

**ALLEGHANY COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2019**

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 expected to be completed by March 1, 2020. The secondary water source portion of the project had to be abandoned due to budget constraints. Both an environmental and an engineering analysis of alternatives will guide the application for a future construction project, to accomplish the goals that are feasible.

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.

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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

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 \$2,354 (8%) higher than projected primarily due to two new customer accounts. Grant income came in \$784,715 higher than projected due to the fact that the district does not include the State Funded Project in its budget as noted above. Other income came in \$514 (257%) higher than projected primarily due to late fees paid by customers.

Operating expense overages: Payroll expenses of \$1,504 were not included in the budget because prior to April 1, 2019 all labor was supplied under contract. Well drilling of \$17,739 is actually previous year's expenses related to the failed test wells. Depreciation is not included in the budget as noted above.

Operating expenses under budget: Administration came in \$290 (17%) lower than projected due to the fact that the bookkeeper became an employee on April 1st and her wages are included in the payroll expenses noted above. Utilities came in \$755 (19%) lower than projected primarily due to the elimination of the treatment plant. Maintenance and repairs came in \$944 (18%) lower than expected even with an expenditure of \$2,500 for two 6,500-gallon portable water storage tanks. "Permits fees and dues" came in \$135 (19%) lower than projected. Mileage came in \$561 (43%) lower as a result of fewer repair needs 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 \$1,072 (21%) higher than expected due to the conservative budget approach mentioned above. Fundraising and donation income also came in 100% higher than projected because of the conservative approach to revenue projections utilized by ACWD.

Note:

A bookkeeping error was found after the audit was done. Property tax revenue was overstated by \$1,500⁻⁴⁻. It will be corrected with the FY 19/20 audit.

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Non-operating expenses: Historical Church Repairs & Maintenance came in \$795 (99%) lower than projected because the expected purchase of a heater was not made. Park supplies and maintenance came in \$82 (22%) lower than projected because the park only needed to be weed-eated once during the fiscal year. (The timing varies depending on the weather).

The year-end results show a positive fund change of \$755,540 primarily due to the State Funded Projects Grant Income of \$784,715. This was offset by the standard depreciation entry.