

**ALLEGHANY COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

Alleghany County Water District (ACWD) was established on March 8, 1939. The district's primary function is to provide water to the town of Alleghany for both domestic use and fire protection.

In 1940 Alleghany had a population of 586 (US Census). 2010 Census figures show 58 full-time residents. This represents a reduction of approximately 90% in the full-time population. Currently the district has 60 active customer accounts.

Funding the district's ever increasing operating costs with such a small customer base is the district's biggest challenge. The district currently lacks reserve funds for unexpected expenses and long-term equipment replacement costs.

The district does, from time-to-time, apply for grants. The bulk of the current infrastructure was built in 1977-78 with a 50/50 loan-grant from USDA Rural Development. That loan will be paid off in December of 2017. In 1994 the district acquired a HUD grant to upgrade the treatment plant, install additional fire hydrants and improve water circulation by connecting the two main lines. In 2015 the district applied for a Grant from the State Revolving Fund to do a Planning and Engineering Analysis for renovations of the ACWD storage tank and water sources. The \$300,000 funding agreement was finalized on November 23, 2015. Work on this project is in progress.

Building up reserve funds in order to financially stabilize the district's operation is a high priority. Sustainability over the long-term is of paramount importance. The District's Board and Management are working diligently to find ways to **1. Reduce Costs 2. Increase Revenue 3. Prevent lost revenue**. These efforts will improve the long-term viability of the district.

**1. Reduce costs**

As noted previously, the bulk of the district's infrastructure was built almost 40 years ago. The treatment plant was installed approximately 20 years ago. The amount of time and money needed to maintain the treatment plant keeps increasing. The treatment plant utilizes proprietary technology and parts. Many of the original parts are beyond their expected lifespan. Because the treatment plant utilizes proprietary technology the cost of parts and service are much higher than they would be otherwise.

The current objective of the planning project is to lay the groundwork for replacing the town's water tank and to develop at least one ground water source. If the planning phase is successful and completed through the construction phase, operating expenses are expected to decrease significantly.

## 2. Increase Revenue

The main source of regular income for the district's operation is water fees charged to its customers. The other regular source of income is property tax revenue in the amount of approximately \$5,000 per year. The property tax figure is linked to property values and is unlikely to change significantly in the foreseeable future. Alleghany is a low-income community and its ability to tolerate fee increases is limited. In 2015, the district utilized the services of an outside firm (at no cost) to do a rate analysis. The main purpose of the rate analysis was to find a way to restructure the district's rates in such a way that water production costs would be more equitably spread among the district's customers and to increase revenue. After two public hearings and multiple revisions, a new rate structure was adopted on May 10, 2016. It went into effect July 1, 2016 (FY16/17).

## 3. Prevent Lost Revenue

An internal audit of the billing program in July of 2015 found that the billing program was not calculating water use overage fees correctly. The error favored the customer and though not significant added up over time. After several months of working with the software vendor to fix the problem it was determined that the rate structure was not compatible with the software program. The district's new rate structure is compatible with the software program.

A recent analysis of water produced versus sold revealed that on a monthly basis an average of 25% more water is produced than what is sold. It should be noted that according to State sources, 20% is typical; even though the new industry standard has been set at 10%. The cause of this discrepancy is a potential source of lost revenue and/or higher expenses. Several factors can create this discrepancy: use of unmetered water outlets such as fire hydrants, inaccurate meters and/or water leaks. The district borrowed leak detection equipment in 2015 but no leaks were located. The district plans on checking the accuracy of the water meters in the current fiscal-year and will continue to monitor the situation.

## Comparison of budgeted versus actual results

Operating revenue came in as budgeted. Grant income came in \$199,443 (80%) lower than projected due to the Planning Project progressing slower than anticipated. Other income came in \$1,461 (471%) higher than projected due to restricted donations collected for an appreciation award.

Total audited operating expenses came in \$13,181 (5%) lower than budgeted primarily due to differences between the audited accounting results and the partially cash-based budget procedure utilized by district management. \$6,018 of the debt service expense of \$6,780 on the budget sheet was applied against the USDA Loan liability account on the audited statements. Additionally, the district does not have the resources for a capital replacement program and thus does not budget for depreciation expense. This amount (\$16,667) was offset by the fact that planning project costs of \$50,548 were included on the budget sheet under "expenses" but the auditor determined that these costs should be capitalized.

Specific operating expense categories with a significantly high (10% or more) variance between budgeted and actual results include: Audit/Legal \$200 (10%) due to unanticipated legal fees associated with proposition 218 requirements, Water System Labor \$1,472 (30%) due to unanticipated system repair needs along with time spent conducting leak detection, Water tests \$1,327 (166%) due to an unanticipated water testing directive from the State of California, Office expense \$506 (50%) due to the carryover of an office supply bill that got lost in the mail from the previous year combined with the fact that the district changed banks and had to purchase new checking supplies, mileage \$236 (23%) related directly to the unanticipated water tests mentioned above as well as trips related to repair needs, miscellaneous/contingency \$1,217 (811%) due to an appreciation award offset by the restricted donations noted under “revenues” above.

Specific operating expense categories with a significantly low (10% or more) variance between budgeted and actual results include: Planning Project Engineering \$248,000 (100%) due to the decision to capitalize these expenses, Administration \$685 (38%) due to donated bookkeeping services, Utilities \$903 (20%) due to water conservation efforts (less water produced), Loan payment debt service \$6,780 (100%) as this amount is a balance sheet change (cash-basis versus accrual accounting) as noted above with the interest portion of these payments in the amount of \$762 moved to “other expenses”.

Non-operating revenues came in approximately as projected with the exception of fundraising and donation income which came in 100% higher than projected because it was not counted on during the budget process. (conservative approach to revenue projection).

Non-operating expenses came in approximately as projected with the exception of interest expense which was included in the debt service category of “operating expenses” on the budget sheet and Historical Church Repairs & Maintenance which came in \$623 (31%) lower than projected due to less work accomplished on the building in FY 15/16 than was hoped for.

The year-end results show a net gain of \$38,579 primarily due to planning project income of \$50,557 and the corresponding expenditures which were allocated to fixed assets.

**ALLEGHANY COUNTY WATER DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Operating Revenues				
Water service fees	\$ 27,200	\$ 27,200	\$ 27,187	\$ (13)
Grant income	250,000	250,000	50,557	(199,443)
Other	310	310	1,771	1,461
Total Operating Revenues	<u>277,510</u>	<u>277,510</u>	<u>79,515</u>	<u>(197,995)</u>
Operating Expenditures:				
Planning project engineering	248,000.00	248,000.00	-	248,000
Insurance	4,629	4,629	4,379	250
Audit/Legal	2,000	2,000	2,200	(200)
Administration	1,800	1,800	1,115	685
Water system labor	4,864	4,864	6,336	(1,472)
Utilities	4,392	4,392	3,489	903
Water tests	800	800	2,127	(1,327)
Office expense	1,000	1,000	1,506	(506)
System maintenance/repairs	3,200	3,200	3,365	(165)
Permit fees and dues	910	910	965	(55)
Mileage	1,034	1,034	1,270	(236)
Chemicals	1,000	1,000	954	46
Miscellaneous/contingency	150	150	1,367	(1,217)
Loan payment - debt service	6,780	6,780	-	6,780
Depreciation	-	-	16,667	(16,667)
Total Operating Expenditures	<u>280,559</u>	<u>280,559</u>	<u>45,740</u>	<u>(13,181)</u>
Excess of Operating Revenues/(Expenditures)				
Over Operating Expenditures/(Revenues)	<u>(3,049)</u>	<u>(3,049)</u>	<u>33,775</u>	<u>36,824</u>
Non-Operating Revenues				
ACWD - Property taxes	5,000	5,000	4,682	(318)
ACWD - Historical Church administration	120	120	120	-
Historical Church - Rental	1,500	1,500	1,500	-
Historical Church - Fundraisers	-	-	1,482	1,482
Park - Fundraisers	-	-	30	30
Park - Donations	-	-	253	253
Total Non-Operating Revenues	<u>6,620</u>	<u>6,620</u>	<u>8,067</u>	<u>1,447</u>