

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023**

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 (2020) recorded 55 full-time residents. This represents a 90% decrease in the population over eighty years. It is notable that the change in population between the 2010 and 2020 census was a decrease of only 3 individuals. This is the first time in approximately 80 years that the census data has not recorded a significant decrease in the town's population. Currently ACWD has 53 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 started building up a contingency fund.

Recently completed projects:

In 2015 the district was awarded a loan with debt forgiveness (grant) from the Water Resources Control Board's State Revolving Fund for a Planning and Engineering Analysis of the ACWD storage tank and water sources.

The primary objective of the planning project was to find the most sustainable way to supply the town's drinking water in compliance with State and Federal Drinking Water Standards. The two major concerns at that time were the poor condition of the main water storage tank and treatment plant. The lack of water source redundancy was also a concern. Changing the main water source (the Ram Spring) from "ground water under the influence of surface water" to "ground water" was a known way to reduce water production costs. Because of environmental concerns about drilling at the Spring, the district was encouraged by the State Engineers to try vertical test wells. Two vertical wells would have solved both the surface water and the redundancy issues if successful. However, the vertical test wells were not successful (inadequate water quantity and quality).

After the vertical test wells proved unviable, in May of 2017, as part of the planning project, driven pipes were installed at the Ram Spring to minimize surface water infiltration. As a result of this drilling, and with subsequent water quality testing; on October 20, 2017 the State 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, saving both time and money over the long-term.

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. The new water storage tank was put online in November of 2018 but started leaking in October of 2021. Warranty work to repair the water tank is expected to commence in late April 2024. Funding has been awarded from the State Regional Water Quality Control Board to provide engineering oversight for the warranty repairs, plus the addition of Cathodic Protection. (two separate agreements).

The water source redundancy portion of the original planning project had to be abandoned due to budget constraints.

The Ram Spring portion of the Planning Project was completed on December 1, 2020 and an application for construction was started immediately. The funding agreement for the Ram Spring Construction Project was signed in October of 2023 (after the close of this fiscal year) and is for up to 1.5 million dollars. Work is expected to commence in early 2024.

Pending Projects

The Ram Spring Improvement Project will reconfigure the facilities at the Ram Spring to accommodate the changes made during the planning project (installation of driven pipes & removal of the treatment plant) and to address a few other issues based on the alternatives analysis completed as part of the Planning Project.

There were substantial delays in completing the Ram Spring Improvement Project's (RSIP) construction application. The main delay was difficulty in navigating the environmental requirements. A technical assistance award from the Calif. State Water Control Board Department of Finance was awarded in 2021 to complete the environmental paperwork for the RSIP construction with most of the environmental work completed and a portion of it being added to the construction project. The construction project also includes the replacement of residential water meters funded by a program for low-income communities.

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 State and Federal guidelines in place regarding affordable rates for basic services such as water. ACWD's Board and Staff have not found a way to cover depreciation expense while maintaining affordable water rates with so few customers. **As a result, ACWD does not budget for depreciation.**

The district's budget worksheet combines both "cash-based" and "accrual" projections 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 audit documents include depreciation and are on a strictly accrual basis. Audit documents convert the district's bookkeeping data to Generally Accepted Accounting Standards for governmental agencies. (see notes above).

Operating revenue: Water Service revenue came in as projected.

Operating expenses: Payroll expenses came in \$1,348 (11%) lower than expected due to minimal extra repair needs for the year. Water Operations expense came in \$2,507 (64%) lower than expected for the same reason. Misc. Contingency expense came in \$211 (42%) high because of some spring project expenses that were moved into that category. Overall, operating expenses came in \$28,651 higher than projected because of the depreciation expense of \$31,561 which is not included in the budget. All other operating expenses combined (minus depreciation) came in \$3,216 lower than projected for the year.

Non-operating revenues Actual results came in \$594 (10%) higher than projected, mainly due to property tax revenue \$489 higher than expected.

Non-operating expenses Total non-operating expenses came in \$1,438 (49%) lower than projected due to the district not purchasing a heater as intended for the historical church.

The year-end results show a negative budget net change variance of \$26,313. This is primarily due to the depreciation expense of \$31,561 which was not included in the budget as noted above. That is offset by the expenses which came in lower than projected as noted above.

ALLEGHANY COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2023

ALLEGHANY COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u> |
|---|-------------------------|----------------|-----------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Operating Revenues | \$ 28,884 | \$ 28,884 | \$ 28,410 | \$ (474) |
| Water service fees | - | - | 780 | 780 |
| Other | | | | |
| Total Operating Revenues | <u>28,884</u> | <u>28,884</u> | <u>29,190</u> | <u>306</u> |
| Operating Expenditures: | | | | |
| Payroll & payroll tax expenses | 12,700 | 12,700 | 11,352 | 1,348 |
| Professional services | 3,100 | 3,100 | 2,950 | 150 |
| Utilities | 3,628 | 3,628 | 3,876 | (248) |
| Water operations | 6,432 | 6,432 | 3,925 | 2,507 |
| Office expense | 1,363 | 1,363 | 1,450 | (87) |
| Insurance | 5,700 | 5,700 | 6,249 | (549) |
| Miscellaneous/contingency | 501 | 501 | 712 | (211) |
| Depreciation | - | - | 31,561 | (31,561) |
| Total Operating Expenditures | <u>33,424</u> | <u>33,424</u> | <u>62,075</u> | <u>(28,651)</u> |
| Excess of Operating Expenditures Over Operating Revenues | <u>(4,540)</u> | <u>(4,540)</u> | <u>(32,885)</u> | <u>(28,345)</u> |

ALLEGHANY COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Non-Operating Revenues | | | | |
| ACWD - Property taxes | 4,300 | 4,300 | 4,789 | 489 |
| ACWD - Historical Church admin | 240 | 240 | 240 | - |
| Historical Church - Rental | 1,500 | 1,500 | 1,500 | - |
| Donation/miscellaneous income | - | - | 105 | 105 |
| | | | | |
| Total Non-Operating Revenues | <u>6,040</u> | <u>6,040</u> | <u>6,634</u> | <u>594</u> |
| | | | | |
| Non-Operating Expenditures: | | | | |
| Historical Church - Insurance | 250 | 250 | 250 | - |
| Historical Church - Utilities | 200 | 200 | 133 | 67 |
| Historical Church - Administration | 240 | 240 | 240 | - |
| Historical Church - Supplies, small equip | 1,500 | 1,500 | - | 1,500 |
| Library | 500 | 500 | 524 | (24) |
| Park - Supplies and maintenance | 150 | 150 | - | 150 |
| Park - Solid waste fee | 92 | 92 | 107 | (15) |
| | | | | |
| Total Non-Operating Expenditures | <u>2,932</u> | <u>2,932</u> | <u>1,254</u> | <u>1,678</u> |
| | | | | |
| Excess of Non-Operating Revenues Over Non-Operating Expenditures | 3,108 | 3,108 | 5,380 | 2,272 |
| | | | | |
| Total Excess of Revenues Over/(Under) Expenditures | (1,432) | (1,432) | (27,505) | (26,073) |
| | | | | |
| Fund Balance, beginning of year | <u>1,231,774</u> | <u>1,231,774</u> | <u>1,231,774</u> | |
| | | | | |
| Fund Balance, end of year | <u>\$ 1,230,342</u> | <u>\$ 1,230,342</u> | <u>\$ 1,204,269</u> | |

ALLEGHANY COUNTY WATER DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2023

Note 1 **PURPOSE OF STATEMENTS AND SCHEDULES**

A. **Budgetary Schedule of Comparison**

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the authority is required to present a budgetary comparison schedule for the General Fund and each Major Special Revenue Fund that has an adopted budget. This schedule presents the original adopted budget and the actual revenue and expenditures of the General Fund.