

FINANCIAL REPORT OF
BOONE COUNTY
REGIONAL SEWER DISTRICT
DECEMBER 31, 2017

BOONE COUNTY REGIONAL SEWER DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Boone County Regional Sewer District
Columbia, Missouri

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Boonville, MO 65233
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Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Boone County Regional Sewer District (a special purpose governmental entity) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PARTNERS

Fred W. Korte, Jr.
Joseph E. Chitwood
Travis W. Hundley
Jeffrey A. Chitwood
Amy L. Watson
Heidi N. Ross

PARTNER EMERITUS

Robert A. Gerding

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Boone County Regional Sewer District as of December 31, 2017, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information:

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information:

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Boone County Regional Sewer District's basic financial statements. The schedule of debt service coverage on page 22 is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The schedule of debt service coverage is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of debt service coverage is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 14, 2018, on our consideration of Boone County Regional Sewer District's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Boone County Regional Sewer District's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Gerding, Korte & Chitwood".

March 14, 2018

Gerding, Korte & Chitwood, P.C.
Certified Public Accountants
Boonville, Missouri

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Boone County Regional Sewer District (The "District") financial performance provides an overview of the District's financial activity for the fiscal year ending December 31, 2017. Please read it in conjunction with District's financial statements, notes to the financial statements, and other supplemental information, which immediately follow this section.

Financial Highlights

- The unrestricted cash and investment balances of the District (not including SRF cash and investment balances) decreased from \$1,986,229 to \$1,387,873 during the 2017 fiscal year.
- As of December 31, 2017, the District's reported net position was \$15,242,353. This represents an increase of \$1,632,647 from the prior year.
- In the 2017 fiscal year, the District's State Revolving Fund (SRF) cash investments increased by \$17,866. SRF construction funds were spent as the BCRSD completed the capital improvement projects funded by the SRF 2015 Direct Loan.
- As of December 31, 2017, the District had \$31,997,381, net of depreciation, in capital assets, an increase of \$1,125,086 from the prior year.
- The District made significant progress on its on-going Capital Improvement Program (CIP) and increased its system by accepting contributed capital in the amount of \$1,623,043.

Overview of the Financial Statements

The annual report consists of three parts:

- Management's discussion and analysis (this section);
- Basic financial statements, including notes to the financial statements; and,
- Supplemental information.

The financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data. The supplemental information following the notes to the basic financial statements provides information related to debt covenant requirements and information required by the Federal government for compliance with Uniform Guidance.

MANAGEMENT’S DISCUSSION AND ANALYSIS

Basic Financial Statements

The operations of the District are classified as proprietary or “business-type activities” to reflect the nature of operations and financial presentation formats required of governmental entities. Proprietary funds and business-type activities are generally those activities conducted by a governmental organization that are expected to operate in a self-supporting, business-like manner. The District believes this presentation format is consistent with its operating philosophy.

Financial Position of the District

The net position of the District is summarized as follows:

	December 31,	
	<u>2017</u>	<u>2016</u>
Cash and investments, including SRF	\$ 2,258,012	\$ 2,838,501
Accounts receivable, net of allowance	253,471	218,857
Receivable, bond proceeds	0	144,027
Other assets	75,521	80,594
Capital assets, net of depreciation	31,997,381	30,872,295
Total Assets	34,584,385	34,154,274
Accounts payable	255,577	130,527
Accrued expenses and deferred revenue	462,255	700,341
Current debt	1,118,500	1,089,500
Long-term debt	17,505,700	18,624,200
Total Liabilities	19,342,032	20,544,568
Net capital assets	13,373,181	11,302,622
Restricted	777,464	751,566
Unrestricted	1,091,708	1,555,518
TOTAL NET POSITION	\$ 15,242,353	\$ 13,609,706

As of December 31, 2017, the District's net position was \$15,242,353. “Net Capital Assets” totaling \$13,373,181 is the most financially significant category of net position. This amount represents the net amount invested in capital assets less the related debt of the District.

Expendable resources are represented by the amount reported under the caption “Unrestricted” net position, totaling \$1,091,708. The decrease in unrestricted net position is mainly due to investing cash in capital assets, closure costs on antiquated systems and funding engineering and easement acquisition costs for future capital improvement projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total net position increased by \$1,632,647 during the 2017 fiscal year. The main reason for the increase in net position for the District is investment of cash and SRF loans in capital projects as well as the addition of \$1,623,043 in contributed collection systems as a result of new development in the District.

Revenues and Expenses

The financial activities of the District are summarized as follows:

	December 31,	
	2017	2016
Total Operating Revenues	\$4,609,708	\$4,108,028
Operating Expenses:		
Personnel Expenses	1,070,689	1,072,695
Systems O & M	731,402	564,747
Wholesale Treatment	953,509	907,278
Contract Services	22,239	231,130
Depreciation	1,182,286	838,599
Other	42,504	74,639
Total Operating Expenses	4,002,629	3,689,088
Operating Surplus/(Deficit)	607,079	418,940
Investment, grant and other		
Revenue/(Expenses)	1,025,568	(233,128)
Increase/(Decrease) in Net Position	1,632,647	\$185,812

Operating revenue increased for two reasons - an increase in user rates in January 2017 and development within the District meant more connection fees collected. Total user fees in 2017 were \$4,227,803 compared to \$3,859,059 in 2016. Total connection fees in 2017 was \$307,904 compared to \$189,594 in 2016.

Total operating expenses increased by approximately 8.5%. Wholesale treatment cost increased in 2017 as a result of increases in City of Columbia wholesale treatment rates. Depreciation costs increased as CIP projects were completed. Utilities increased as lagoons are replaced with lift stations and mechanical treatment plants that have higher operating costs.

Non-Operating items were a net increase of \$1,025,568 in 2017 compared to a net expense of \$(233,128) in the prior year. Non-operating items increased in 2017 due to \$1,623,043 of contributed collection systems as a result of new development in the District.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

As of December 31, 2017, the District had \$31,997,381 net of depreciation, invested in capital assets. Capital assets increased due to the completion of capital improvement projects as well as contributed capital.

Bonds Payable and Other Long-term Debt

In fiscal year 2017, the District paid down its long-term debt by \$1,089,500. As of December 31, 2017, the District's outstanding long-term debt was \$18,524,200.

Contacting the District's Financial Management

This financial report is designed to provide District's patrons, vendors, creditors and others interested with a general overview of District's finances and to demonstrate the District's accountability for the money it receives.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Boone County Regional District, 1314 North 7th Street, Columbia, MO 65201.

BOONE COUNTY REGIONAL SEWER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2017

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 1,387,873
Accounts receivable, net of allowance for uncollectibles	253,471
Prepaid expenses	75,521
Total Current Assets	1,716,865
Restricted Assets:	
Investments, restricted SRF accounts	870,139
Total Restricted Assets	870,139
Noncurrent Assets:	
Capital assets, net of accumulated depreciation	31,997,381
Total Noncurrent Assets	31,997,381
TOTAL ASSETS	34,584,385

LIABILITIES

Current Liabilities:	
Accounts payable	255,577
Accrued expenses	337,449
Unearned revenue	124,806
Total Current Liabilities	717,832
Current Liabilities Payable from Restricted Funds:	
Revenue bonds due within one year	1,118,500
Total Current Liabilities Payable from Restricted Funds	1,118,500
Noncurrent Liabilities:	
Revenue bonds due after one year	17,505,700
Total Noncurrent Liabilities	17,505,700
TOTAL LIABILITIES	19,342,032

NET POSITION

Net investment in capital assets	13,373,181
Restricted but expendable for debt service	777,464
Unrestricted	1,091,708
TOTAL NET POSITION	\$ 15,242,353

BOONE COUNTY REGIONAL SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

OPERATING REVENUES:

Customer fees	\$ 4,592,287
Miscellaneous	17,421
Total Operating Revenues	4,609,708

OPERATING EXPENSES:

Personnel expenses	1,070,689
Materials and supplies	6,404
Dues, training and seminars	5,746
Utilities	187,041
Equipment expense	62,527
Maintenance	250,536
Wholesale treatment	953,509
Contract services	241,388
Miscellaneous	22,239
Bad debts	20,264
Depreciation	1,182,286
Total Operating Expenses	4,002,629

Operating Income	607,079
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NON-OPERATING REVENUES/(EXPENSES):

Interest income	118,754
Interest expense	(360,652)
Bond fees	(184,257)
Gain/(loss) on sale on disposal of assets	(171,320)
Contributed collection systems	1,623,043
Total Non-Operating Revenues/(Expenses)	1,025,568

Increase/(Decrease) in Net Position	1,632,647
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Net Position, Beginning of Year	13,609,706
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Net Position, End of Year	\$ 15,242,353
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BOONE COUNTY REGIONAL SEWER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash provided by customer fees	\$ 4,501,241
Cash paid for operating expenses	(2,871,874)
Cash provided by miscellaneous income	17,421
Net Cash Provided/(Used) by Operating Activities	1,646,788

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchases of capital assets	(855,649)
Principal paid on notes and bonds	(1,089,500)
Interest paid on notes and bonds	(360,652)
Net Payments received/(deposited) from receivable, bond proceeds	144,027
Revenue bond fees	(184,257)
Net cash provided by/(invested in) restricted accounts	(17,867)
Net Cash Provided/(Used) for Capital and Related Financing Activities	(2,363,898)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	118,754
Net Cash Provided/(Used) by Investing Activities	118,754
Net Increase/(Decrease) in Cash and Cash Equivalents	(598,356)
Cash and Cash Equivalents, Beginning of Year	1,986,229
Cash and Cash Equivalents, End of Year	\$ 1,387,873

Supplemental schedule of non-cash capital and related financing activities:

Disposals of treatment facilities not involving cash	\$ (171,320)
Contributed capital not involving cash	\$ 1,623,043

Reconciliation of Cash Provided By Operating Activities:

Net income from operating activities	\$ 607,079
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,182,286
(Increase)/decrease in accounts receivable	(34,614)
(Increase)/decrease in prepaid expenses	5,073
Increase/(decrease) in accounts payable	125,050
Increase/(decrease) in accrued expenses	(181,654)
Increase/(decrease) in unearned revenue	(56,432)
Total Adjustments	1,039,709
Net Cash Provided/(Used) by Operating Activities	\$ 1,646,788

BOONE COUNTY REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature and Purpose

Boone County Regional Sewer District (the “Sewer District”) was formed in October 1973, to provide planning, operation and maintenance of sewage and waste treatment systems within Boone County, Missouri.

The Sewer District was formed by a county-wide vote in 1973. The operation of the Sewer District is in accordance with Chapter 204 of the Revised Statutes of Missouri. One member of the Boone County Commission is on the Board of Trustees of the Sewer District; the remaining Trustees are appointed by the Boone County Commission.

Basis of Accounting

The Sewer District is considered to be a governmental entity and is accounted for as a proprietary, enterprise fund. Enterprise funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District first utilizes restricted resources to finance qualifying activities.

The accrual basis of accounting is used. Revenues are recorded when earned and expenses are recorded when incurred. Proprietary funds distinguish between operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in conjunction with a proprietary fund’s principle ongoing operations. The principle operating revenues include sewer utility fees. Operating expenses include the cost of providing sewer utility services.

Reporting Entity

The Boone County Regional Sewer District’s Board of Trustees is the basic level of government which has financial accountability and control over all activities related to the Sewer District. The Sewer District is not included in any other governmental “reporting entity” as defined by GASB pronouncements. Also, there are no component units required to be included in the Sewer District’s reporting entity.

BOONE COUNTY REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include estimated useful lives of property and equipment and the provision for doubtful accounts. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking and money market accounts maintained at local banks. The deposits are entirely insured by Federal depository insurance or collateralized with securities pledged by the bank in the name of the Sewer District.

For the purposes of the statement of cash flows, the Sewer District considers all investments with an original maturity of three months or less to be cash equivalents. At December 31, 2017, all unrestricted investments were considered cash equivalents.

Capital Assets

Equipment, machinery and facilities (unit costs greater than \$5,000) are valued at actual historical cost where available and at estimated historical cost where historical cost records are not available. Depreciation is computed using the straight-line method over the estimated useful life of the asset. Land is valued at actual historical cost or fair market value if received by donation. The useful lives for machinery and equipment range from three to twenty years. The useful life of the building is thirty years.

The wastewater collection and treatment systems are capitalized at the cost of acquisition, if purchased, and at fair market value on the date of receipt if received by donation. Within each system, cost is allocated to land, collection systems, and treatment plants. The depreciation recognized on donated facilities is closed to the contributed capital account rather than retained earnings. Depreciation on collection systems and treatment plants is computed on the straight-line method over 20 to 50 years.

Compensated Absences Payable

An accrued expense has been recorded for the amount of vacation payable to employees at December 31, 2017. Employees are entitled to receive payment for unused, accumulated vacation earned upon leaving the employment of the Sewer District.

BOONE COUNTY REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable consist primarily of sewer use fees due to the Sewer District. An allowance for doubtful accounts is maintained so that the receivables are shown at their estimated net realizable value. The balance of the allowance for uncollectible accounts was \$30,750 at December 31, 2017.

Accounts Payable

Accounts payable consist primarily of amounts paid to vendors for products, services, and amounts due to the City of Columbia for wholesale treatment.

Net Position Flow Assumption

Sometimes the Sewer District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the proprietary fund financial statements, a flow assumption must be made in the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

NOTE 2: CASH AND INVESTMENTS

Deposits

At December 31, 2017, the carrying values of the Sewer District’s deposits were \$1,387,823 and the bank balance was \$1,456,103. Custodial credit risk is the risk that in the event of a bank failure, a government’s deposits may not be returned to it. The Sewer District’s deposit policy for custodial credit risk requires compliance with the provisions of state law. All deposits were adequately secured at December 31, 2017.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U. S. Treasury, U. S. agencies or instrumentalities of the state of Missouri; bonds on any city having a population of not less than two thousand, county, school district or special road district of the State of Missouri; bonds of any state, tax anticipation notes issued by any first county, or a surety bond having an aggregate value at least equal to the amount of the deposits.

BOONE COUNTY REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2: CASH AND INVESTMENTS (Continued)

Investments

The Sewer District may legally invest in direct obligations of and other obligations guaranteed as to principal by the U. S. Treasury and U. S. agencies and instrumentalities; obligations guaranteed by the full faith and credit of the state of Missouri; repurchase agreement; certificates of deposit; bankers acceptances; and commercial paper.

Additionally, the Sewer District participates in the State Revolving Fund (SRF) bond issue program. Investments are maintained by the program on behalf of the Sewer District in a common investment pool. The underlying investments meet the guidelines discussed above. The maturity of the underlying investments is timed to coincide with interest and principal payment dates, every six months.

The Sewer District's investment policy states, "After assuring that an investment is legally permitted, safety of principal is the foremost consideration. In choosing individual investments in the portfolio, those investments which ensure the preservation of capital shall be deemed a higher priority than other objectives, such as a higher yield."

- **Credit Risk:** Credit Risk is the risk of loss due to the failure of the issuer or guarantor of a security or other investment. The District will minimize credit risk by:
 - . Pre-qualifying any financial institutions, brokers/dealers, custodians or depositaries which the District utilizes in connection with the investment of funds covered by this policy.
 - . As much as possible, diversifying individual investments in the overall investment portfolio among various issuers or guarantors to mitigate potential losses from exposure to one issuer or guarantor.
- **Interest Rate Risk:** Interest Rate Risk is the risk that the market value of investments may fall due to changes in general interest rates or market conditions. The District will minimize interest rate risk by:
 - . Investing operating funds so that individual investments mature to timely meet cash requirements for ongoing operations, thereby avoiding the potential need to sell investments prior to maturity.
 - . Structuring operating reserves in shorter-term, laddered securities. Although this may result in lower overall yields, this strategy provides the ability to reinvest maturing investments, while maintaining flexibility to access investments for unforeseen events at a lower exposure to rate risk.

BOONE COUNTY REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2: CASH AND INVESTMENTS (Continued)

Concentration of credit risk. The Sewer District does not have a policy specifically related to concentration of credit risk.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Sewer District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Sewer District had the following cash and cash equivalents at December 31, 2017:

	Fair Value
Deposits	\$ 1,387,823
Cash on hand	50
Total Cash and Cash Equivalents	\$ 1,387,873

Additionally, the Sewer District has investments held in an external investment pool with the State Revolving Fund. These investments are generally short-term money market investments that are held for debt service payments and reimbursement of construction costs. These investments are classified as restricted.

NOTE 3: MANAGEMENT AGREEMENTS

The Sewer District has entered into an agreement with Boone Electric Cooperative for accounts receivable billing services. The agreement will continue until terminated by either party.

The Sewer District has also entered into an operations management services agreement with the City of Columbia. The agreement is cancelable by either party. Services are based on budgeted hourly rates.

In addition, the Sewer District has entered into a cooperative agreement with the Boone County Commission for technical services. The agreement is cancelable by either party. Services are based on budgeted hourly rates.

BOONE COUNTY REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4: CAPITAL ASSETS

The following is a summary of changes in capital assets by category:

	Balance at December 31, 2016	Purchases	Contributed Capital	Disposals	Transfers	Balance at December 31, 2017
Construction in progress	\$ 6,977,424	\$ 721,115	\$ -	\$ -	\$ (6,819,775)	\$ 878,764
Land	42,888	-	-	-	-	42,888
Buildings and improvements	173,907	-	-	-	-	173,907
Vehicles and equipment	1,119,655	55,973	-	(62,896)	-	1,112,732
Wastewater systems	32,172,031	78,561	1,623,043	(171,320)	6,819,775	40,522,090
Total Capital Assets	<u>40,485,905</u>	<u>\$ 855,649</u>	<u>\$ 1,623,043</u>	<u>\$ (234,216)</u>	<u>\$ -</u>	<u>42,730,381</u>
		<u>Depreciation</u>		<u>Disposals</u>		
Less: accumulated depreciation	(9,613,610)	<u>\$ (1,182,286)</u>		<u>\$ 62,896</u>		<u>(10,733,000)</u>
Net Capital Assets	<u>\$30,872,295</u>					<u>\$31,997,381</u>

NOTE 5: LONG-TERM DEBT

The Sewer District is obligated under various long-term debt as follows:

State Revolving Fund (SRF) Revenue Bonds

- Series 1998B bonds dated December 1999 totaling \$595,000 mature from January 1, 2000 to January 1, 2019. The stated interest rates vary from 3.45% to 5.25%.
- Series 2000A bonds dated April 2000 totaling \$1,090,000 mature from July 1, 2001 to July 1, 2020. The stated interest rates vary from 4.6% to 5.75%.
- Series 2002B bonds dated November 2002 totaling \$360,000 mature from July 1, 2003 to July 1, 2022. The stated interest rates vary from 2.0% to 5.5%.
- Series 2004B bonds dated May 2004 totaling \$1,095,000 mature from January 1, 2005 to January 1, 2024. The stated interest rates vary from 2.0% to 5.25%.
- Series 2006B bonds dated November 2006 totaling \$675,000 mature from July 1, 2007 to July 1, 2026. The stated interest rates vary from 4% to 5%.
- Series 2007B bonds dated November 2007 totaling \$2,710,000 mature from January 1, 2009 to January 1, 2028. The stated interest rates vary from 4% to 5%.

These bonds are to be repaid from sewer fees charged by the Sewer District (see also Note 9).

BOONE COUNTY REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5: LONG-TERM DEBT (Continued)

In conjunction with the revenue bonds, the Missouri State Environmental Improvement and Energy Resources Authority and the Missouri Department of Natural Resources (MDNR) have entered into an agreement with the Sewer District to help defray some of the interest cost associated with the revenue bond issue. As bond proceeds are used for approved projects, 70% of the amount expended is invested by the state agencies in a “reserve fund”. The income earned from this investment is used to off-set the interest payable on the outstanding revenue bond issue. As principal is paid on the revenue bond issue, a portion of the reserve fund is returned to the state, so that 70% of the outstanding bond issue remains in reserve. At December 31, 2017, the reserve fund balance was \$271,000 and reflects only the balance of the 1998, 2000 and 2002 debt issues.

The Reserve Fund Balances for Series 2004B, 2006B and 2007B were transferred to a Reserve Investment Account in June of 2009 managed by MDNR. The new reserve account will operate like an escrow account for the benefit of all entities involved in the SRF program. Numerous investments are involved that will generate the interest subsidy and maintain the Reserve Funds’ 70% of bonds owed balance. The interest income to offset interest expense for these series will be transferred to the Sewer District Reserve Funds in January and July. These funds will immediately be used to pay interest or transferred to MDNR to maintain the 70% balance of bond issuance owed. However, the balance of the Sewer District Reserve Funds for these series will remain at zero.

SRF Loans

The following are loans from MDNR. The interest rate is low. There is no Reserve Fund involved. The amortization of this debt issuance is estimated at this time. The actual amortization will depend on how quickly the Sewer District draws from the available debt balance.

- Series 2015 dated March 2015 totaling \$3,064,000 matures July 1, 2016 to January 1, 2035. The interest rate is 1.26%.
- Series 2013 dated July 2013 totaling \$12,198,000 matures from July 1, 2015 to July 1, 2034. The interest rate is 1.48%.
- Series 2012 dated May 2012 totaling \$1,360,000 matures from January 1, 2013 to July 1, 2032. The interest rate is 1.44%.
- Series 2011 dated June 2011 totaling \$438,000 matures from July 1, 2012 to July 1, 2031. The interest rate is 1.61%.
- Series 2009 debt dated December 2009 totaling \$885,270 matures from July 1, 2011 to July 1, 2030. The interest rate is 1.49%.

BOONE COUNTY REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5: LONG-TERM DEBT (Continued)

City of Rocheport Treatment System Purchase

The note relates to the purchase of a wastewater treatment system in Rocheport. The note assumption agreement dated August 21, 2012 obligates the Sewer District to pay the Missouri Department of Natural Resources as consideration for the purchase price. In 2014 a final amortization schedule was received. The remaining balance owed was \$10,500 on December 31, 2017.

The changes in the debt for the year ended December 31, 2017, are as follows:

	Balance at December 31, 2016	Current Borrowing	Current Repayment	Balance at December 31, 2017
Obligation (A)	\$ 3,260,000	\$ -	\$ (330,000)	\$ 2,930,000
Obligation (B)	16,442,600	-	(758,900)	15,683,700
Obligation (C)	11,100	-	(600)	10,500
Total	<u>\$ 19,713,700</u>	<u>\$ -</u>	<u>\$ (1,089,500)</u>	<u>\$ 18,624,200</u>

The future annual debt service requirements at December 31, 2017, are as follows:

	Principal	Interest	Total
2018	\$ 1,118,500	\$ 345,514	\$ 1,464,014
2019	1,146,500	316,291	1,462,791
2020	1,136,300	290,085	1,426,385
2021	1,105,200	264,321	1,369,521
2022	1,135,200	238,757	1,373,957
2023-2027	5,764,200	817,551	6,581,751
2028-2032	5,218,300	311,128	5,529,428
2033-2035	2,000,000	26,146	2,026,146
Total	<u>\$ 18,624,200</u>	<u>\$ 2,609,793</u>	<u>\$ 21,233,993</u>

The interest to be paid has not been reduced for expected interest earnings of the “reserve fund”, as discussed above. Additionally, the interest for 2018 may be significantly less depending upon the outstanding balance of the amount drawn on the SRF construction fund for the 2013 and 2015 debt issuance.

BOONE COUNTY REGIONAL SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 6: OPERATING LEASES

The Sewer District leases the land upon which its office building is built. The lease requires annual rental payments of \$100. The lease expires January 21, 2037.

NOTE 7: RESTRICTED NET POSITION - SRF

The bond agent, or the Sewer District, held funds of the Sewer District in accounts required by the SRF bond agreement at December 31, 2017 as follows:

Bond Agent Accounts:

Principal Fund	\$ 280,263
Rebate Fund	22,694
Interest Fund	67,502
Debt Service Fund	-
Direct principal	386,685
Direct interest	112,990
Direct Debt Service Fund	5
Total Restricted Assets	<u>870,139</u>
Less: taxes and interest payable	<u>(92,675)</u>
Restricted Net Position	<u><u>\$ 777,464</u></u>

NOTE 8: EMPLOYEE BENEFITS

The Sewer District provides a defined contribution pension plan for eligible employees. The Sewer District does not maintain custody of the accounts created by the related contributions and accordingly, only the related expense of the contributions is included in these financial statements. The expense recognized by the Sewer District related to the defined contribution pension plan was \$60,403 for the year ended December 31, 2017.

BOONE COUNTY REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 9: COMMITMENTS

The Sewer District has entered into various agreements for the construction, management and maintenance of various publicly and privately constructed sewage systems throughout Boone County. These agreements are within the normal operating scope of the Sewer District and serve to protect the Sewer District's interest in sewage treatment and collection. At December 31, 2007, the Sewer District began implementation of a comprehensive improvement and construction plan totaling \$21,784,476.

In November 1997, November 2003 and April 2008, the voters of Boone County approved \$3,800,000, \$3,850,000 and \$21,000,000, respectively, in revenue bond issues. The bond proceeds are to be used to finance sewer system improvements. At December 31, 2017, \$24,470,270 of the bonds have been issued (Note 5). The remaining bonds are scheduled to be issued in accordance with the construction plan(s) of the Sewer District.

NOTE 10: LITIGATION AND RISK MANAGEMENT

The Sewer District is exposed to various risks of loss (arising from liability and regulatory actions) related to certain aspects of the Sewer District's operations. These legal proceedings are not likely to have a material adverse impact on the funds of the Sewer District. Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts related to liability or regulatory action, if any, have not exceeded insurance coverage for the current year or the prior year.

NOTE 11: PLEDGED REVENUES

The Sewer District has pledged future revenues, net of operating expenses, to repay bonds that were issued for the purpose of sewer system improvements. The bonds are payable from net revenues through 2034. Annual principal and interest payments in 2017 on the bonds required 77% of net revenues. Principal and interest paid for the 2017 year was \$1,461,576. Total net revenues for the current year were \$1,908,119. The total principal and interest remaining to be paid on the bonds is \$21,233,993.

BOONE COUNTY REGIONAL SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 12: RELATED PARTY TRANSACTIONS

Transactions with Board Trustees

During 2017, the Sewer District purchased legal services from a business in which a board member is a partner. The total amount spent in 2017 was \$6,995.

NOTE 13: CONSIDERATION OF SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 14, 2018, which is the date the financial statements are available to be issued. No events requiring disclosure were identified as a result of this evaluation.

SUPPLEMENTARY INFORMATION

BOONE COUNTY REGIONAL SEWER DISTRICT
 SCHEDULE OF DEBT SERVICE COVERAGE
 FOR THE YEAR ENDED DECEMBER 31, 2017

Customer fees	\$	4,592,287
Interest income		118,754
Adjusted Operating Revenue		4,711,041
Operating expenses		4,002,629
Less: Depreciation		(1,182,286)
Adjusted Operating Expenses		2,820,343
Operating income available for debt service		1,890,698
SRF principal/interest paid in current year		1,461,576
Debt service coverage		129%

Bond covenants require the District maintain a debt service coverage ratio of 110%.
 The District is in compliance with bond requirements for the year ended December 31, 2017.

COMPLIANCE AND INTERNAL CONTROLS



GERDING, KORTE & CHITWOOD CPAS
Professional Corporation
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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To the Board of Trustees
Boone County Regional Sewer District
Columbia, Missouri

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States financial statements of the business-type activities of Boone County Regional Sewer District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Boone County Regional Sewer District's basic financial statements, and have issued our report thereon dated March 14, 2018.

PARTNERS

Fred W. Korte, Jr.
Joseph E. Chitwood
Travis W. Hundley
Jeffrey A. Chitwood
Amy L. Watson
Heidi N. Ross

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Boone County Regional Sewer District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Boone County Regional Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of Boone County Regional Sewer District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

PARTNER EMERITUS

Robert A. Gerding

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

- 2017-001 – Segregation of Duties
- 2017-002 – Documentation of Internal Control

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Boone County Regional Sewer District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Boone County Regional Sewer District's Response to Findings

Boone County Regional Sewer District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Boone County Regional Sewer District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



March 14, 2018

Gerding, Korte & Chitwood, P.C.
Certified Public Accountants
Boonville, Missouri

BOONE COUNTY REGIONAL SEWER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2017

2017-001	Accounting Personnel
Criteria:	Proper segregation of duties reduces the risk of errors and fraud and is an important internal control.
Condition:	The District does not have enough accounting personnel to properly segregate duties.
Context:	During our audit we reviewed District policies and procedures and determined adequate segregation of duties did not exist.
Effect:	A small number of employees perform several accounting duties.
Cause:	The District does not have the financial resources to hire enough personnel to segregate duties.
Recommendation:	The District should segregate duties wherever possible and implement other controls to compensate for the lack of segregation of duties.

Views of Responsible Officials & Planned Corrective Actions:

In 2017 monthly recurring expenses were added to ACH auto payments. Central Bank has a list of entities that are approved for ACH payments. As part of monthly reconciliation process the General Manager signs off on the invoices and checks them against the monthly bank statements.

In November 2017 Positive Pay with Central Bank of Boone County was initiated. One staff person prepares the checks and another staff person reviews the check payments and uploads the list of checks to the bank website. Central Bank does not pay any check that does not appear on the uploaded file. The staff person preparing the checks does not have access to the upload process with Central Bank.

The District will continue to work on implementing additional internal control procedures on an on-going basis.

BOONE COUNTY REGIONAL SEWER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (CONT'D)
YEAR ENDED DECEMBER 31, 2017

2017-002 Documentation of Internal Controls

Criteria: Current auditing standards require adequate documentation of components of internal controls. This is considered to be at least a significant deficiency and, possibly, a material weakness.

Condition: The District does not have written documentation of internal controls.

Context: During the audit, we requested to review the internal control documentation manual and were told no such manual exists.

Effect: District personnel do not have a manual to which to refer to determine how duties are to be performed to ensure that adequate internal controls are followed.

Cause: The District has developed internal controls over the years, however, they have not been developed in written form, most likely due to the time which would be involved to accurately record such controls.

Recommendation: The District should establish written internal control procedures which are made available to all personnel. The written controls should be periodically reviewed to ensure they are being followed and are adequate.

Views of Responsible Officials & Planned Corrective Actions:
The District's Finance Manager will begin creating an Internal Control Guide in 2018.