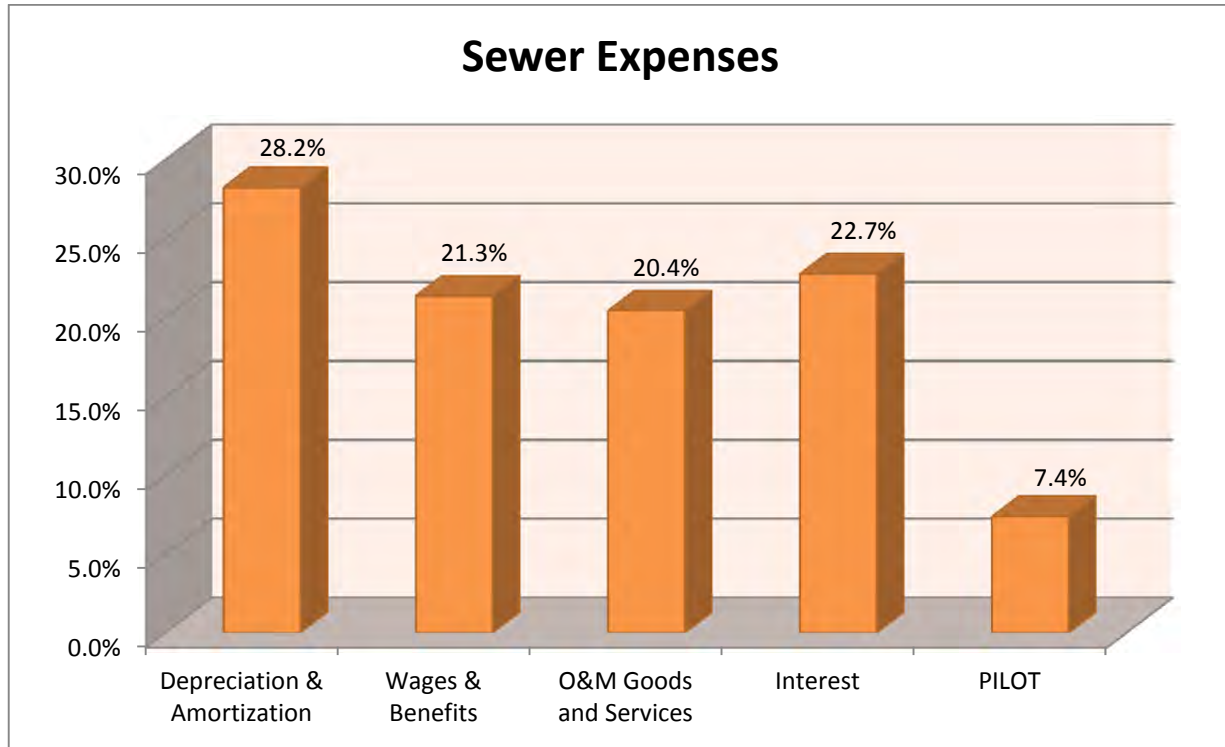
CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNADITED)
 JUNE 30, 2016 AND 2015

EXPENSES

The following charts show the major areas of operating expenses of each of department for the year ended June 30, 2016.



CITY OF CLARKSVILLE, TENNESSEE
GAS, WATER AND SEWER DEPARTMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNADITED)
JUNE 30, 2016 AND 2015



CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNADITED)
 JUNE 30, 2016 AND 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2016, the Gas Department had \$44.03 million of net capital assets, the Water Department had \$142.30 million of net capital assets and the Sewer Department had \$343.90 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, A-4 and A-5 for an analysis of capital assets for the Gas, Water and Sewer Departments, respectively.

Table A-3
 City of Clarksville, Tennessee
 Gas Department
 Capital Assets (in Millions)
 6/30/2016

	2016	2015	Dollar Change	Percent Change
Construction in Progress	\$ 5.55	\$ 2.64	\$ 2.91	110.2%
Land	0.23	0.23	-	0.0%
Building	1.47	1.52	(0.05)	-3.3%
Infrastructure	35.46	36.44	(0.98)	-2.7%
Machinery and Equipment	0.86	0.94	(0.08)	-8.5%
Vehicles	0.46	0.47	(0.01)	-2.1%
	<u>\$ 44.03</u>	<u>\$ 42.24</u>	<u>\$ 1.79</u>	<u>4.2%</u>

Table A-4
 City of Clarksville, Tennessee
 Water Department
 Capital Assets (in Millions)
 6/30/2016

	2016	2015	Dollar Change	Percent Change
Construction in Progress	\$ 0.79	\$ 1.04	\$ (0.25)	-24.0%
Land	3.08	2.69	0.39	14.5%
Building	8.09	8.42	(0.33)	-3.9%
Infrastructure	116.89	114.92	1.97	1.7%
Machinery and Equipment	12.64	14.39	(1.75)	-12.2%
Vehicles	0.81	0.46	0.35	76.1%
	<u>\$ 142.30</u>	<u>\$ 141.92</u>	<u>\$ 0.38</u>	<u>0.3%</u>

CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNADITED)
 JUNE 30, 2016 AND 2015

Table A-5
 City of Clarksville, Tennessee
 Sewer Department
 Capital Assets (in Millions)
 6/30/2016

	2016	2015	Dollar Change	Percent Change
Construction in Progress	\$ 52.72	\$ 53.84	\$ (1.12)	-2.1%
Land	4.40	4.04	0.36	8.9%
Building	59.51	58.67	0.84	1.4%
Infrastructure	211.94	202.58	9.36	4.6%
Machinery and Equipment	14.80	14.54	0.26	1.8%
Vehicles	0.53	0.64	(0.11)	-17.2%
	\$ 343.90	\$ 334.31	\$ 9.59	2.9%

LONG-TERM DEBT

Long-term debt decreased in fiscal year 2016 primarily due defeasing a portion of the outstanding Series 2007 bonds. In addition, Series 2016 bonds were issued in the amount of \$89.45 million to pay off the outstanding Tennessee Municipal Bond Fund Loans and advance refund a portion of the outstanding Series 2007 bonds. At year-end, the Departments had long-term debt of \$263.40 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, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and Cash Equivalents	\$ 22,385,539	\$ 25,661,053
Accounts Receivable, Net	1,260,641	1,223,039
Inventory	1,020,922	964,282
Prepaid Expense	9,971	38,809
Total Current Assets	24,677,073	27,887,183
Noncurrent Assets		
Restricted Assets:		
Cash and Cash Equivalents	264,526	526,865
Investments	1,097,544	1,090,208
Total Restricted Assets	1,362,070	1,617,073
Capital Assets:		
Capital Assets Not Depreciated	5,772,976	2,866,854
Capital Assets Depreciated, Net	38,257,148	39,376,129
Total Capital Assets	44,030,124	42,242,983
Total Noncurrent Assets	45,392,194	43,860,056
Total Assets	70,069,267	71,747,239
Deferred Outflows of Resources		
Pensions	387,601	377,783
Total Assets and Deferred Outflows of Resources	\$ 70,456,868	\$ 72,125,022

City of Clarksville, Tennessee - Gas Department
Statements of Net Position
June 30, 2016 and 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Accounts Payable	\$ 1,205,217	\$ 918,126
Accrued Interest Payable	99,148	194,407
Current Portion of Bonds Payable	750,850	792,600
Current Portion of Accrued Compensated Absences	188,281	167,117
Total Current Liabilities	2,243,496	2,072,250
Noncurrent Liabilities		
Accrued Compensated Absences (less current portion)	37,774	74,633
Bonds Payable (less current portion)	7,689,063	9,678,013
Net Pension Liability	923,385	747,836
OPEB Liability	2,470,002	2,228,454
Customer Deposits	1,085,538	1,155,176
Total Noncurrent Liabilities	12,205,762	13,884,112
Total Liabilities	14,449,258	15,956,362
Deferred Inflows of Resources		
Pensions	363,137	766,105
Net Position		
Net Investment in Capital Assets	35,423,658	31,680,360
Restricted for Debt Reserve	1,362,070	1,617,073
Unrestricted Net Position	18,858,745	22,105,122
Total Net Position	55,644,473	55,402,555
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 70,456,868	\$ 72,125,022

City of Clarksville, Tennessee - Gas Department
Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Sales	\$ 19,102,895	\$ 27,427,525
Fort Campbell Operations	500,815	642,458
Other Income	690,528	676,300
Total Operating Revenues	<u>20,294,238</u>	<u>28,746,283</u>
Operating Expenses:		
Purchased Gas	11,545,931	17,597,446
Transmission and Distribution	3,229,018	2,946,020
Administrative and General	1,025,573	1,083,923
Customer Service	1,010,285	1,014,528
Engineering	154,122	155,380
Depreciation	1,592,754	1,714,415
Fort Campbell Operations	385,430	495,420
Other Expenses	109,191	116,231
Total Operating Expenses	<u>19,052,304</u>	<u>25,123,363</u>
Operating Income	<u>1,241,934</u>	<u>3,622,920</u>
Non-operating Income (Expense)		
Interest Income	78,096	47,118
Other Income	2,639	25,672
Interest Expense	(548,260)	(486,433)
Amortization of Bond Premium	124,983	19,678
Total Non-operating Expense	<u>(342,542)</u>	<u>(393,965)</u>
Income before Contributions and Transfers	<u>899,392</u>	<u>3,228,955</u>
Contributions and Transfers		
Transfers to Primary Government	<u>(657,474)</u>	<u>(603,310)</u>
Total Contributions and Transfers	<u>(657,474)</u>	<u>(603,310)</u>
Change in Net Position	241,918	2,625,645
Net Position - Beginning of Year	<u>55,402,555</u>	<u>52,776,910</u>
Net Position - End of Year	<u>\$ 55,644,473</u>	<u>\$ 55,402,555</u>

City of Clarksville, Tennessee - Gas Department
Statements of Cash Flows
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Customers	\$ 20,256,636	\$ 28,732,817
Payments to Suppliers of Goods or Services	(13,372,628)	(19,947,251)
Payments to Employees for Services	(3,871,549)	(3,826,078)
Payments Connected with Interfund Services	(109,191)	(116,231)
<i>Net cash provided by operating activities</i>	2,903,268	4,843,257
<u>Cash Flows from Non-Capital and Related Financing Activities:</u>		
Other Income (Expense)	(23,296)	8,438
Transfers to City General (In lieu of tax payment)	(657,474)	(603,310)
<i>Net cash used by noncapital and related financing activities</i>	(680,770)	(594,872)
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Proceeds from Long-Term Debt	3,014,082	-
Advance Refund/Defease Debt	(4,304,141)	-
Proceeds from Sale of Capital Assets	16,071	13,338
Debt Service Interest Paid	(466,577)	(500,616)
Debt Service Principal Paid	(792,600)	(670,900)
Purchase of Capital Assets	(3,305,282)	(1,024,597)
<i>Net cash used by capital and related financing activities</i>	(5,838,447)	(2,182,775)
<u>Cash Flows from Investing Activities:</u>		
Interest Received	78,096	47,118
<i>Net cash provided by investing activity</i>	78,096	47,118
Net (Decrease) Increase in Cash and Cash Equivalents	(3,537,853)	2,112,728
Cash and Cash Equivalents - Beginning of Year	26,187,918	24,075,190
Cash and Cash Equivalents - End of Year	\$ 22,650,065	\$ 26,187,918

City of Clarksville, Tennessee - Gas Department
Statements of Cash Flows
Years ended June 30, 2016 and 2015

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

	<u>2016</u>	<u>2015</u>
Operating Income	\$ 1,241,934	\$ 3,622,920
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,592,754	1,714,415
Changes in Assets and Liabilities:		
(Increase) in Accounts Receivable	(37,602)	(13,466)
(Increase) Decrease in Inventory	(56,640)	59,366
Decrease (Increase) in Prepaid Assets	28,840	(1,570)
(Decrease) Increase in Accounts Payable	287,093	(561,731)
Adjustment for Capital Asset Related Accounts Payable	(74,543)	90,824
Decrease in Contracts and Retainage	-	(391)
(Decrease) in Accrued Compensated Absences	(15,695)	(7,230)
Increase in OPEB Liability	241,548	224,412
Increase in Pension Contribution vs Expense	(234,783)	(220,483)
Decrease in Customer Deposits	(69,638)	(63,809)
Net cash provided by operating activities	\$ 2,903,268	\$ 4,843,257

City of Clarksville, Tennessee - Water Department
Statements of Net Position
June 30, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and Cash Equivalents	\$ 18,923,948	\$ 17,465,719
Accounts Receivable, Net	1,058,300	1,075,393
Inventory	670,276	707,982
Prepaid Expense	24,374	51,668
Total Current Assets	20,676,898	19,300,762
Noncurrent Assets		
Restricted Assets:		
Cash and Cash Equivalents	1,101,651	1,878,968
Investments	3,950,526	3,924,119
Total Restricted Assets	5,052,177	5,803,087
Capital Assets:		
Capital Assets Not Depreciated	3,088,575	2,932,522
Capital Assets Depreciated, Net	139,206,579	138,986,688
Total Capital Assets	142,295,154	141,919,210
Total Noncurrent Assets	147,347,331	147,722,297
Total Assets	168,024,229	167,023,059
Deferred Outflows of Resources		
Pensions	571,821	557,341
Total Assets and Deferred Outflows of Resources	\$ 168,596,050	\$ 167,580,400

City of Clarksville, Tennessee - Water Department
Statements of Net Position
June 30, 2016 and 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Accounts Payable	\$ 1,279,317	\$ 870,159
Contracts and Retainage	-	9,611
Accrued Interest Payable	502,575	771,405
Current Portion of Bonds Payable	2,354,500	2,594,125
Current Portion of Notes Payable	96,435	91,843
Current Portion of Accrued Compensated Absences	234,500	245,050
Total Current Liabilities	4,467,327	4,582,193
Noncurrent Liabilities		
Accrued Compensated Absences (less current portion)	75,475	53,792
Bonds Payable (less current portion)	33,821,731	39,619,801
Notes Payable (less current portion)	2,184,986	2,281,358
Net Pension Liability	1,377,611	1,118,721
OPEB Liability	3,339,564	2,964,706
Customer Deposits	3,050,354	3,207,593
Total Noncurrent Liabilities	43,849,721	49,245,971
Total Liabilities	48,317,048	53,828,164
Deferred Inflows of Resources		
Pensions	551,773	1,146,050
Net Position		
Net Investment in Capital Assets	103,395,266	97,332,083
Restricted for Debt Reserve	5,052,177	5,803,087
Unrestricted Net Position	11,279,786	9,471,016
Total Net Position	119,727,229	112,606,186
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 168,596,050	\$ 167,580,400

City of Clarksville, Tennessee - Water Department
Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Water Sales	\$ 19,882,495	\$ 20,115,617
Other Income - Water	2,943,144	2,983,092
Total Operating Revenues	<u>22,825,639</u>	<u>23,098,709</u>
Operating Expenses:		
Water Plant Operations	3,274,718	3,183,279
Water Transmission & Distribution	3,733,108	3,927,001
Customer Service	2,499,082	2,521,272
Administrative & General	1,049,601	1,079,497
Engineering	904,093	736,435
Depreciation	5,904,037	5,911,574
Other Expenses	117,583	126,579
Total Operating Expenses	<u>17,482,222</u>	<u>17,485,637</u>
Operating Income	<u>5,343,417</u>	<u>5,613,072</u>
Non-operating Income (Expenses)		
Interest Income	86,617	56,293
Other Expense	(21,406)	23,234
Interest Expense	(2,085,131)	(1,935,453)
Amortization of Bond Premium	407,795	120,603
Total Non-operating Expense	<u>(1,612,125)</u>	<u>(1,735,323)</u>
Income before Contributions and Transfers	<u>3,731,292</u>	<u>3,877,749</u>
Contributions and Transfers		
Capital Contributions	4,360,045	3,380,170
Transfers to Primary Government	(970,294)	(990,991)
Total Contributions and Transfers	<u>3,389,751</u>	<u>2,389,179</u>
Change in Net Position	7,121,043	6,266,928
Net Position - Beginning of Year	<u>112,606,186</u>	<u>106,339,258</u>
Net Position - End of Year	<u>\$ 119,727,229</u>	<u>\$ 112,606,186</u>

City of Clarksville, Tennessee - Water Department
Statements of Cash Flows
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Customers	\$ 22,842,732	\$ 23,585,192
Payments to Suppliers of Goods or Services	(5,847,679)	(6,149,002)
Payments to Employees for Services	(5,711,308)	(5,718,396)
Payments Connected with Interfund Services	(117,583)	(126,579)
<i>Net cash provided by operating activities</i>	11,166,162	11,591,215
 <u>Cash Flows from Non-Capital and Related Financing Activities:</u>		
Other Income (Expense)	(49,051)	(1,921)
Transfers to City General (In lieu of tax payment)	(970,294)	(990,991)
<i>Net cash used by non-capital and related financing activities</i>	(1,019,345)	(992,912)
 <u>Cash Flows from Capital and Related Financing Activities:</u>		
Proceeds from Long Term Debt	8,220,224	-
Advance Refund/Defeasement Debt	(11,738,567)	-
Proceeds from Sale of Capital Assets	821	9,539
Debt Service Interest Paid	(1,871,394)	(1,981,528)
Debt Service Principal Paid	(2,685,905)	(1,365,082)
Purchase of Capital Assets	(1,477,701)	(828,527)
<i>Net cash used by capital and related financing activities</i>	(9,552,522)	(4,165,598)
 <u>Cash Flows from Investing Activities:</u>		
Interest Received	86,617	56,293
<i>Net cash provided by investing activity</i>	86,617	56,293
 Net Increase in Cash and Cash Equivalents	 680,912	 6,488,998
Cash and Cash Equivalents - Beginning of Year	19,344,687	12,855,689
Cash and Cash Equivalents - End of Year	\$ 20,025,599	\$ 19,344,687

City of Clarksville, Tennessee - Water Department

Statements of Cash Flows

Years ended June 30, 2016 and 2015

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

	<u>2016</u>	<u>2015</u>
Operating Income	\$ 5,343,417	\$ 5,613,072
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	5,904,037	5,911,574
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable	17,093	486,483
(Increase) Decrease in Inventory	37,706	(85,063)
Decrease (Increase) in Prepaid Assets	27,294	(1,113)
(Decrease) Increase in Accounts Payable	410,727	(197,030)
Adjustment for Capital Asset Related Accounts Payable	(442,236)	-
Increase (Decrease) in Contracts and Retainage	(9,611)	9,611
Increase in Accrued Compensated Absences	11,133	2,361
Increase in OPEB Liability	374,858	356,649
Increase in Pension Contribution vs Expense	(351,017)	(325,826)
Decrease in Customer Deposits	(157,239)	(179,503)
Net cash provided by operating activities	<u>\$ 11,166,162</u>	<u>\$ 11,591,215</u>
Noncash Capital and Related Financing Activities:		
Capital Contributed Noncash	\$ 4,360,045	\$ 3,380,170

City of Clarksville, Tennessee - Sewer Department
Statements of Net Position
June 30, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and Cash Equivalents	\$ 9,391,466	\$ 6,549,399
Accounts Receivable, Net	1,626,062	1,499,816
Receivable - Federal Awards	19,887,996	15,336,478
Inventory	196,171	183,189
Prepaid Expense	21,050	72,958
Total Current Assets	31,122,745	23,641,840
Noncurrent Assets		
Restricted Assets:		
Cash and Cash Equivalents	3,855,867	5,340,140
Investments	7,938,305	7,885,242
Total Restricted Assets	11,794,172	13,225,382
Capital Assets:		
Capital Assets Not Depreciated	55,839,023	56,613,231
Capital Assets Depreciated, Net	288,057,224	277,697,543
Total Capital Assets	343,896,247	334,310,774
Total Noncurrent Assets	355,690,419	347,536,156
Total Assets	386,813,164	371,177,996
Deferred Outflows of Resources		
Pensions	607,040	591,667
Total Assets and Deferred Outflows of Resources	\$ 387,420,204	\$ 371,769,663

City of Clarksville, Tennessee - Sewer Department
Statements of Net Position
June 30, 2016 and 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Accounts Payable	\$ 1,415,104	\$ 3,402,777
Contracts and Retainage	2,811,417	2,791,085
Accrued Interest Payable	1,761,362	2,316,290
Current Portion of Bonds Payable	8,079,650	6,958,275
Current Portion of Notes Payable	1,510,822	1,438,878
Current Portion of Accrued Compensated Absences	273,382	236,361
Total Current Liabilities	15,851,737	17,143,666
Noncurrent Liabilities		
Accrued Compensated Absences (less current portion)	39,894	51,615
Bonds Payable (less current portion)	185,471,048	120,297,083
Notes Payable (less current portion)	34,231,436	94,981,949
Net Pension Liability	1,440,879	1,166,030
OPEB Liability	3,623,660	3,231,824
Customer Deposits	24,994	2,750
Total Noncurrent Liabilities	224,831,911	219,731,251
Total Liabilities	240,683,648	236,874,917
Deferred Inflows of Resources		
Pensions	563,604	1,194,514
Net Position		
Net Investment in Capital Assets	113,597,332	107,759,522
Restricted for Debt Reserve	11,794,172	13,225,382
Unrestricted Net Position	20,781,448	12,715,328
Total Net Position	146,172,952	133,700,232
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 387,420,204	\$ 371,769,663

City of Clarksville, Tennessee - Sewer Department
Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Sewer Service Charges	\$ 30,613,032	\$ 28,112,314
Other Income - Sewer	2,663,423	2,591,998
Total Operating Revenues	<u>33,276,455</u>	<u>30,704,312</u>
Operating Expenses:		
Sewer Treatment Plant Operations	4,169,226	3,754,936
Sewer Discharge Collection and Pumping	4,816,388	4,550,794
Customer Service	1,577,401	1,493,708
Administrative & General	1,071,790	1,146,086
Engineering	960,582	805,480
Depreciation	9,785,821	9,140,359
Other Expenses	122,267	128,526
Total Operating Expenses	<u>22,503,475</u>	<u>21,019,889</u>
Operating Income	<u>10,772,980</u>	<u>9,684,423</u>
Non-operating Income (Expenses)		
Interest Income	83,192	35,486
Other Expense	(502,802)	(112,128)
Interest Expense	(6,380,361)	(5,942,396)
Amortization of Bond Premium	1,201,606	636,794
Total Non-operating Expense	<u>(5,598,365)</u>	<u>(5,382,244)</u>
Income before Contributions and Transfers	<u>5,174,615</u>	<u>4,302,179</u>
Contributions and Transfers		
Capital Contributions	4,727,148	4,097,160
Transfers to Primary Government	(2,241,244)	(1,981,983)
Federal Awards	4,812,201	685,557
Total Contributions and Transfers	<u>7,298,105</u>	<u>2,800,734</u>
Change in Net Position	12,472,720	7,102,913
Net Position - Beginning of Year, as restated	<u>133,700,232</u>	<u>126,597,319</u>
Net Position - End of Year	<u>\$ 146,172,952</u>	<u>\$ 133,700,232</u>

City of Clarksville, Tennessee - Sewer Department
Statements of Cash Flows
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Customers	\$ 33,150,209	\$ 30,634,989
Payments to Suppliers of Goods or Services	(6,484,384)	(3,692,039)
Payments to Employees for Services	(6,076,953)	(5,996,164)
Payments Connected with Interfund Services	(122,267)	(128,526)
<i>Net cash provided by operating activities</i>	20,466,605	20,818,260
 <u>Cash Flows from Non-Capital and Related Financing Activities:</u>		
Other Income (Expense)	(46,786)	240,533
Transfers to City General (In lieu of tax payment)	(2,241,244)	(1,981,983)
<i>Net cash used by non-capital and related financing activities</i>	(2,288,030)	(1,741,450)
 <u>Cash Flows from Capital and Related Financing Activities:</u>		
Proceeds from Long Term Debt	37,352,394	38,606,535
Proceeds from Federal Awards	260,683	3,504,994
Advance Refund/Defeasement Debt	(23,085,849)	-
Proceeds from Sale of Capital Assets	3,835	9,425
Debt Service Interest Paid	(6,524,566)	(6,529,360)
Debt Service Principal Paid	(8,397,216)	(9,313,848)
Purchase of Capital Assets	(16,513,254)	(42,564,546)
<i>Net cash used by capital and related financing activities</i>	(16,903,973)	(16,286,800)
 <u>Cash Flows from Investing Activities:</u>		
Interest Received	83,192	35,486
<i>Net cash provided by investing activity</i>	83,192	35,486
 Net Increase in Cash and Cash Equivalents	 1,357,794	 2,825,496
 Cash and Cash Equivalents - Beginning of Year	 11,889,539	 9,064,043
 Cash and Cash Equivalents - End of Year	 \$ 13,247,333	 \$ 11,889,539

City of Clarksville, Tennessee - Sewer Department
Statements of Cash Flows
Years ended June 30, 2016 and 2015

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

	<u>2016</u>	<u>2015</u>
Operating Income	\$ 10,772,980	\$ 9,684,423
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	9,785,821	9,140,359
Changes in Assets and Liabilities:		
(Increase) in Accounts Receivable	(126,246)	(69,323)
(Increase) in Inventory	(12,982)	(26,169)
Decrease (Increase) in Prepaid Assets	51,908	(1,262)
(Decrease) Increase in Accounts Payable	(1,987,674)	(5,742,673)
Adjustment for Capital Asset Related Accounts Payable	1,869,108	6,176,077
Increase in Contracts and Retainage	20,332	1,603,002
Increase in Accrued Compensated Absences	25,300	2,405
Increase in OPEB Liability	391,837	394,713
Increase in Pension Contribution vs Expense	(346,023)	(346,042)
Decrease in Customer Deposits	22,244	2,750
Net cash provided (used) by operating activities	\$ 20,466,605	\$ 20,818,260
Noncash Capital and Related Financing Activities		
Capital Contributed NonCash	\$ 4,727,148	\$ 4,097,160

CITY OF CLARKSVILLE, TENNESSEE
GAS, WATER AND SEWER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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.

CITY OF CLARKSVILLE, TENNESSEE
GAS, WATER AND SEWER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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, 2016 and June 30, 2015, were \$18,208,419 and \$20,645,542, 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
Buildings	40 years
Machinery and Equipment	10 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, non-capital 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 \$115,716 and \$116,208 as of June 30, 2016 and 2015, 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, 2016 and 2015 was \$92,614 and \$59,635, respectively.

GAS, WATER AND SEWER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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, 2016 and June 30, 2015 was \$548,260 and \$486,433 respectively. No interest was capitalized in either year.

Total interest incurred for the Water Department for the years ended June 30, 2016 and June 30, 2015 was \$2,085,131 and \$1,935,453, respectively. No interest was capitalized in either year.

Total interest incurred for the Sewer Department for the years ended June 30, 2016 and June 30, 2015, was \$6,380,361 and \$5,942,396 respectively. Interest capitalized was \$538,326 and \$481,143 and interest expense was \$5,842,035 and \$5,461,253 for the years ended June 30, 2016 and June 30, 2015, 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:

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.

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.

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.

GAS, WATER AND SEWER DEPARTMENTS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

2. DEPOSITS AND INVESTMENTS - continued

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 statues 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, 2016 and 2015, the carrying amounts of the Departments' deposits were \$55,922,997 and \$57,422,144 and the bank balance of \$55,393,816 and \$57,595,628 was categorized as follows:

	Bank Balances	
	<u>6/30/2016</u>	<u>6/30/2015</u>
Insured by FDIC	\$ 440,832	\$ 445,598
Insured by Tennessee Bank Collateral Pool	24,945,906	29,089,772
Local Government Investment Pool	30,007,078	28,060,258
Total	<u>\$ 55,393,816</u>	<u>\$ 57,595,628</u>

The Departments categorize their fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Departments have the following recurring fair value measurements as of June 30, 2016:

- U.S. agency securities of \$12,986,375 are valued using quoted market prices (Level 1 inputs)

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>6/30/2016</u>	<u>6/30/2015</u>
Gas Department	\$ 657,474	\$ 603,310
Water Department	970,294	990,991
Sewer Department	2,241,244	1,981,983
	<u>\$ 3,869,012</u>	<u>\$ 3,576,284</u>

GAS, WATER AND SEWER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

4. CAPITAL ASSETS

A summary of changes in capital assets are as follows:

<u>Gas Department</u>	<u>Balance 6/30/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2016</u>
Capital Assets Not Depreciated:				
Land and Land Rights	\$ 223,626	\$ -	\$ -	\$ 223,626
Construction in Progress	<u>2,643,228</u>	<u>3,379,895</u>	<u>(473,773)</u>	<u>5,549,350</u>
Total Capital Assets Not Depreciated	<u>2,866,854</u>	<u>3,379,895</u>	<u>(473,773)</u>	<u>5,772,976</u>
Capital Assets Depreciated:				
Building, Plant and Equipment	63,688,854	473,773	(91,444)	64,071,183
Less: Accumulated Depreciation	<u>(24,312,725)</u>	<u>(1,592,754)</u>	<u>91,444</u>	<u>(25,814,035)</u>
Total Capital Assets Depreciated, Net	<u>39,376,129</u>	<u>(1,118,981)</u>	<u>-</u>	<u>38,257,148</u>
Total Capital Assets, Net	<u>\$ 42,242,983</u>	<u>\$ 2,260,914</u>	<u>\$ (473,773)</u>	<u>\$ 44,030,124</u>
<u>Water Department</u>				
Capital Assets Not Depreciated:				
Land and Land Rights	\$ 1,897,230	\$ 405,424	\$ -	\$ 2,302,654
Construction in Progress	<u>1,035,292</u>	<u>6,279,982</u>	<u>(6,529,353)</u>	<u>785,921</u>
Total Capital Assets Not Depreciated	<u>2,932,522</u>	<u>6,685,406</u>	<u>(6,529,353)</u>	<u>3,088,575</u>
Capital Assets Depreciated:				
Building, Plant and Equipment	195,304,724	6,123,928	(11,989)	201,416,663
Less: Accumulated Depreciation	<u>(56,318,036)</u>	<u>(5,904,037)</u>	<u>11,989</u>	<u>(62,210,084)</u>
Total Capital Assets Depreciated, Net	<u>138,986,688</u>	<u>219,891</u>	<u>-</u>	<u>139,206,579</u>
Total Capital Assets, Net	<u>\$ 141,919,210</u>	<u>\$ 6,905,297</u>	<u>\$ (6,529,353)</u>	<u>\$ 142,295,154</u>
<u>Sewer Department</u>				
Capital Assets Not Depreciated:				
Land and Land Rights	\$ 2,775,240	\$ 347,897	\$ -	\$ 3,123,137
Construction in Progress	<u>53,837,991</u>	<u>19,371,295</u>	<u>(20,493,400)</u>	<u>52,715,886</u>
Total Capital Assets Not Depreciated	<u>56,613,231</u>	<u>19,719,192</u>	<u>(20,493,400)</u>	<u>55,839,023</u>
Capital Assets Depreciated:				
Building, Plant and Equipment	384,456,450	20,145,503	(5,371,520)	399,230,433
Less: Accumulated Depreciation	<u>(106,758,907)</u>	<u>(9,712,155)</u>	<u>5,297,853</u>	<u>(111,173,209)</u>
Total Capital Assets Depreciated, Net	<u>277,697,543</u>	<u>10,433,348</u>	<u>(73,667)</u>	<u>288,057,224</u>
Total Capital Assets, Net	<u>\$ 334,310,774</u>	<u>\$ 30,152,540</u>	<u>\$ (20,567,067)</u>	<u>\$ 343,896,247</u>

GAS, WATER AND SEWER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

4. CAPITAL ASSETS – continued

Depreciation expense totaled \$17,282,612 and \$16,766,348 for the years ended June 30, 2016 and June 30, 2015, respectively. Of these amounts, \$1,592,754 and \$1,714,415 was charged to the Gas Department, \$5,904,037 and \$5,911,574 to the Water Department and \$9,785,821 and \$ 9,140,359 was charged to the Sewer Department for the years ended June 30, 2016 and June 30, 2015, 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, 2016 and \$62 for the year ended June 30, 2015. The Water Department had no charges either year and the Sewer Department charges were \$73,666 for the year ended June 30, 2016 and \$90,882 and for the year ended June 30, 2015.

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.

GAS, WATER AND SEWER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

6. LONG-TERM DEBT

	Gas	Water	Sewer
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	\$562,500	\$1,593,750	\$1,593,750
Series 2007 Water, Sewer, and Gas Revenue Bonds due in installments of \$1,270,000 to \$5,370,000 to February 2022 at 4.35% interest	776,600	2,118,000	4,165,400
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	3,995,600	19,978,000	33,106,400
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	-	3,257,450	43,277,550
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	-	-	8,895,000
Series 2016 Water, Sewer and Gas Revenue Refunding Bonds due in annual installments of \$2,600,000 to \$4,650,000 to February 2036 at 2.00% to 5.00% interest	2,564,100	6,993,000	79,887,900
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	-	2,281,421	35,742,258
Face Value of Long-Term Debt	7,898,800	36,221,621	206,668,258
Add: Premium	541,113	2,236,031	22,624,698
Less: Current Portion	(750,850)	(2,450,935)	(9,590,472)
Net Long-Term Debt	\$7,689,063	\$36,006,717	\$219,702,484

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, 2016 and June 30, 2015, principal and interest to maturity was \$360,469,366 and \$341,134,771, respectively.

On the Series 2005 TMBF Loan, the variable interest rate is based on the adjusted program loan rate plus a letter of credit fee of 0.15%.

Future payments on Long-Term Debt are as follows:

Year Ending June 30,	Bonds Payable	Notes Payable	Total Principal	Total Interest
2017	\$ 11,185,000	\$ 1,607,257	\$ 12,792,257	\$ 8,606,860
2018	10,560,000	1,687,620	12,247,620	9,949,548
2019	11,285,000	1,772,001	13,057,001	9,435,353
2020	12,145,000	1,860,601	14,005,601	8,890,336
2021	12,725,000	1,953,631	14,678,631	8,273,630
2022-2026	69,305,000	11,334,800	80,639,800	30,938,425
2027-2031	29,535,000	14,466,396	44,001,396	19,024,270
2032-2036	30,005,000	3,341,373	33,346,373	11,007,765
2037-2041	26,020,000	-	26,020,000	3,554,500
Total Long-Term Debt				
Including Current Portion	\$ 212,765,000	\$ 38,023,679	\$ 250,788,679	\$ 109,680,686

GAS, WATER AND SEWER DEPARTMENTS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

6. LONG-TERM DEBT - continued

Changes in long-term debt and other noncurrent liabilities (including current portions) for the year ended June 30, 2016 were as follows:

<u>Gas Department and Water & Sewer Department</u>	<u>Balance 6/30/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2016</u>	<u>Amount Due Year Ending 6/30/2017</u>
Accrued compensated absences	\$ 828,568	\$ 699,377	\$ (678,639)	\$ 849,306	\$ 696,163
Customer deposits	4,365,519	1,590,882	(1,795,515)	4,160,886	-
<u>Bonds and notes payable:</u>					
Bonds and notes	\$ 269,979,028	\$ 110,205,372	\$ (129,395,721)	\$ 250,788,679	\$ 12,792,257
Premiums on bonds	8,754,897	18,381,328	(1,734,383)	25,401,842	-
Total long-term debt and other noncurrent liabilities	<u>\$ 283,928,012</u>	<u>\$ 130,876,959</u>	<u>\$ (133,604,258)</u>	<u>\$ 281,200,713</u>	<u>\$ 13,488,420</u>

The Departments' issued \$89,445,000, net of premium of \$18,381,329, in Series 2016 bonds with interest rates ranging from 2.0% to 5.0%. The proceeds were used to advance refund \$37,520,000, a portion of the outstanding 2007 bonds, which has an interest rate of 4.35% and to pay off the 2013 and 2014 outstanding Tennessee Municipal Bond Fund loans in the amounts of \$50,000,000 and \$30,000,000, respectively, which both had variable interest rates. The reacquisition price exceeded the net carrying amount of the older debt by an insignificant amount and was expensed rather than amortized in 2016.

7. PENSION PLAN

General - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Clarksville's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Clarksville's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

The pension related activity has been allocated to the individual funds of the City of Clarksville by use of an allocation ratio of the fiscal year 2015 pension contributions by fund. This ratio dictates that 74.84% of the pension related activity belongs to the General Government of the City, 20.12% is attributed to the Gas, Water and Sewer Funds, and the remaining 5.04% is attributed to the Transit Fund.

Plan Description - Employees of the City, with the exception of the employees of the Department of Electricity, are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

GAS, WATER AND SEWER DEPARTMENTS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

7. PENSION PLAN - continued

Benefits Provided - Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees Covered by Benefit Terms - At the measurement date of June 30, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	407
Inactive employees entitled to but not yet receiving benefits	694
Active employees	<u>1,136</u>
	2,237

Contributions - Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Clarksville makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, the actuarially determined contribution (ADC) for Clarksville was \$7,818,457 based on a rate of 17.33% of covered payroll for sworn personnel and 13.83% of covered payroll for all other employees. By law, employer contributions are required to be paid. The TCRS may intercept Clarksville's state shared taxes if required employer contributions are not remitted. The employer's ADC is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Clarksville's net pension liability (asset) was measured as of June 30, 2015 and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date. The department's proportion of the net pension liability was based on their contributions for the pension plan relative to the total contributions to the pension plan. At June 30, 2016, the Department's proportion was 20.12% which was a decrease of 0.02% from its proportion measured as of June 30, 2015.

GAS, WATER AND SEWER DEPARTMENTS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

7. PENSION PLAN - continued

Actuarial Assumptions - The total pension liability as of June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation, averaging 4.25%
Cost-of-Living Adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		<hr/> 100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

GAS, WATER AND SEWER DEPARTMENTS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

7. PENSION PLAN - continued

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from Clarksville will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Total Pension Liability	Plan Fuduciary Net Position	Net Pension Liability (Asset)
Balance at 6/30/14	\$ 31,128,150	\$ 28,095,563	\$ 3,032,587
Changes for the year:			
Service cost	721,286	-	721,286
Interest	2,342,640	-	2,342,640
Differences between expected and actual experience	30,551	-	30,551
Employer contributions	-	1,526,791	(1,526,791)
Net investment income	-	869,896	(869,896)
Benefit payments	(1,175,306)	(1,175,306)	-
Administrative expense	-	(11,498)	11,498
Net changes	1,919,171	1,209,883	709,288
Balance at 6/30/15	\$ 33,047,321	\$ 29,305,446	\$ 3,741,875

Sensitivity of the Department's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate - The following presents the Department's proportionate share of the net pension liability (asset) of Clarksville calculated using the discount rate of 7.5 percent, as well as what the Departments' proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate	1% Increase (8.5%)
Departments' proportionate share of the net pension liability (asset)	\$ 8,281,717	\$ 3,741,875	\$ (45,664)

GAS, WATER AND SEWER DEPARTMENTS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

7. PENSION PLAN - continued

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Expense - For the year ended June 30, 2016, the Departments' recognized pension expense was \$1,540,276.

Deferred Outflows of Resources and Deferred Inflows of Resources - For the year ended June 30, 2016, the Departments' reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 26,187	\$ 1,172,656
Net difference between projected and actual earnings on pension plan investments	-	305,858
Contributions subsequent to the measurement date of June 30, 2015	1,540,275	-
Total	\$ 1,566,462	\$ 1,478,514

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2015," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	
2017	(375,570)
2018	(375,570)
2019	(375,570)
2020	58,775
2021	(190,869)
Thereafter	(190,869)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2016, the Departments reported a payable of \$0 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

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

GAS, WATER AND SEWER DEPARTMENTS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

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 210 participants of which 73 are retired participants and 137 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, 2015. 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 2016 were sufficient to pay the current cost of premiums for other post-employment benefits for eligible retirees in fiscal year 2016. For fiscal year 2016 and 2015, the Departments paid a total of \$430,595 and \$388,605, respectively, for current premiums for retiree insurance coverage.

Annual OPEB Cost and Net OPEB Obligation - The Departments annual other post-employment 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 14.51% 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	\$ 1,514,976
Interest on Net OPEB Obligation	337,779
Adjustment on Annual Required Contribution	<u>(413,918)</u>
Annual OPEB Expense	1,438,837
Contributions Made	<u>(430,595)</u>
Increase in Net OPEB Obligations	1,008,242
 Net OPEB Obligation - beginning of year	 <u>8,424,984</u>
Net OPEB Obligation - end of year	 <u><u>\$ 9,433,226</u></u>

GAS, WATER AND SEWER DEPARTMENTS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

8 OTHER POST-EMPLOYMENT BENEFITS - continued

The Departments annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016, 2015 and 2014 is as follows:

Fiscal Year End	Annual OPEB Cost	Annual Required Contribution	Employer Contributions	% of ARC Contributed	Net Ending OPEB Obligation (Asset)
6/30/2016	\$ 1,438,837	\$ 1,514,976	\$ 430,595	28.42%	\$ 2,743,334
6/30/2015	1,364,380	1,425,885	388,605	27.25%	1,735,092
6/30/2014	1,139,568	1,415,610	380,251	26.86%	759,317

Funded Status and Funding Progress - As of July 1, 2015, the most recent actuarial valuation date, the plan was zero percent funded. The Departments' portion of actuarial accrued liability for benefits was \$18.85 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$18.85 million. The covered payroll (annual payroll of active employees covered by the plan) was \$10.44 million, and the ratio of the UAAL to the covered payroll was 188.3 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, 2015 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 9.0 percent initially, reduced by uniform decrements to an ultimate rate of 5.0 percent over an eight 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, 2015 study date was 22 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 chose not to participate in the Workers' Compensation program as allowed by State statute and has implemented an "on-the-job" injury program. The City must pay all medical and related expenses of injured employees including 75% of the employee's salary. The City is subject to the Governmental Tort Liability Act (T.C.A. 29-20-101 to 29-20-407), which sets the maximum liability at \$700,000 per occurrence and \$300,000 per individual. The City is a reimbursable entity for unemployment purposes and thus pays all claims as they occur.

GAS, WATER AND SEWER DEPARTMENTS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

9. SELF-INSURANCE – continued

The Departments, through the City, are also self-insured on their general liability claims and maintain reinsurance for claims in excess of \$500,000 and up to \$6,000,000 for a single occurrence with an annual aggregate of \$18,000,000. 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, 2016, the amount of these estimated insurance liabilities recorded in the accounting records of the City was \$1,198,446. Changes in the reported liability for the last three fiscal years are as follows:

	Balance at Beginning of Fiscal Year	Claims and Changes in Estimates	Claim Payments	Balance at End of Fiscal Year
2015 - 2016	\$ 1,396,679	\$ 426,240	\$ 624,473	\$ 1,198,446
2014 - 2015	1,207,239	789,537	600,097	1,396,679
2013 - 2014	837,008	922,231	552,000	1,207,239

10. COMMITMENTS AND CONTINGENCIES

The Departments have contractual commitments for various construction projects totaling \$10.3 million as of June 30, 2016.

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 ("NGAC") 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.

GAS, WATER AND SEWER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

10. COMMITMENTS AND CONTINGENCIES – continued

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. The TDEC deadline for completion of all of projects is March 31, 2017. The Sewer Department is anticipating completion of the projects 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 \$1 million to comply with this consent order. To date, the Department has spent \$14 million. Noncompliance with the order is not anticipated.

11. DEFEASED DEBT AND DEBT ISSUANCES

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. On June 29, 2016 the Departments cash defeased Series 2007 Revenue and Improvement Bonds of \$10,995,000. 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, 2016 and 2015, bonds outstanding of \$11,588,179 and \$920,131, respectively, were considered defeased.

On June 29, 2016, the City of Clarksville issued \$89,445,000 Water, Sewer and Gas Revenue Refunding Bonds, Series 2016 with interest rates ranging from 2% to 5%. The bonds were issued to (i) prepay its Loan Agreements dated July 1, 2013 and December 15, 2014 with The Public Building Authority of the City of Clarksville, Tennessee, (ii) refund a portion of its outstanding Water, Sewer and Gas Revenue Refunding and Improvement Bonds, Series 2007, and (iii) pay costs of issuing the Series 2016 Bonds.

12. FLOOD RECOVERY

Excessive rainfall on May 1st and 2nd, 2010 resulted in the Cumberland River eventually cresting at 62.58 feet, well above the flood stage of 46 feet. This resulted in extensive damage to the wastewater treatment facility and several components of the wastewater collection system. Work is continuing on all the affected components of the treatment system and scheduled completion of all the projects is for December 2016.

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 \$19 million had been re-obligated. As of June 30, 2016, FEMA has obligated a total of \$23.8 million in funding.

The Departments' estimate the total cost of the recovery will be in excess of \$130 million. The Departments have spent approximately \$124 million to date.

GAS, WATER AND SEWER DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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, 2016 and 2015, were \$51,826 and \$61,638, respectively.

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

<u>Year Ending</u> <u>June 30,</u>	<u>Minimum Lease</u> <u>Payments</u>
2017	\$ 12,009
2018	6,232
2019	3,877
2020	2,931
2021	1,555
Total	<u>\$ 26,604</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Clarksville, Tennessee
Gas, Water and Sewer Departments
Required Supplementary Information

**Schedule of Changes in the Departments' Proportionate Share of the Net Pension Liability (Asset) and
Related Ratios Based on Participation in the Public Employee Pension Plan of TCRS (Unaudited)**

Last Fiscal Year ending June 30

	2015 Financial		2016 Financial	
	Statement Date		Statement Date	
	2014 Measurement		2015 Measurement	
	Date		Date	
<u>Total Pension Liability</u>				
Service cost	\$	731,989	\$	721,286
Interest		2,319,042		2,342,640
Changes in benefit terms		-		-
Differences between actual & expected experience		(1,563,201)		30,551
Change of assumptions		-		-
Benefit payments, including refunds of employee contributions		(1,096,514)		(1,175,306)
Net change in total pension liability		391,316		1,919,171
Total pension liability-beginning		30,736,834		31,128,150
Total pension liability-ending (a)	\$	31,128,150	\$	33,047,321
<u>Plan Fiduciary Net Position</u>				
Contributions-employer	\$	1,458,342	\$	1,526,791
Net investment income		3,969,792		869,896
Benefit payments		(1,096,514)		(1,175,306)
Administrative expense		(9,123)		(11,498)
Net change in plan fiduciary net position		4,322,497		1,209,883
Plan fiduciary net position-beginning		23,773,066		28,095,563
Plan fiduciary net position-ending (b)	\$	28,095,563	\$	29,305,446
Net Pension Liability-ending (a) – (b)	\$	3,032,587	\$	3,741,875
Plan fiduciary net position as a percentage of total pension liability		90.26%		88.68%
Covered employee payroll	\$	9,449,474	\$	9,947,916
Net pension liability as a percentage of covered employee payroll		32.09%		37.61%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

City of Clarksville, Tennessee
Gas, Water and Sewer Departments
Required Supplementary Information

Schedule of Pension Contributions
Based on Participation in the Public Employee Pension Plan of TCRS (Unaudited)

Last Fiscal Year ending June 30

	2014	2015	2016
Actuarially determined contribution	\$ 1,458,342	\$ 1,526,791	\$ 1,545,457
Contributions in relation to the actuarially determined contribution	1,458,342	1,526,791	1,545,457
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 9,449,474	\$ 9,947,916	\$ 11,182,755
Contributions as a percentage of covered employee payroll	15.43%	15.35%	13.82%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.

Notes to Schedule

Valuation date: Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	15 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment Rate of Return	7.5 percent, net of investment expense, including inflation
Retirement Age Mortality	Pattern of retirement determined by experience study Mortality Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments	2.5 percent

City of Clarksville, Tennessee
Gas, Water and Sewer Departments
Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS (UNAUDITED)

Plan Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/2016	\$ -	\$ 19,659,574	\$ 19,659,574	0.00%	\$ 10,440,831	188.30%
6/30/2015	-	18,846,423	18,846,423	0.00%	10,236,109	184.12%
6/30/2014	-	15,999,029	15,999,029	0.00%	9,923,358	161.23%

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.

Based on the percentage of total contributions, the Departments' proportion of the City's Pension Plan is 20.12%.

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, 2015
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	9.0%; 5% ultimate
Dental Insurance Cost Trend Rate	4%
Life Care Cost Trend Rate	3%

OTHER INFORMATION



AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0

American Water Works Association
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[Click to access definition](#)
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Water Audit Report for: **Clarksville Gas & Water**
Reporting Year: **2016** 7/2015 - 6/2016

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 (n/a or 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: **MG/YR** (1 MG = 1,000,000 GALLONS (US) PER YEAR)

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below

WATER SUPPLIED

Volume from own sources: 5,733.450 MG/Yr
Water imported: 0.000 MG/Yr
Water exported: 0.000 MG/Yr

Master Meter and Supply Error Adjustments

Pcnt:	Value:	MG/Yr
<input type="text" value="0.00%"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>

Enter negative % or value for under-registration
Enter positive % or value for over-registration

WATER SUPPLIED: **5,733.450** MG/Yr

AUTHORIZED CONSUMPTION

Billed metered: 4,290.239 MG/Yr
Billed unmetered: 0.000 MG/Yr
Unbilled metered: 72.844 MG/Yr
Unbilled unmetered: 71.668 MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: **4,434.751** MG/Yr

Click here: [?](#)
for help using option buttons below

Pcnt:	Value:	MG/Yr
<input checked="" type="radio"/> 1.25%	<input type="text"/>	<input type="text"/>
<input type="radio"/>	<input type="text"/>	<input type="text"/>

Use buttons to select percentage of water supplied OR value

Pcnt:	Value:	MG/Yr
<input checked="" type="radio"/> 0.25%	<input type="text"/>	<input type="text"/>
<input type="radio"/>	<input type="text"/>	<input type="text"/>

<input checked="" type="radio"/> 5.00%	<input type="text"/>	<input type="text"/>
<input checked="" type="radio"/> 0.25%	<input type="text"/>	<input type="text"/>

WATER LOSSES (Water Supplied - Authorized Consumption)

1,298.699 MG/Yr

Apparent Losses

Unauthorized consumption: 14.334 MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies: 229.636 MG/Yr
Systematic data handling errors: 10.726 MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: **254.695** MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: **1,044.004** MG/Yr

Use Customer Retail Unit Cost to

WATER LOSSES: **1,298.699** MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: **1,443.211** MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains: 1,047.3 miles
Number of active AND inactive service connections: 67,372
Service connection density: 64 conn./mile main
Are customer meters typically located at the curbside or property line? Yes

(length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: 76.5 psi

COST DATA

Total annual cost of operating water system: \$12,911,863 \$/Year
Customer retail unit cost (applied to Apparent Losses): \$4.63 \$/1000 gallons (US)
Variable production cost (applied to Real Losses): \$346.47 \$/Million gallons

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 88 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: Volume from own sources
- 2: Unauthorized consumption
- 3: Systematic data handling errors



AWWA Free Water Audit Software: System Attributes and Performance Indicators

WAS v5.0

American Water Works Association
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Water Audit Report for: **Clarksville Gas & Water**
 Reporting Year: **2016** | **7/2015 - 6/2016**

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 88 out of 100 ***

System Attributes:

	Apparent Losses:	254.695	MG/Yr
+	Real Losses:	1,044.004	MG/Yr
=	Water Losses:	1,298.699	MG/Yr

? Unavoidable Annual Real Losses (UARL): 440.39 MG/Yr

Annual cost of Apparent Losses: \$1,179,239

Annual cost of Real Losses: \$361,716 Valued at **Variable Production Cost**

Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial:

Non-revenue water as percent by volume of Water Supplied:	25.2%	
Non-revenue water as percent by cost of operating system:	12.3%	Real Losses valued at Variable Production Cost

Operational Efficiency:

Apparent Losses per service connection per day:	10.36	gallons/connection/day
Real Losses per service connection per day:	42.46	gallons/connection/day
Real Losses per length of main per day*:	N/A	
Real Losses per service connection per day per psi pressure:	0.55	gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 1,044.00 million gallons/year

? Infrastructure Leakage Index (ILI) [CARL/UARL]: 2.37

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
 JUNE 30, 2016

Clarks ville Gas, Water & Sewer
 Grant Schedule

CFDA Number	Governmental Agency/ Program Name	Contract Number	Beginning (Receivables) 7/1/2015	Receipts	Expenditures	Ending (Receivables) 6/30/2016
<u>Federal Awards:</u>						
	Department of Homeland Security Passed through the Tennessee Department of Military					
97.036 *	FEMA Disaster # 1909	34101-0000006186	\$ (15,336,478)	\$ 260,683	\$ 4,812,201	\$ (19,887,996)
	Total Awards		<u>\$ (15,336,478)</u>	<u>\$ 260,683</u>	<u>\$ 4,812,201</u>	<u>\$ (19,887,996)</u>

* Tested as a major program

NOTES – Basis of Presentation

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

Compliance Audit Scope

The information in the schedule of expenditures of federal awards is presented in accordance with the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

De Minimis Cost Rate

The Gas, Water and Sewer Departments have elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

CITY OF CLARKSVILLE, TENNESSEE
GAS, WATER AND SEWER DEPARTMENTS
DIRECTORY OF UTILITY COMMITTEE AND MANAGEMENT PERSONNEL (UNAUDITED)
JUNE 30, 2016

PUBLIC UTILITY COMMITTEE

Wallace Redd	Chairperson
Valerie Guzman	Committee Member
Joel Wallace	Committee Member
Deanna McLaughlin	Committee Member
David Allen	Committee Member

MANAGEMENT PERSONNEL

Pat Hickey	General Manager
Fred Klein	Chief Financial Officer
Brian Goodwin	Engineering Manager
Stephanie Burd	Manager - Gas Division
Chris Lambert	Manager - Water & Sewer Division

CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 SCHEDULE OF BONDS AND INTEREST MATURITIES (JOINTLY ISSUED) (UNAUDITED)
 JUNE 30, 2016

FYE June 30	Series 2002		Series 2007		Series 2011		Series 2013A	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	Fixed	5.20%-5.25%	Fixed	4.25%-5.00%	Fixed	4.00%-5.00%	Fixed	3.00%-5.00%
2017	\$ 1,830,000	\$ 196,875	\$ -	\$ 311,181	\$ 1,745,000	\$ 2,488,500	\$ -	\$ 2,259,700
2018	1,920,000	100,800	-	311,181	1,830,000	2,401,250	-	2,259,700
2019	-	-	1,715,000	311,181	3,740,000	2,309,750	375,000	2,259,700
2020	-	-	1,785,000	238,294	3,915,000	2,122,750	3,390,000	2,240,950
2021	-	-	1,865,000	160,200	4,090,000	1,927,000	3,565,000	2,071,450
2022	-	-	1,695,000	76,275	5,210,000	1,722,500	3,740,000	1,893,200
2023	-	-	-	-	11,815,000	1,462,000	1,625,000	1,706,200
2024	-	-	-	-	12,185,000	989,400	1,605,000	1,624,950
2025	-	-	-	-	12,550,000	502,000	1,670,000	1,557,800
2026	-	-	-	-	-	-	1,755,000	1,474,300
2027	-	-	-	-	-	-	1,840,000	1,389,100
2028	-	-	-	-	-	-	1,930,000	1,297,100
2029	-	-	-	-	-	-	2,025,000	1,200,600
2030	-	-	-	-	-	-	2,130,000	1,099,350
2031	-	-	-	-	-	-	2,210,000	1,014,150
2032	-	-	-	-	-	-	2,300,000	925,750
2033	-	-	-	-	-	-	2,410,000	818,750
2034	-	-	-	-	-	-	2,530,000	698,250
2035	-	-	-	-	-	-	2,655,000	571,750
2036	-	-	-	-	-	-	2,785,000	439,000
2037	-	-	-	-	-	-	2,925,000	299,750
2038	-	-	-	-	-	-	3,070,000	153,500
2039	-	-	-	-	-	-	-	-
2040	-	-	-	-	-	-	-	-
2041	-	-	-	-	-	-	-	-
	<u>\$ 3,750,000</u>	<u>\$ 297,675</u>	<u>\$ 7,060,000</u>	<u>\$ 1,408,312</u>	<u>\$ 57,080,000</u>	<u>\$ 15,925,150</u>	<u>\$ 46,535,000</u>	<u>\$ 29,255,000</u>

CITY OF CLARKSVILLE, TENNESSEE
GAS, WATER AND SEWER DEPARTMENTS
SCHEDULE OF BONDS AND INTEREST MATURITIES (JOINTLY ISSUED) (UNAUDITED)
JUNE 30, 2016

FYE June 30	Series 2013B		Series 2016		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
	Fixed	3.00%-5.00%	Fixed	2.00%-5.00%		
2017	\$ 2,960,000	\$ 415,150	\$ 4,650,000	\$ 2,514,232	\$ 11,185,000	\$ 8,185,638
2018	3,080,000	296,750	3,730,000	4,176,450	10,560,000	9,546,131
2019	2,855,000	142,750	2,600,000	4,027,250	11,285,000	9,050,631
2020	-	-	3,055,000	3,923,250	12,145,000	8,525,244
2021	-	-	3,205,000	3,770,500	12,725,000	7,929,150
2022	-	-	3,005,000	3,610,250	13,650,000	7,302,225
2023	-	-	2,890,000	3,460,000	16,330,000	6,628,200
2024	-	-	3,030,000	3,315,500	16,820,000	5,929,850
2025	-	-	3,185,000	3,164,000	17,405,000	5,223,800
2026	-	-	3,345,000	3,004,750	5,100,000	4,479,050
2027	-	-	3,510,000	2,837,500	5,350,000	4,226,600
2028	-	-	3,685,000	2,662,000	5,615,000	3,959,100
2029	-	-	3,870,000	2,477,750	5,895,000	3,678,350
2030	-	-	4,065,000	2,284,250	6,195,000	3,383,600
2031	-	-	4,270,000	2,081,000	6,480,000	3,095,150
2032	-	-	4,480,000	1,867,500	6,780,000	2,793,250
2033	-	-	2,980,000	1,643,500	5,390,000	2,462,250
2034	-	-	3,130,000	1,494,500	5,660,000	2,192,750
2035	-	-	3,285,000	1,338,000	5,940,000	1,909,750
2036	-	-	3,450,000	1,173,750	6,235,000	1,612,750
2037	-	-	3,625,000	1,001,250	6,550,000	1,301,000
2038	-	-	3,805,000	820,000	6,875,000	973,500
2039	-	-	3,995,000	629,750	3,995,000	629,750
2040	-	-	4,195,000	430,000	4,195,000	430,000
2041	-	-	4,405,000	220,250	4,405,000	220,250
	<u>\$ 8,895,000</u>	<u>\$ 854,650</u>	<u>\$ 89,445,000</u>	<u>\$ 57,927,182</u>	<u>\$ 212,765,000</u>	<u>\$ 105,667,969</u>

CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 SCHEDULE OF NOTES AND INTEREST MATURITIES (JOINTLY ISSUED) (UNAUDITED)
 JUNE 30, 2016

FYE June 30	TMBF 2005		Totals	
	Principal	Interest	Principal	Interest
	Variable	1.1078%		
2017	\$ 1,607,257	\$ 421,222	\$ 1,607,257	\$ 421,222
2018	1,687,620	403,417	1,687,620	403,417
2019	1,772,001	384,722	1,772,001	384,722
2020	1,860,601	365,092	1,860,601	365,092
2021	1,953,631	344,480	1,953,631	344,480
2022	2,051,313	322,838	2,051,313	322,838
2023	2,153,879	300,114	2,153,879	300,114
2024	2,261,573	276,254	2,261,573	276,254
2025	2,374,651	251,200	2,374,651	251,200
2026	2,493,384	224,894	2,493,384	224,894
2027	2,618,053	197,273	2,618,053	197,273
2028	2,748,956	168,270	2,748,956	168,270
2029	2,886,403	137,817	2,886,403	137,817
2030	3,030,724	105,842	3,030,724	105,842
2031	3,182,260	72,268	3,182,260	72,268
2032	3,341,373	37,015	3,341,373	37,015
	<u>\$ 38,023,679</u>	<u>\$ 4,012,718</u>	<u>\$ 38,023,679</u>	<u>\$ 4,012,718</u>

CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 OTHER SUPPLEMENTAL INFORMATION (UNAUDITED)
 JUNE 30, 2016

1. GAS RATES

Listed below are the gas rates per 100 cubic feet effective July 1, 2016:

	Residential	
	Within the City of Clarksville	Outside the City of Clarksville
First 300 Cubic Feet (Flat Rate)	\$ 7.0400	\$ 7.6400
Next 3,700 Cubic Feet	0.4998	0.6653
All Over 4,000 Cubic Feet	0.4321	0.5877
Minimum Bill	7.0400	7.6400
Connection Charge	175.0000	175.0000

	General Commercial and Industrial	
	Within the City of Clarksville	Outside the City of Clarksville
First 500 Cubic Feet (Flat Rate)	\$ 10.2400	\$ 11.5400
Next 19,500 Cubic Feet	0.6623	0.8224
Next 180,000 Cubic Feet	0.4986	0.6384
All Over 200,000 Cubic Feet	0.4563	0.5909
Minimum Bill	10.2400	11.5400
Connection Charge	175.0000	175.0000

	Large Commercial and Industrial	
	Within the City of Clarksville	Outside the City of Clarksville
First 10,400 Cubic Feet (Flat Rate)	\$ 83.2800	\$ 100.1600
Next 49,600 Cubic Feet	0.3927	0.5105
All Over 60,000 Cubic Feet	0.3427	0.4548
Minimum Bill	83.2800	100.1600

Number and Classification of Customers

Residential	22,544
Commercial	3,347
Industrial	16
	25,907

CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 OTHER SUPPLEMENTAL INFORMATION (UNAUDITED)
 JUNE 30, 2016

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
2016	25,907	3,580,931	\$ 6,074,757	\$ 13,028,138	\$ 19,102,895	1,044
2015	25,588	4,029,122	9,391,818	18,035,707	27,427,525	1,037
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

3. TEN LARGEST GAS SYSTEM CUSTOMERS

Customer	Annual Sales	Percentage of Total Sales
1 FLORIM USA INC	\$ 3,672,677	19.2%
2 MW-MB LLC	1,410,883	7.4%
3 BRIDGESTONE METALPHA USA	593,825	3.1%
4 AUSTIN PEAY STATE UNIV	593,001	3.1%
5 CONWOOD CO L P	356,200	1.9%
6 CLARKSVILLE MONT CO SCHOOL	335,866	1.8%
7 MCASPHALT LLC	243,728	1.3%
8 TRANE COMPANY	212,619	1.1%
9 AKEBONO BRAKE CLARKSVILLE PLANT	175,952	0.9%
10 US ZINC/CLARKSVILLE	167,521	0.9%
Total Top Ten Customers	7,762,272	40.6%
Total Revenue from All Customers	\$ 19,102,895	100.0%

4. OPERATING HISTORY OF GAS SYSTEM

	2016	2015	2014	2013	2012
Operating Revenue	\$ 20,294,238	\$ 28,746,283	\$ 30,280,835	\$ 24,913,185	\$ 23,714,528
Operating Expense	19,052,304	25,123,363	26,225,055	22,565,303	23,141,248
Operating Income (Loss)	1,241,934	3,622,920	4,055,780	2,347,882	573,280
Other Income (Expense)	(342,542)	(393,965)	(435,918)	(461,821)	(476,490)
Income (Loss) Before Contributions and Transfers	899,392	3,228,955	3,619,862	1,886,061	96,790
Capital Contributions	-	-	71,252	4,180	29,181
Transfers to Primary Government	(657,474)	(603,310)	(637,544)	(631,950)	(497,905)
Change in Net Position	\$ 241,918	\$ 2,625,645	\$ 3,053,570	\$ 1,258,291	\$ (371,934)

CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 OTHER SUPPLEMENTAL INFORMATION (UNAUDITED)
 JUNE 30, 2016

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
	<u>Meter Size</u>	Within the City of Clarksville	Outside the City of Clarksville
Meter Charge per Month	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, 2016:

		Within the City of Clarksville	Outside the City of Clarksville
Per 1,000 gallons		\$ 4.6505	\$ 6.0457

Number and Classification of Customers

Residential	58,951
Commercial	4,422
Industrial	17
	63,390

CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 OTHER SUPPLEMENTAL INFORMATION (UNAUDITED)
 JUNE 30, 2016

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
2016	63,390	5,733,450	4,290,239	\$ 19,882,495	1,047
2015	62,026	5,846,072	4,395,497	\$ 20,115,617	1,043
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

7. TEN LARGEST WATER SYSTEM CUSTOMERS

Customer	Annual Sales	Percentage of Total Sales
1 WOODLAWN UTILITY DISTRICT	\$ 1,145,641	5.8%
2 BRIDGESTONE METALPHA USA	351,518	1.8%
3 AUSTIN PEAY STATE UNIV	295,521	1.5%
4 MW-MB LLC	271,925	1.4%
5 CLARKSVILLE MONT CO SCHOOL	220,792	1.1%
6 FLORIM USA INC	194,294	1.0%
7 FREEMAN WEBB CLARKSVILLE NINE LLC	167,306	0.8%
8 CLARKSVILLE HOUSING AUTHORITY	161,983	0.8%
9 AKEBONO BRAKE CLARKSVILLE PLANT	124,900	0.6%
10 TRANE COMPANY	118,790	0.6%
Total Top Ten Customers	\$ 3,052,670	15.4%
Total Revenue from All Customers	\$ 19,882,495	100.0%

8. OPERATING HISTORY OF WATER SYSTEM

	2016	2015	2014	2013	2012
Operating Revenue	\$ 22,825,639	\$ 23,098,709	\$ 22,019,186	\$ 21,750,918	\$ 22,559,680
Operating Expense	17,482,222	17,485,637	17,394,436	15,357,903	14,648,251
Operating Income (Loss)	5,343,417	5,613,072	4,624,750	6,393,015	7,911,429
Other Income (Expense)	(1,612,125)	(1,735,323)	(1,824,824)	(1,949,825)	(1,990,190)
Income (Loss) Before Contributions and Transfers	3,731,292	3,877,749	2,799,926	4,443,190	5,921,239
Capital Contributions	4,360,045	3,380,170	4,421,175	10,932,945	26,049,080
Transfers to Primary Government	(970,294)	(990,991)	(972,505)	(866,141)	(837,173)
Federal Awards	-	-	-	-	-
Change in Net Position	\$ 7,121,043	\$ 6,266,928	\$ 6,248,596	\$ 14,509,994	\$ 31,133,146

CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 OTHER SUPPLEMENTAL INFORMATION (UNAUDITED)
 JUNE 30, 2016

9. SEWER RATES

Residential and Commercial

Listed below are the sewer rates per 1,000 gallons which became effective July 1, 2016:

	Within the City of Clarksville	Outside the City of Clarksville
	<u> </u>	<u> </u>
First 2,000 gallons	\$ 8.07	\$ 15.02
All over 2,000 gallons	8.07	13.43

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, 2016:

	Within the City of Clarksville	Outside the City of Clarksville
	<u> </u>	<u> </u>
Fist 300,000 gallons	\$ 8.2426	\$ 10.7154
Next 700,000 gallons	8.2426	9.8911
Next 2,000,000 gallons	8.2426	9.0669
All over 3,000,000 gallons	8.2426	8.2426

Minimum bill per month based on 300,000 gallons.

Number and Classification of Customers

Residential	51,699
Commercial	3,409
Industrial	7
	<u> </u>
	<u>55,115</u>

10. SEWER SYSTEM CUSTOMER BASE AND USAGE

Fiscal Year	Number of Customers	Treated (Thousand Gallons)	Total Revenue	Miles of Sewer Lines
2016	55,115	3,733,705	\$ 30,613,032	932
2015	53,806	3,507,987	28,112,314	922
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

CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 OTHER SUPPLEMENTAL INFORMATION (UNAUDITED)
 JUNE 30, 2016

11. TEN LARGEST SEWER SYSTEM CUSTOMERS

Customer	Annual Sales	Percentage of Total Sales
1 AUSTIN PEAY STATE UNIV	\$ 420,671	1.4%
2 CLARKSVILLE MONT CO SCHOOL	369,406	1.2%
3 CLARKSVILLE HOUSING AUTHORITY	325,468	1.1%
4 FREEMAN WEBB CLARKSVILLE NINE LLC	297,775	1.0%
5 BRIDGESTONE METALPHA USA	230,918	0.8%
6 MW-MB LLC	197,408	0.6%
7 AKEBONO BRAKE CLARKSVILLE PLANT	193,123	0.6%
8 TRANE COMPANY	175,708	0.6%
9 MONTGOMERY CO JAIL	164,214	0.5%
10 JOSTENS	135,998	0.4%
Total Top Ten Customers	\$ 2,510,689	8.2%
Total Revenue from All Customers	\$ 30,613,032	100.0%

12. OPERATING HISTORY OF SEWER SYSTEM

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenue	\$ 33,276,455	\$ 30,704,312	\$ 28,140,573	\$ 25,987,631	\$ 27,520,234
Operating Expense	22,503,475	21,019,889	21,805,250	22,785,551	23,064,999
Operating Income (Loss)	10,772,980	9,684,423	6,335,323	3,202,080	4,455,235
Other Income (Expense)	(5,598,365)	(5,382,244)	(5,667,054)	(4,753,164)	(4,161,424)
Income (Loss) Before					
Contributions and Transfers	5,174,615	4,302,179	668,269	(1,551,084)	293,811
Capital Contributions	4,727,148	4,097,160	4,078,857	6,514,745	8,058,104
Transfers to Primary Government	(2,241,244)	(1,981,983)	(1,864,979)	(1,714,988)	(1,554,751)
Federal Awards	4,812,201	685,557	18,161,053	-	-
Change in Net Position	\$ 12,472,720	\$ 7,102,913	\$ 21,043,200	\$ 3,248,673	\$ 6,797,164

CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER AND SEWER DEPARTMENTS
 OTHER SUPPLEMENTAL INFORMATION (UNAUDITED)
 JUNE 30, 2016

13. HISTORICAL REVENUE COVERAGE- DEBT SERVICE REQUIREMENTS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenue	\$ 76,396,332	\$ 82,549,304	\$ 80,440,594	\$ 72,651,734	\$ 73,794,442
Operating Expense	59,038,001	63,628,889	65,424,740	60,708,757	60,854,498
Operating Income (GAAP Basis)	17,358,331	18,920,415	15,015,854	11,942,977	12,939,944
Add: Depreciation	17,282,612	16,766,348	17,051,192	15,719,571	14,239,301
Add: Other Income (Expense)					
Excluding Interest Expense	(273,663)	75,675	12,658	(285,400)	375,596
Net Revenue per Bond Resolution	\$ 34,367,280	\$ 35,762,438	\$ 32,079,704	\$ 27,377,148	\$ 27,554,841
 <i>Debt Service Requirements</i>					
Principal	\$ 11,875,721	\$ 11,349,830	\$ 12,078,409	\$ 9,957,330	\$ 9,272,772
Interest	8,862,537	9,011,504	7,879,453	7,482,417	7,439,165
Total Debt Service	\$ 20,738,258	\$ 20,361,334	\$ 19,957,862	\$ 17,439,747	\$ 16,711,937
Debt Coverage	1.66	1.76	1.61	1.56	1.65

14. BILLING AND COLLECTIONS

Monthly bills for gas, water and sewer are calculated by the department. The data is then sent to a third party who prints and mails the invoices. Bills are due 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
2016	\$ 93,107
2015	106,743
2014	80,149
2013	99,839
2012	150,601

CITY OF CLARKSVILLE, TENNESSEE
GAS, WATER AND SEWER DEPARTMENTS
OTHER SUPPLEMENTAL INFORMATION (UNAUDITED)
JUNE 30, 2016

15. CAPITAL IMPROVEMENT PROGRAM

Proposed Water Projects

Fiscal Year	Amount
2017	\$ 2,455,000
2018	3,600,000
2019	3,250,000
2020	2,750,000
2021	2,750,000
Total	<u>\$ 14,805,000</u>

Proposed Sewer Projects

Fiscal Year	Amount
2017	\$ 7,866,000
2018	6,795,000
2019	5,820,000
2020	3,520,000
2021	3,900,000
Total	<u>\$ 27,901,000</u>

Proposed Gas Projects

Fiscal Year	Amount
2017	\$ 16,285,000
2018	15,250,000
2019	1,250,000
2020	1,250,000
2021	1,250,000
Total	<u>\$ 35,285,000</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, Water and Sewer Departments (collectively, "the Departments"), propriety funds of the City of Clarksville, Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Departments' basic financial statements, and have issued our report thereon dated November 22, 2016.

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 opinions 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, PLLC

Nashville, Tennessee
November 22, 2016



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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, Water and Sewer Departments (collectively, "the Departments"), proprietary funds of the City of Clarksville, Tennessee, with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Departments' major federal program for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Departments' major federal programs 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 each major federal program. However, our audit does not provide a legal determination of the Departments' compliance.

Opinion on Each 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 each major federal program for the year ended June 30, 2016.



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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crosslin, PLLC

Nashville, Tennessee
November 22, 2016

CITY OF CLARKSVILLE, TENNESSEE
 GAS, WATER & SEWER DEPARTMENT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2016

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 program: Unmodified

Any audit findings disclosed that are required to be reported
 in accordance with 2CFR 200.516(a)? 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: \$750,000

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.

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

The Departments had no prior year findings or questioned costs.