

ENGAGEMENT REPORT

Prepared for

CAMDEN COUNTY PWSD #4

JULY 2016

PRIVILEGED AND CONFIDENTIAL

Prepared By

Boone Partners, LLC
1734 Clarkson Road Suite 279
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REPORT OF INDEPENDENT CONSULTANT

Roger Sallee
President, Board of Directors
Camden County PWSD #4

Boone Partners, LLC (“*Boone Partners*”) has been asked and engaged by Camden County PWSD #4 (“*CCPWSD*”) to provide an Engagement Report (the “*Report*”) with respect to the reasonableness of acquiring the assets, obligations, and customer base of Lake Region Water & Sewer Company (“*LRWS*”) for an estimated \$6.4 million (the “*Offer*”), subject to final negotiation, agreement among parties and documentation.

Scope of Work

The scope of the engagement was limited to the examination of financial statements of LRWS provided by CCPWSD and providing information to CCPWSD on differing valuation methods based on historic and current market conditions.

In order to determine the reasonableness of this acquisition price we reviewed and studied LRWS’s assets, revenues, expenses, cash flows, and projections over the last several years, reviewed financial and valuation models, looked at comparable transactions (where available), and corresponded and conducted discussions with the party’s advisors.

Our work consisted of an examination of market value indication models and methodologies including current assessment data of cost, revenue and income, current water company sale listings (where available) and comparable private or public water company acquisition information (where available). This data was analyzed in order to arrive at an estimated range of values to determine the reasonableness of the Offer.

The information provided in this Report serves as the basis for our findings, observations and opinion. It is intended to be used solely by the Board for information purposes and solely for the purpose of determining the reasonableness of the acquisition price currently being negotiated. Boone Partners’ written consent must be obtained prior to any other use. The content of this Report may not be disclosed to unrelated third parties (other than independent auditors or the extent disclosure is required by law, an order of a court or governmental or regulatory agency) without our prior written consent. The conclusions reached represent the considered opinion of Boone Partners based solely on information provided by CCPWSD (the “*Documents*”).

CCPWSD's Responsibility

CCPWSD is responsible for the accuracy and completeness of the information provided and contained in the Documents including the responsibility for internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. This Report is not intended (i) to be an audit of the accuracy, completeness or validity of the Documents, (ii) to express an opinion on the internal controls or existing auditing programs of CCPWSD or LRWS or (iii) to express a legal opinion on the validity or enforceability of the acquisition. We have not audited, reviewed, or compiled the information in the Documents and, accordingly, we express no audit opinion or any other form of assurance on this information.

Boone Partners' Responsibility

Our responsibility is limited to providing an opinion on reasonableness of the proposed acquisition price. Boone Partners is not acting in an advisory capacity nor does it owe a fiduciary duty to CCPWSD, LRWS, their owners or outside advisors. Findings, observations, and opinions herein are valid as of the date of this Report and we have no obligation to update this Report for information that comes to our attention at a later date.

Assertions and opinions expressed constitute judgments as of the Report date and, along with other information provided, are subject to change without notice. This Report is for informational purposes only and is not recommending an action to either CCPWSD, LRWS, their owners or outside advisors. Notwithstanding the assertions and opinions herein, no representation, guarantee or warranty, express or implied is made as to the achievability of the results contemplated by the proposed acquisition price that is the focus of this examination. Differences between actual and expected results may be material; and achievement of the desired results is dependent on actions, plans, and assumptions of CCPWSD, LRWS, their owners or outside advisors. Conclusions reached herein are based on the assumption that the current level of management expertise and effectiveness will continue to be maintained, and that the character and integrity of the enterprise through any future change of control would not be materially or significantly changed.

Findings and Observations

The following findings and observations serve to establish a reasonable and adequate basis for arriving at an estimated range of values which were then compared to the Offer. It is understood CCPWSD desires to acquire LRWS assets and its operations for a reasonable price and that CCPWSD believes a combination of the current market and operations of both entities under a commonly owned Water System is in the best interests of both entities and their customers. We concur with this assessment based on our examination of LRWS's financial information, conversations with the party's advisors, and from prior experience with previous system integrations already in place.

Our understanding is that under the proposed acquisition terms CCPWSD would acquire all the assets, operations and customer base of LRWS for an estimated (but still to be negotiated) one-time payment of approximately \$6.4 million. This acquisition would be subject to the approval of the Missouri Public Services Commission which is not expected to be unreasonably withheld. Upon closure of the sale and acquisition, LRWS would no longer directly or indirectly own any of the

assets of the LRWS system. Those would be transferred to CCPWSD under a Sale and Purchase Agreement.

We examined the Documents to determine the value of LRWS and the reasonableness of the proposed acquisition.

We found:

- The Documents included LRWS Annual Reports and internal financial statements for 2013, 2014, and 2015, the budget for 2016, and other internal projections. We compared the Annual Reports with the internal financial report and reconciled any differences that were found based on information provided.
- Internal budget projections provided for 2016 were used to estimate projected 2016 and 2017 free cash flow (cash available for debt service) of \$364,902 and \$413,426, respectively (see Exhibit 1). Our estimate of LRWS's book value of \$1,014,713 was based on the 2015 PSC Annual Report with an adjustment for projected 2016 results.
- Revenue from Combined Water and Sewer Operations and Other Income was \$960,702 and Operating Expenses were \$1,082,999 (inclusive of depreciation and interest expense), resulting in a Net Operating Loss \$89,139 for Fiscal Year 2015 (see Exhibit 1). We also note Total Long-Term Debt of \$2,000,000 and Current Liabilities of \$179,639. Net Contributions in Aid of Construction (CIAC) for the combined water and sewer operations is \$4,474,555.
- As of this Report, the only major projected Capital Expenditure of LRWS is \$26,685 that the District believes is needed to upgrade Lift Stations for acceptance. All of the Stations are currently operational and may need to be upgraded to District specifications.
- Our research suggests Water Companies are typically purchased for the income they will produce over time. The proposed acquisition of LRWS by CCPWSD is slightly unique in that LRWS and CCPWSD have a history of cooperation and shared services. Therefore the acquisition is being made by a public water district that has on-going operations already somewhat integrated with the target, unlike the typical acquisition by a larger private water company or a publicly traded, investor-owned water company of third party, unrelated assets. Notwithstanding that being the case and with the belief that CCPWSD is the natural buyer of LRWS, we believe evaluating the Offer based on what a third party purchaser would pay for the asset and operations is reasonable and appropriate.
- Net CIAC represents donated plant, currently being amortized over the life of the plant rather than recognized as income. CCPWSD, as a non-regulated entity, will record such donated plant as income at the time of donation therefore adding to the CCPWSD's Rate Base and Book Value.
- We calculated estimated values using various standard valuation methods including Free Cash Flow (applying both a multiple and a discount method), Price/Book, Price/

EBITDA, Price/Rate Base, Price/Gross Revenue, and Price/Customer Count. Multiples were based on our research and a comparison of current Water, Wastewater and Water Sewer Company/District acquisitions (See Exhibits that follow). We also provide an average of all methods.

- Our understanding is the most likely funding plan for the acquisition of LRWS would be through the use of tax-exempt debt, perhaps either a long-term bond or COP issue. Based on our experience and knowledge, this seems to be a reasonable way to fund the acquisition. However we believe it would be prudent to seek the opinion of qualified bond counsel to confirm that the Plan of Finance meets both federal and state standards for tax exemption and the tax-exempt debt is a viable source of funding. Financing rates should be attractive given the current low rate environment. In addition, recent demand for tax-exempt debt has been generally strong, leading us to believe there would be interest among Missouri financial institutions and national fixed income investors to acquire and invest in this offering.
- We suggest that CCPWSD consult with a qualified Municipal Advisor, Underwriter, or Placement Agent to obtain indicative interest rates by maturity and to determine an appropriate Plan of Finance for financing and funding the acquisition. Without knowing a Plan of Finance, we were unable to assess the impact of various debt structure on cash flow projections and therefore, did not include that in our cash flow analysis.

Opinion

Our analysis supported a range of values between \$2.6 million and \$8.6 million based on Comparable transactions and using the above methods and the Rate Base and Financial Information and Reports provided. Therefore, we believe that an acquisition price of \$6.4 million is a reasonable offer price for the assets, obligations, and customer base of LRWS.

BOONE PARTNERS, LLC

St. Louis, Missouri

July 21, 2016

Exhibit 1: LAKE REGION WATER & SEWER COMPANY FREE CASH FLOWS

Lake Region Water & Sewer Cash Flow Analysis										
	2013		2014		2015		2016P		2017F	
Income										
421.00 · Non-Utility Income	180	0%	-	0%	462	0%	462	0%	462	0%
Total 461.00 · Metered Water Revenue	227,534	24%	206,309	23%	243,258	25%	245,186	26%	248,745	26%
470.00 · Late Charges	3,971	0%	4,725	1%	6,699	1%	6,699	1%	6,699	1%
Total 471.00 · Water Connection Fees	-	0%	-	0%	5,475	1%	-	0%	-	0%
474.00 · Other Water Revenue	975	0%	11,151	1%	3,647	0%	9	0%	9	0%
Total 521.00 · Flat Rate Sewer Revenue	346,652	37%	345,410	38%	338,548	35%	338,548	35%	338,548	35%
Total 522.00 · Measured Sewer Revenue	359,467	38%	342,497	38%	359,108	37%	364,199	38%	373,598	39%
532.00 · Sewer Late Charges	3,039	0%	1,359	0%	2,085	0%	2,085	0%	2,085	0%
536.00 · Sewer Connection Fees	-	0%	-	0%	1,420	0%	-	0%	-	0%
Total Income	941,817	100%	911,451	100%	960,702	100%	957,188	100%	970,146	100%
Expense										
Total 403.00 · Depreciation Expense	325,134	35%	336,773	37%	279,972	29%	279,972	29%	279,972	29%
Total 406.00 · Amortization Expense	(200,936)	-21%	(128,438)	-14%	(133,956)	-14%	(133,956)	-14%	(133,956)	-14%
427.00 · Interest Expense	79,285	8%	40,593	4%	90,604	9%	101,052	11%	101,052	10%
Total 615.00 · Purchased Power (Water)	17,969	2%	14,601	2%	16,365	2%	16,365	2%	16,365	2%
618.00 · Chemicals (Water)	445	0%	1,544	0%	945	0%	945	0%	945	0%
619.00 · Water Testing	595	0%	735	0%	672	0%	672	0%	672	0%
620.00 · Supplies & Materials (Water)	2,492	0%	1,891	0%	2,717	0%	2,717	0%	2,717	0%
622.00 · Tools & Shop Supplies (Wtr)	235	0%	516	0%	-	0%	-	0%	-	0%
626.00 · Licenses and Permits (Water)	321	0%	1,002	0%	200	0%	200	0%	200	0%
Total 630.00 · Contractual Services (Water)	68,684	7%	81,094	9%	67,148	7%	62,540	7%	62,540	6%
642.00 · Rental of Equipment (Water)	4,802	1%	4,500	0%	4,800	0%	4,800	1%	4,800	0%
Total 645.00 · Water Maintenance & Operation	5,863	1%	5,400	1%	1,307	0%	1,307	0%	1,307	0%
Total 655.00 · Insurance (Water)	3,347	0%	3,373	0%	4,046	0%	4,856	1%	4,856	1%
667.00 · Regulatory Commission (Water)	1,621	0%	1,525	0%	2,761	0%	2,761	0%	2,761	0%
Total 710.00 · Purchased Wastewater Treatment	388	0%	207	0%	427	0%	427	0%	427	0%
Total 711.00 · Sludge Removal Expense	24,220	3%	25,960	3%	20,840	2%	20,840	2%	20,840	2%
Total 715.00 · Power for Treatment Plants	19,769	2%	22,401	2%	20,619	2%	20,619	2%	20,619	2%
Total 716.00 · Power for Lift Stations	39,434	4%	41,967	5%	40,761	4%	40,761	4%	40,761	4%
Total 718.00 · Chemicals (Sewer)	24,649	3%	21,649	2%	19,909	2%	19,909	2%	19,909	2%
Total 719.00 · Wastewater Testing	10,414	1%	11,142	1%	13,598	1%	16,378	2%	16,378	2%
Total 720.00 · Supplies & Materials (Sewer)	14,305	2%	15,906	2%	12,969	1%	12,969	1%	12,969	1%
Total 721.00 · Sewer Operating Expenses	6,431	1%	14,219	2%	7,238	1%	7,238	1%	7,238	1%
722.00 · Tools & Shop Supplies (Sewer)	138	0%	791	0%	37	0%	37	0%	37	0%
Total 730.00 · Contractual Services (Sewer)	202,406	21%	229,709	25%	209,837	22%	201,460	21%	201,460	21%
742.00 · Rental of Equipment (Sewer)	14,023	1%	13,500	1%	14,100	1%	14,100	1%	14,100	1%
Total 745.00 · Sewer Equipment Maintenance	6,297	1%	7,277	1%	6,431	1%	6,431	1%	6,431	1%
Total 755.00 · Insurance (Sewer)	9,806	1%	9,806	1%	7,402	1%	8,882	1%	1	0%
Total 767.00 · Regulatory Commission (Sewer)	42,298	4%	64,414	7%	8,446	1%	8,446	1%	8,446	1%
Total 779.00 · Licenses and Permits (Sewer)	14,850	2%	11,045	1%	18,900	2%	18,900	2%	18,900	2%
921.00 · Office Supplies & Other Exp	5,018	1%	6,783	1%	8,173	1%	8,173	1%	8,173	1%
921.50 · Billing Expenses	4,523	0%	5,139	1%	5,701	1%	5,701	1%	5,701	1%
922.00 · Management Fees	171,000	18%	113,000	12%	220,000	23%	240,000	25%	240,000	25%
923.00 · Outside Services	1,479	0%	1,275	0%	764	0%	764	0%	764	0%
925.00 · Telephone	1,814	0%	3,089	0%	2,598	0%	2,598	0%	2,598	0%
Total 927.00 · Travel & Entertainment	19,495	2%	17,903	2%	15,505	2%	15,505	2%	15,505	2%
933.00 · Transportation Exp	79,491	8%	48,573	5%	36,560	4%	36,560	4%	36,560	4%
935.00 · Charitable Contributions	-	0%	250	0%	-	0%	-	0%	-	0%
940.00 · Customer Refunds	204	0%	109	0%	60	0%	60	0%	60	0%
941.00 · Building Rental	13,200	1%	13,200	1%	13,000	1%	12,000	1%	12,000	1%
950.00 · Bad Debt Expense	481	0%	19,207	2%	-	0%	-	0%	-	0%
Total 967.00 · Taxes	(23,107)	-2%	(19,659)	-2%	3,926	0%	3,926	0%	3,926	0%
975.00 · Misc General Expenses	710	0%	3,894	0%	4,509	0%	888	0%	888	0%
981.00 · 2013 Rate Case	59,780	6%	20,552	2%	-	0%	-	0%	-	0%
929-930 · Other Expenses	391	0%	(5,417)	-1%	(50)	0%	-	0%	-	0%
Total Expense	1,073,764	114%	1,082,999	119%	1,049,840	109%	1,067,802	112%	1,058,921	109%
Net Ordinary Income	(131,947)		(171,549)		(89,139)		(110,614)		(88,774)	
CAPEX (Adjusted)	-		-		-		(26,685)		-	
403.00 · Depreciation Expense	325,134		336,773		279,972		279,972		279,972	
406.1x · Amort Expense	4,273		4,747		4,692		4,692		4,692	
406.2x · Amort of CIAC	(203,928)		(133,185)		(138,648)		(138,648)		(138,648)	
427.00 · Interest Expense	79,285		40,593		90,604		101,052		101,052	
667.00 · Regulatory Commission (Water)	1,621		1,525		2,761		2,761		2,761	
767.00 · Regulatory Commission (Sewer)	42,298		64,414		8,446		8,446		8,446	
922.00 · Management Fees	171,000		113,000		220,000		240,000		240,000	
967.00 · Taxes	(23,107)		(19,659)		3,926		3,926		3,926	
Net Addition to Cash Flow	396,577		408,209		471,753		475,516		502,201	
Cash Available for Debt Service/Reserves	264,630		236,660		382,614		364,902		413,426	

- Based on information provided by CCPSWD
- 2016 estimates based on 2016 YTD run rates
- 2017 projection based on 2016 revenue and three-year average expenses as a percent of 2016 revenue
- CAPEX for 2016 set at \$26,685/year

Exhibit 2: IMPLIED WATER UTILITY MULTIPLES FOR LRWS

<u>Free Cash Flow A⁽¹⁾</u>		<u>Multiple</u>	<u>Estimated Price</u>
\$391,587 (2016B)	Low	7.80	\$3,054,379
	High	19.30	\$7,557,626
	Average	13.70	\$5,364,742

<u>Free Cash Flow B⁽¹⁾</u>		<u>Discount Rate</u>	<u>Estimated Price</u>
\$391,587 (2016B)	Low	10%	\$5,594,100
(3% growth)	High	8%	\$7,831,740
	Average	9%	\$6,526,450

<u>Book Value⁽²⁾</u>		<u>Multiple</u>	<u>Estimated Price</u>
\$1,014,713 (2016B)	Low	2.10	\$2,130,897
	High	3.50	\$3,551,496
	Average	2.90	\$2,942,668

<u>EBITDA</u>		<u>Multiple</u>	<u>Estimated Price</u>
\$380,080 (2016B)	Low	4.15	\$1,577,332
	High	14.98	\$5,693,598
	Average	9.85	\$3,743,788

<u>Rate Base⁽²⁾</u>		<u>Multiple</u>	<u>Estimated Price</u>
\$2,210,670 (2015)	Low	1.52	\$ 3,360,218
	High	6.36	\$14,059,861
	Average	4.65	\$10,282,774

<u>Gross Revenue</u>		<u>Multiple</u>	<u>Estimated Price</u>
\$957,188 (2016B)	Low	2.60	\$ 2,488,689
	High	17.40	\$16,655,071
	Average	4.90	\$ 4,690,221

<u>Customer Count</u>		<u>\$/Customer</u>	<u>Estimated Price</u>
1,586 (Estimate)	Low	\$ 143	\$ 226,798
	High	\$4,200	\$6,661,200
	Average	\$1,932	\$3,064,918

<u>Average of above Methods</u>		
	Low	\$2,633,202
	High	\$8,858,656
	Average	\$5,400,353

⁽¹⁾ Excludes planned one-time CAPEX of \$26,685 in 2016

⁽²⁾ Does not include Net CIAC of \$4,474,555 as of 12/31/15

Exhibit 3: PUBLICLY TRADED WATER COMPANY COMPARATIVE DATA

<u>Company</u>	<u>Price/Cash Flow</u>	<u>Price/Book</u>	<u>Price/Sales</u>
American States Water	19.1	3.4	3.6
American Water Works	11.9	2.9	4.6
Aqua America	16.0	3.4	7.4
Artesian Resources	10.8	2.2	3.8
California Water Service	10.6	2.5	2.7
Connecticut Water Service	15.5	2.6	5.8
Middlesex Water Company	12.7	3.2	5.2
SJW Corp	7.8	2.1	2.6
York Water Co	19.3	3.6	8.5
Low	7.8	2.1	2.6
High	19.3	3.5	8.5
Average	13.7	2.9	4.9

As of July 15, 2016

Exhibit 4: Comparative Sales

<u>Date</u>	<u>Purchaser</u>	<u>Acquired</u>	<u>Acquisition Price/Account</u>	<u>Rates</u>	<u>Gross Revenues</u>	<u>EBITDA</u>
Jun-16	Aqua America - Virginia	Wintergreen Valley Utilities Company; Wintergreen Stoney Creek Public Water and Sewer System	\$388.77	1.52x		
Jun-16	Aqua America - Texas	Union Hill Water Supply Company	\$712.00		9.41x	4.15x
Jun-16	Aqua America - Virginia	Venter Heights Public Water System	\$212.50			
Jun-16	Aqua America - North Carolina	Water Works of Alamance County	\$143.34	2.44x		
Jun-16	Aqua America - Illinois	North Maine Water and Wastewater System; Summerdale Water Utilities	\$3,055.55	5.72x	2.55x	14.02x
May-16	Illinois American Water	City of Grafton Wastewater System	\$1,500.00		3.68x	
Mar-16	Pennsylvania American Water	Fairview Township, PA Water System	\$4,200.00	6.21x	6.90x	9.66x
Aug-15	Indiana American Water	Russiaville Water System	\$4,186.05		17.40x	
Jul-15	City of Peoria, AZ	New River Utility Company	\$3,448.28	7.21x	6.19x	14.98
May-15	Missouri American Water	City of Arnold, MO Sewer System	\$1,859.15	6.36x	2.99x	10.31x
Jul-14	New York American Water	Mt Ebo Water and Wastewater System	\$1,551.72	3.10x	3.37x	5.98x

Appendix A: Recent Water, Wastewater and Sewer Company Sales

<u>Date</u>	<u>Purchaser</u>	<u>Acquired</u>	<u>Acquisition Price/Account</u>	<u>Rates</u>	<u>Gross Revenues</u>	<u>EBITDA</u>
Jun-16	Aqua America - Virginia	Wintergreen Valley Utilities Company; Wintergreen Stoney Creek Public Water and Sewer System	\$388.77	1.52x		
Jun-16	Aqua America - Texas	Union Hill Water Supply Company	\$712.00		9.41x	4.15x
Jun-16	Aqua America - Virginia	Venter Heights Public Water System	\$212.50			
Jun-16	Aqua America - Pennsylvania	Bunker Hill Wastewater Company; Factoryville Bunker Hill Water Company	\$750.00			
Jun-16	Aqua America - North Carolina	Water Works of Alamance County	\$143.34	2.44x		
Jun-16	Aqua America - Illinois	North Maine Water and Wastewater System; Summerdale Water Utilities	\$3,055.55	5.72x	2.55x	14.02x
May-16	Illinois American Water	City of Grafton Wastewater System	\$1,500.00		3.68x	
May-16	Illinois American Water	Village of Ransom Water System	\$1,029.41	1.62x	2.28x	Negative
Mar-16	Pennsylvania American Water	Fairview Township, PA Water System	\$4,200.00	6.21x	6.90x	9.66x
Mar-16	Pennsylvania American Water	Scranton Sewer Authority	\$6,290.32	16.79x	8.38x	16.79x
Mar-16	California American Water	Adams Ranch Mutual Water Company	\$13,636.36	20.96	22.40x	19.80x
Feb-16	Illinois American Water	Dana/Long Point/Reading/Ancona Public Water District Water System	\$7,167.00	6.71x	13.44x	

Several Recent Sales Not Included in the Comparative Exhibit as the Customer Base was Too Small or Too Large

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Appendix A: Recent Water, Wastewater and Sewer Company Sales (continued)

<u>Date</u>	<u>Purchaser</u>	<u>Acquired</u>	<u>Acquisition Price/Account</u>	<u>Rates</u>	<u>Gross Revenues</u>	<u>EBITDA</u>
Jan-16	California American Water	Dunnigan Water & Wastewater System	\$8,230.45	23.82x		
Oct-15	Indiana American Water	American Suburban Utilities Water System	\$622.22	1.25x		
Aug-15	Indiana American Water	Russiaville Water System	\$4,186.05		17.40x	
Jul-15	City of Peoria, AZ	New River Utility Company	\$3,448.28	7.21x	6.19x	14.98
May-15	Missouri American Water	City of Arnold, MO Sewer System	\$1,859.15	6.36x	2.99x	10.31x
Dec-14	City of Ft Wayne, IN	Aqua America - Indiana	\$5,317.46			7.33x
Jul-14	New York American Water	Mt Ebo Water and Wastewater System	\$1,551.72	3.10x	3.37x	5.98x
Nov-13	Virginia American Water	Dale Service Corp	\$1,385.00	3.41x	1.54x	
Mar-13	Pennsylvania American Water	Olwen Heights Water Company	\$2,571.43	3.49x		

Footnotes

2015	Assuming 60,000 Gallons Usage per	2015 Average Annual Household Water Bill reported	\$357.76
Missouri	Account in Missouri - 2015	by Food & Water Watch Rate Survey, 2016	Public
Averages			\$422.41
			Private

Several Recent Sales Not Included in the Comparative Exhibit as the Customer Base was Too Small or Too Large