

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2020**

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.

Recently completed projects:

In 2015 the district was awarded a loan with debt forgiveness (grant) from the State Revolving Fund to do a Planning and Engineering Analysis for renovations of the ACWD storage tank and water sources.

The primary objective of this funding agreement was to find the most sustainable way to supply the town's drinking water in compliance with State laws. The two major concerns at that time were the 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 concerns about drilling at the Spring, the district was encouraged by the State 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).

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.

The redundancy portion of the planning project had to be abandoned due to budget constraints

Pending Projects

The Ram Spring portion of the Planning Project will be completed by December 1, 2020. The district is in the process of applying for funds from the State Revolving Fund for a construction project that

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2020**

will reconfigure the facilities at the Ram Spring to accommodate the changes related to the driven pipes (no treatment plant) and address a few other issues based on the alternatives analysis completed as part of the Planning Project.

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 Alleghany 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 Alleghany'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 (for discrepancies of 10% or more)

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 about as projected. Grant income came in \$232,664 higher than projected because the district does not include the State Funded Project in its budget as noted above. Other income came in \$508 (254%) higher than projected primarily due to late fees paid by customers.

Operating expense overages: Payroll expenses came in \$10,847 (10,847) higher than projected due to extra labor required related to repair work needed on the new water tank. The bulk of the work was covered under warranty, but the district was not compensated for the extra employee hours needed to accommodate the contractor. Chemicals cost \$412 (69%) more than projected due to underestimating the amount of chemicals needed now that there is no treatment plant. Depreciation is not included in the budget as noted above.

Operating expenses under budget: Administration came in \$155 (31%) lower than projected due to the donation of some work that was expected to be paid for. Permit fees and dues were \$200 (29%) lower than projected. The district takes a conservative approach to the budget process, relying on budget history to ensure that enough funds are allocated to for potential expenses.

Non-operating revenues Property tax revenue came in \$577 (12%) lower than projected due to decreased property values in Alleghany.

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2020**

Non-operating expenses Historical Church Repairs & Maintenance shows a favorable variance of \$660 but \$4,643 was spent to re-shingle the back of the building and it was capitalized.

The year-end results show a positive fund change of \$157,327 primarily due to the State Funded Projects Grant Income of \$233,264. This was offset by the standard depreciation entry of \$30,184 plus a loss of \$40,000 in book value for the old treatment plant which was not fully depreciated when it was sold as surplus.

ALLEGHANY COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Water service fees	\$ 26,880	\$ 26,880	\$ 28,396	\$ 1,516
Grant income	600	600	233,264	232,664
Other	200	200	708	508
Total Operating Revenues	<u>27,680</u>	<u>27,680</u>	<u>262,368</u>	<u>234,688</u>
Operating Expenditures:				
Payroll & payroll tax expenses	8,580	8,580	19,427	(10,847)
Insurance	5,600	5,600	5,401	199
Professional services	2,800	2,800	2,920	(120)
Administration	500	500	345	155
Water system labor	-	-	480	(480)
Utilities	3,480	3,480	3,364	116
Water tests	1,500	1,500	1,586	(86)
Office expense	1,305	1,305	1,372	(67)
System maintenance/repairs	3,000	3,000	3,069	(69)
Permit fees and dues	700	700	500	200
Mileage	1,000	1,000	1,005	(5)
Chemicals	600	600	1,012	(412)
Miscellaneous/contingency	457	457	575	(118)
Depreciation	-	-	30,184	(30,184)
Total Operating Expenditures	<u>29,522</u>	<u>29,522</u>	<u>71,240</u>	<u>(41,718)</u>
Excess of Operating Revenues Over Operating Expenditures	<u>(1,842)</u>	<u>(1,842)</u>	<u>191,128</u>	<u>192,970</u>

**ALLEGHANY COUNTY WATER DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Non-Operating Revenues				
ACWD - Property taxes	5,000	5,000	4,423	(577)
ACWD - Historical Church administration	240	240	240	-
Historical Church - Rental	1,500	1,500	1,500	-
Historical Church - Fundraisers	-	-	580	580
Park - Donations	-	-	117	117
Loss on disposition of assets	-	-	(39,500)	(39,500)
Total Non-Operating Revenues	<u>6,740</u>	<u>6,740</u>	<u>(32,640)</u>	<u>(39,380)</u>
Non-Operating Expenditures:				
Historical Church - Insurance	250	250	250	-
Historical Church - Utilities	200	200	127	73
Historical Church - Administration	240	240	240	-
Historical Church - Repairs/maintenance	1,000	1,000	340	660
Park - Supplies and maintenance	360	360	17	343
Park - Solid waste fee	188	188	187	1
Total Non-Operating Expenditures	<u>2,238</u>	<u>2,238</u>	<u>1,161</u>	<u>1,077</u>
Excess of Non-Operating Revenues Over Non-Operating Expenditures	<u>4,502</u>	<u>4,502</u>	<u>(33,801)</u>	<u>(38,303)</u>
Total Excess of Revenues Over Expenditures	<u>2,660</u>	<u>2,660</u>	<u>157,327</u>	<u>154,667</u>
Fund Balance, beginning of year (restated)	<u>1,132,820</u>	<u>1,132,820</u>	<u>1,132,820</u>	
Fund Balance, end of year	<u>\$ 1,135,480</u>	<u>\$ 1,135,480</u>	<u>\$ 1,290,147</u>	