

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

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

When the district was formed, Alleghany had a population of approximately 586 (1940 US Census). The most recent census (2010) recorded 58 full-time residents. This represents a 90% decrease over seventy years. However; the number of part-time residents as a percentage of the total population has increased in recent years. Currently ACWD has 56 active customer accounts.

Sustaining its operation with such a small customer base is ACWD's biggest challenge. Balancing sustainability with affordability is a daunting task. The Board and Staff donate many volunteer hours to the district on a regular basis to keep it functioning.

ACWD 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 was paid off in November of 2017. As a direct result of this loan pay-off the district has been able to start building up a contingency fund.

Work-in-progress

In early 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. A \$300,000 funding agreement for this project was signed on November 23, 2015.

The primary objective of this funding agreement was to find the most sustainable means of supplying the town's drinking water. Changing the main water source from "ground water under the influence of surface water" to "ground water" was a known way to reduce water production costs, but whether-or-not this could be done with the currently used Ram Spring was uncertain. Because of the unknowns with the Spring the district was encouraged by the State Division of Drinking water to try vertical test wells. The test wells were not successful (inadequate water quantity and quality). As a result of this, in March of 2017 the planning project budget was increased from \$300,000 to \$500,000.

In May of 2017 driven pipes were installed at the Ram Spring in order to minimize surface water infiltration. This was funded by the existing planning project. As a result of this drilling, and with subsequent water quality testing; on October 20, 2017 the Division of Drinking water amended the Permit for the Ram Spring changing its classification to "ground water". This new classification eliminates the need for a treatment plant and lessens several regulatory requirements. This will save the district both time and money over the long-term.

The Planning Project is ongoing with a potential secondary water source undergoing water quality testing and a final plan for the pumphouse still in progress. An application for a future construction project will be submitted to the State Funding Division once the planning is completed.

The water tank portion of the planning project was completed in 2016 and a new funding agreement for construction of the water tank was executed on July 20, 2017. Tank construction is expected to be completed by the end of December 2018.

Budget Procedure Notes

The enabling legislation for County Water Districts requires charging rates sufficient to cover operating expenses, repairs & depreciation and debt payments. However; there are also Federal guidelines in place regarding affordable rates for basic services such as water. An income survey of Allegheny in December of 2016 showed a Median Household Income (MHI) figure of \$18,996. The EPA defines "affordable" potable water as a cost equal to or less than 2.5% of the Median Household Income of the community. In Allegheny's case this equals \$39.58 per month. ACWD's monthly rate of \$40 is close to this figure but does NOT generate enough revenue to cover depreciation expense. As a result, ACWD does not budget for depreciation because an income source to cover it has not been identified.

For managerial purposes ACWD has opted to *not* include the current State Funded Projects in its budget. The Projects are paid on a reimbursement basis (a wash) and it is very difficult to project the timing of the actual work.

The district's budget worksheet combines both "cash-based" and "accrual" projections in order to ensure that adequate cash is available to cover operating expenses and maintain reserve funds.

Comparison of budgeted versus actual results

Audited actual results vary significantly from the adopted budget because the audited results include both depreciation expense and the State Funded Project (Grant). Also, the audited results are on a strictly accrual basis and the budget worksheet combines both accrual and cash-based projections. (see notes above)

Operating revenue: Water Service revenue came in \$2,355 (8%) lower than projected primarily due to lower water usage and the loss of a customer account. Grant income came in \$67,807 higher than projected due to the fact that the district does not include the State Funded Project in its budget as noted above.

Operating expense overages: The district's insurance expense increased by \$502 (13%) and Audit fees increased by \$500 (20%) both due to increased costs. Water tests were \$305 (25%) higher than budgeted due to an unexpected new testing requirement. Office expense came in \$565 (62%) higher than projected because "Dues and Subscriptions" were added to this category after the budget was adopted (previously combined with "Fees"). Depreciation is not included in the budget as noted above.

Operating expenses under budget: Administration came in \$410 (21%) lower than projected due to the lack of a Secretary for part of the year (volunteer interim secretary). Labor came in \$641 (10%) lower due to fewer repair needs. Utilities came in \$2,200 (46%) lower than projected due to lower water production as noted under "revenue" and the elimination of the treatment plant, as did maintenance and repairs at \$802 (22%) and Chemicals \$233 (25%). "Permits fees and dues" no longer includes "dues" as noted above, so came in \$304 (43%) lower than projected. Mileage came in \$253 (19%) lower as a result of fewer repair needs than projected.

Non-operating revenues came in as projected with the exception of fundraising and donation income which came in 100% higher than projected because ACWD takes a conservative approach to revenue projections.

Non-operating expenses Historical Church Fundraising expense is offset by fundraising revenue as noted above. Historical Church Repairs & Maintenance came in \$5,428 (90%) lower than projected because the cost of rewiring the building that was included in the budget (cash-based) was capitalized. Park supplies and maintenance came in \$2,437 (609%) higher than projected because a fountain was purchased for the park utilizing donations specifically for that purpose. Because the district does not own the park, this item will not be capitalized on the district's books.

The year-end results show a positive fund change of \$58,848 primarily due to the State Funded Projects Grant Income of \$67,807 which was offset by the re-occurring standard depreciation entry.

ALLEGHANY COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Water service fees	\$ 29,400	\$ 29,400	\$ 27,045	\$ (2,355)
Grant income	-	-	67,807	67,807
Other	250	250	485	235
	<u>29,650</u>	<u>29,650</u>	<u>95,337</u>	<u>65,687</u>
Total Operating Revenues				
Operating Expenditures:				
Insurance	3,854	3,854	4,356	(502)
Professional Services	2,500	2,500	3,000	(500)
Administration	2,000	2,000	1,590	410
Water system labor	6,560	6,560	5,919	641
Utilities	4,820	4,820	2,620	2,200
Water tests	1,200	1,200	1,505	(305)
Office expense	900	900	1,465	(565)
System maintenance/repairs	3,670	3,670	2,868	802
Permit fees and dues	700	700	393	307
Mileage	1,300	1,300	1,047	253
Chemicals	900	900	667	233
Miscellaneous/contingency	96	96	-	96
Depreciation	-	-	16,831	(16,831)
	<u>28,500</u>	<u>28,500</u>	<u>42,261</u>	<u>(13,761)</u>
Total Operating Expenditures				
Excess of Operating Revenues Over Operating Expenditures	<u>1,150</u>	<u>1,150</u>	<u>53,076</u>	<u>51,926</u>