

**ALLEGHANY COUNTY WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

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% reduction 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 57 active customer accounts.

Sustaining its operation with such a small customer base is ACWD's biggest challenge. To help address this challenge, ACWD engaged the services of an outside firm to analyze its water rates in April of 2015. After two public hearings and multiple revisions, a new rate structure was adopted on May 10, 2016. The new rates went into effect on July 1, 2016. Current rates are: \$40 per month for up to 8,000 gallons of water and .003 per gallon (\$3.00 per thousand gallons) for all usage over 8,000 gallons.

ACWD currently lacks reserve funds for unexpected expenses and long-term equipment replacement. However; over the past few years the district has made progress towards more carefully tracking its expenses and cash-flows. ACWD adopted a Contingency Fund Policy on March 21, 2017 and anticipates being able to start making deposits into the contingency fund in Fiscal Year 2018-2019.

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 will be paid off by December 1, 2017. The pay-off of this loan will have a significant positive impact on the district's cash-flow freeing up \$6,780 per year or approximately 19% of the estimated annual operating income of \$35,000.

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. A cost-benefit analysis for replacing versus refurbishing the existing water storage tank concluded that replacement was the most cost-effective option. The water-source portion of the planning & engineering analysis proved to be less straight-forward. ACWD was encouraged by the State to examine the feasibility of installing two vertical wells in an attempt to eliminate the need for a water treatment plant thus lowering operating costs. ACWD was assured that if the test wells weren't viable the project would go back to looking at the best way to upgrade the Ram Spring (existing water source). As it turned out, the wells were not viable due to low water production and the presence of naturally occurring arsenic. As a result of the problems with the test wells, in March of 2017 the funding agreement 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 at the site. This was funded by the existing planning project. Testing to determine if the classification of this water can be changed from "ground water under the influence of surface water" to "ground water" is underway. The results of these tests will help the State and ACWD determine the best water treatment option for the Ram Spring.

The water tank portion of the planning project is complete and a new funding agreement for construction of the water tank was executed on July 20, 2017 for up to \$700,000. Tank construction is expected to be completed by early summer 2018.

### Budget Procedure Notes

The enabling legislation for County Water Districts, State Water Code Section 30000 and specifically section 301007 requires charging rates sufficient to cover *"a. operating expenses of the district b. repairs & depreciation - c. interest on any bonded debt d. payment of principle on any bonded debt"*. However; there are also Federal guidelines in place intended to protect the public from being charged prohibitive rates for basic services such as water. An income survey of Allegheny was completed on December 1, 2016 resulting in a Median Household Income (MHI) figure of \$18,996. The EPA's stated view on affordable potable water is that it is affordable if it is equal to or less than 2.5% of the Median Household Income of the community. For a MHI of \$18,996 this equals \$39.58 per month. ACWD's newly adopted rates are close to this figure but are NOT sufficient to cover its depreciation expense. **ACWD does not budget for depreciation because an income source to cover it has not been identified.**

For managerial purposes ACWD has also opted not to include the State Funded Projects in its adopted budget. The State Funded Projects are paid on a reimbursement basis, thus they do not significantly impact the district's cash-flow. With the exception of the cost of the test wells which were unsuccessful, all other expenses associated with the State Funded Projects are being capitalized in a "Construction in Progress" asset account.

### 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).*** (see notes above)

Operating revenue: Water Service Fees were \$2,007 (7%) higher than projected primarily due to unanticipated unmetered water sales of \$750 combined with the district's first year with the new water rates in place. Grant income came in \$274,702 higher than projected due to the fact that the district does not include the State Funded Project in its budget as noted above.

Operating expenses: Excluding depreciation expense and the State Funded Project Expenses, most of the district's expenses came in as projected. The only two notable exceptions were Utilities which came in \$848 (21%) higher than projected and System Repair & Maintenance which came in \$1,913 (49%) higher than projected. The higher utility expense is offset by the higher water revenue: there is a direct correlation between how much water is sold and how much electricity is used. System Repair & Maintenance was high because a major pump repair was needed in July of 2016.

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

Non-operating expenses came in approximately as projected with the exception of fundraising expenses which were offset by the fundraising income mentioned above. Historical Church Repairs & Maintenance came in \$2,000 (100%) lower than projected because no work was done on the building as had been planned.

The year-end results show a positive fund change of \$24,078 primarily due to the State Funded Projects Grant Income of \$274,702 which was offset by the cost of the test wells and the re-occurring standard depreciation entry. (see budget procedure notes above).

**ALLEGHANY COUNTY WATER DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Water service fees	\$ 28,920	\$ 28,920	\$ 31,127	\$ 2,207
Grant income	-	-	274,702	274,702
Other	510	510	633	123
	<u>29,430</u>	<u>29,430</u>	<u>306,462</u>	<u>277,032</u>
Total Operating Revenues				
	<u>29,430</u>	<u>29,430</u>	<u>306,462</u>	<u>277,032</u>
Operating Expenditures:				
Planning project engineering	-	-	238,403	(238,403)
Insurance	3,531	3,531	3,854	(323)
Professional Services	3,000	3,000	2,373	627
Administration	2,000	2,000	1,605	395
Water system labor	6,160	6,160	6,291	(131)
Utilities	3,900	3,900	4,748	(848)
Water tests	1,412	1,412	1,387	25
Office expense	983	983	1,035	(52)
System maintenance/repairs	3,876	3,876	5,789	(1,913)
Permit fees and dues	900	900	602	298
Mileage	1,000	1,000	1,219	(219)
Chemicals	1,000	1,000	859	141
Miscellaneous/contingency	129	129	138	(9)
Depreciation	-	-	16,667	(16,667)
	<u>27,891</u>	<u>27,891</u>	<u>284,970</u>	<u>(18,676)</u>
Total Operating Expenditures				
	<u>27,891</u>	<u>27,891</u>	<u>284,970</u>	<u>(18,676)</u>
Excess of Operating Revenues				
Over Operating Expenditures	<u>1,539</u>	<u>1,539</u>	<u>21,492</u>	<u>19,953</u>