

Mayor: Jason Jackson
Recorder/Treasurer: Greg Bess
Alderman: Vickie Rice, Laura Smith
Raymond Hicks, Bruce Thurow
Sue Taylor, David Bathrick
City Attorney: Alexander Bigger

City of Hardy, Arkansas

124 Woodland Hills Road
Hardy, Arkansas 72542
Phone 870 856-3811, Fax 870 856-4938
www.cityofhardy.org www.facebook.com/cityofhardy



March 9, 2018

Subject: Hardy Water Works Rate Changes 2018

Annually, the City of Hardy has Ballard & Company audit the Hardy Water Works per the loan covenants required by the US Department of Agriculture. In their Audit Report for December 31, 2016 (the last audit completed) they show that the Waste Water Department lost \$95,840 (prior to adjustments). In a separate correspondence dated December 18, 2017 the Ballard auditor goes on to detail that, according to records, the Waste Water Department has been under funded since 2009. Per our USDA Loan covenants, all utilities funded (Water or Waste Water) must have sustainable yearly funding that not only pays yearly expenses but also puts some funds back for maintenance.

According to Director of Public Works Gilbreath, the Waste Water rate was last changed in 2004. Waste Water processing is an energy intensive service requiring constant electricity to pump, separate, clarify and treat the waste water. The Energy Information Administration, reports that residential electricity rates have increased national by around 20% in the late 10 years.

The City of Hardy, requested that the Arkansas Rural Water Association (ARWA) review the current rate structure for Water and Waste Water in the Hardy Water Works following the 2016 Audit by Ballard & Company. The ARWA recommends that the Waste Water Base Rate (rate per first 1,000 gallons) be increased \$4.64 to meet the loan requirements of the USDA.

The City Council of Hardy, Arkansas is therefore considering increasing the base rate **\$4.70** only with no expected change to the Water or Sanitation (Trash) Rates.

There will be a **Public Meeting Tuesday March 20, 2018 at 6:00PM at Hardy City Hall, 124 Woodland Hills Road in Hardy, AR** to discuss this rate change and hear public comments.

Prepared by

Greg Bess – Recorder/Treasurer

CITY OF HARDY, ARKANSAS
 WATER AND WASTEWATER DEPARTMENT
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>WATER FUND</u>	<u>WASTEWATER FUND</u>	<u>OTHER FUNDS IN THE AGGREGATE</u>	<u>TOTALS</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Cash received from customers	\$ 294,060	\$ 139,952	\$ 30,180	\$ 464,192
Cash paid to and/or for employees	(94,667)	(98,955)	-	(193,622)
Cash paid to suppliers	(67,864)	(136,837)	(20,168)	(224,869)
Net Cash Provided by (Used in) Operating Activities	<u>131,529</u>	<u>(95,840)</u>	<u>10,012</u>	<u>45,701</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>				
Transfers in			20,000	20,000
Transfers out	(20,000)	-	-	(20,000)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(20,000)</u>	<u>-</u>	<u>20,000</u>	<u>-</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>				
Principal paid on notes payable	(12,120)	(8,117)	-	(20,237)
Interest paid on notes payable	(21,765)	(16,219)	-	(37,984)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(33,885)</u>	<u>(24,336)</u>	<u>-</u>	<u>(58,221)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Cash received from interest earned	32	276	353	661
NET INCREASE (DECREASE) IN CASH	77,676	(119,900)	30,365	(11,859)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,087</u>	<u>242,478</u>	<u>219,726</u>	<u>463,291</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 78,763</u>	<u>\$ 122,578</u>	<u>\$ 250,091</u>	<u>\$ 451,432</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED:</u>				
(Used In) Operating Activities:				
Operating income (loss)	\$ 72,318	\$ (110,978)	\$ 13,061	\$ (25,599)
Depreciation expense	41,677	110,929	-	152,606
(Increase) Decrease in Assets and Increase (Decrease) in Liabilities:				
Receivables	62,185	(532)	(5,879)	55,774
Accounts payable	480	1,597	-	2,077
Other current liabilities	(45,131)	(96,856)	-	(141,987)
Meter deposits refundable	-	-	2,830	2,830
Net Cash Flows from Operating Activities	<u>\$ 131,529</u>	<u>\$ (95,840)</u>	<u>\$ 10,012</u>	<u>\$ 45,701</u>
<u>Total Cash and Cash Equivalents - Beginning of Year</u>				
Current assets - cash and cash equivalents	\$ 243,565			
Restricted assets - cash and cash equivalents	<u>219,726</u>			
	<u>\$ 463,291</u>			
<u>Total Cash and Cash Equivalents - End of Year</u>				
Current assets - cash and cash equivalents	\$ 201,341			
Restricted assets - cash and cash equivalents	<u>250,091</u>			
	<u>\$ 451,432</u>			

See accompanying notes and independent accountant's compilation report.

ARKANSAS RURAL WATER ASSN.

WATER:

FACILITY NAME: Hardy Waterworks

DATE: 2/5/2018

SEWER:

**** Use of this form and/or database, must be authorized by the Arkansas Rural Water Association (ARWA) or one of its state affiliates, with express consent of the ARWA. The purpose of this rate study form is to derive the needed amounts for "User's Fee's" or "Minimum Charge", and the set rate charge above either of those. It's intent is to ONLY MEET THE MINIMUM FINANCIAL OBLIGATIONS OF THE UTILITY. This study only determines rates based on each 1000 gallons used, and is reflective of a constant flat rate charge per each unit used by the customers.

YEARLY PAYMENT OF LOAN(S) PRINCIPLE: (Indicate the total yearly amount paid by the facility to meet any loan(s) principle in regard to water and/or sewer debts. This should include the total of all loans, if any, relative to each)

\$8,490.05

YEARLY PAYMENT OF LOAN(S) INTEREST: (Indicate the total yearly amount paid by the facility to meet any interest associated with any loans per year for water and/or sewer. This should include the total of all loans, if any, relative to each.)

\$15,845.95

TOTAL AMOUNT OF GALLONS OF WATER SOLD PER YEAR / OR (FOR SEWER) SHOW 80 PERCENT OF THE TOTAL AMOUNT OF GALLONS OF WATER PUMPED (NEXT FIELD): (Enter the total amount based on metered usage only. Show the figure in 1,000's. Example: 9,765,000 gallons would be shown as 9,765 in the blank provided.)

46,402,314

TOTAL AMOUNT OF GALLONS OF WATER PUMPED PER YEAR: (Show the total gallons of water pumped by the facility in the last year, in 1,000's)

37,121,851

TOTAL NUMBER OF ACTIVE CUSTOMERS: (List the total number of all active customers served by the facility.)

437

TOTAL REVENUE FROM METERED SALES: (Show the total monetary amount taken in by the facility through metered sales. Do not include bulk or non-metered sales, deposits, etc.)

\$88,398.00

TOTAL OPERATING EXPENSES PER YEAR: (List the total for ALL costs for water and/or sewer, that are expended to operate the particular system for a one year period. These may include salaries, insurance, utility costs, maintenance and repair costs, capital costs, chemical costs, rent fees, equipment costs, taxes, purchase of water (if applicable), office supply costs, miscellaneous, engineering and legal fees, etc.)

\$155,348.00

PAYMENT TO RESERVE ACCOUNT PER YEAR: (Show the yearly amount invested into a reserve account, each year, that is required by any loan documentation, if the facility has a debt service requirement referring to such. If the required minimum level has been attained, and the facility no longer funds such an account, leave this field blank.)

\$0.00

PAYMENT TO FUNDED DEPRECIATION ACCOUNT PER YEAR: (This yearly amount should reflect any actual total that is really deposited into a specific depreciation fund account for the facility, if such an account is actually funded. If not, leave this field blank.)

\$0.00

RATE STUDY FORM RESULTS PAGE

CALCULATED TOTAL YEARLY CASH REQUIREMENT: (This figure represents the total cash needed to just meet the financial obligations of the water and/or sewer utility for a one year period, based on information supplied by the facility personnel.)

\$179,684.00

CALCULATED DEBT SERVICE PER CUSTOMER PER MONTH: (This figure represents an equal debt obligation per customer, and can be used as a monthly "User's Fee".)

\$4.64

CALCULATED OPERATING COST PER 1000 GALLONS FUNDING DEPRECIATION: (This figure represents the lowest amount needed for each 1000 gallons above the minimum charge.)

\$0.00

CALCULATED OPERATING COST PER 1000 GALLONS NOT FUNDING DEPRECIATION: (This figure represents the lowest amount needed for each 1000 gallons above the minimum charge.)

\$0.00

CALCULATED SHORTAGE OF REVENUE: (Indicates the shortage of money, if any, that is needed to cover all costs / A negative figure indicates a positive surplus.)

\$91,286.00

CALCULATED AVERAGE BILL PER CUSTOMER PER MONTH: (This figure indicates an average amount needed per customer to meet all debt service and operational expenses.)

\$34.26

CALCULATED MINIMUM RATE ALLOWING 1000 GALLONS and FUNDING DEPRECIATION: (This figure can be used as a "Minimum Charge" per customer for the first 1000 gallons each month.)

\$4.64

CALCULATED MINIMUM RATE ALLOWING 1000 GALLONS and NOT FUNDING DEPRECIATION: (This figure can be used as a "Minimum Charge" per customer for the first 1000 gallons each month.)

\$4.64

CALCULATED YEARLY AVERAGE PERCENT OF WATER LOSS: (System water loss is considered to be excessive, if above 15 percent. / On a sewer rate calculation, this will indicate the amount NOT accounted for in total gallons of water pumped a year.)

-25.00%

From: Jason Jackson
Sent: Tuesday, March 13, 2018 12:48 PM
To: City of Hardy Recorder/Treasurer
Subject: Fwd: FW: Wastewater Budget

Jason E. Jackson, Mayor
124 Woodland Hills Road
Hardy, AR 72542
870-856-3811
870-710-8710

----- Forwarded message -----

From: Karen E. McGehee <karen.mcgehee@ballardcpa.com>
Date: Tue, Mar 13, 2018 at 12:43 PM
Subject: FW: Wastewater Budget
To: "mayorjasonjackson@gmail.com" <mayorjasonjackson@gmail.com>

From: Karen E. McGehee
Sent: Monday, December 18, 2017 12:11 PM
To: 'mayorjasonjackson@gmail.com'
Cc: Karen E. McGehee
Subject: Wastewater Budget

Mayor,

During our meeting last week we had discussed the financial condition of the wastewater department. Over that last several years, the wastewater department has consistently had net losses. The trash fees have basically been "carrying" it – without them the department has not shown any profit since we've started working with you in 2011. 2009 and 2010 – prepared by the former accountants – also showed losses. I've reviewed the financial statements from that time forward and adjusted the bottom line (net income/loss) for each year to take out the depreciation expense (which is a non-cash item) and the effects of the trash income / expense. Here are the adjusted net losses from 2009 – 2016:

2009 – (\$25,873)

2010 – (\$ 2,290)

2011 – (\$ 5,551)

2012 – (\$ 4,392)

2013 – (\$24,084)

2014 – (\$21,861)

2015 – (\$ 9,113)

2016 – (\$57,413)

Again, these “adjusted” losses do not include depreciation expense. Even though this is a “non-cash” expense, the City should be earning enough to be able to set money aside for future major repairs to the system as it continues to age and deteriorate.

Further, the loan covenants state that the City will not reduce rates unless the new rates will show that net revenue is at least 120% of the total annual debt payments. If these calculations were performed without the trash income/expense amounts, the City would not come close to the 120% in any of the above years – multiple years would actually have shown a negative net revenue amount.

(The loan covenants require you to maintain rates which will produce gross revenues at least sufficient to pay operations and maintenance, debt service, debt service reserves, and depreciation. Based on the above, we would recommend that you discuss the possibility of raising your wastewater rates.)

Karen E. McGehee

Karen E. McGehee, CPA

Ballard & Company, Ltd.