

GILBERT-SUMMIT RURAL WATER DISTRICT  
GILBERT, SOUTH CAROLINA

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AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

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YEAR ENDED JUNE 30, 2015

AND

INDEPENDENT AUDITOR'S REPORT

GILBERT-SUMMIT RURAL WATER DISTRICT  
GILBERT, SOUTH CAROLINA

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Gilbert-Summit Rural Water District  
Gilbert, South Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Gilbert-Summit Rural Water District (the "District") as of and for the year ended June 30, 2015, 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.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the District, as of June 30, 2015, and the results of its operations, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As discussed in *Note 1, Note 7 and Note 9* to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of the Proportionate Share of the South Carolina Retirement System Net Pension Liabilities, and the Schedule of South Carolina Retirement System Contributions on pages 4-7, 27, and 28, 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.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Other General and Administrative Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements and is the responsibility of management and was derived from and relate 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 Other General and Administrative Expenses 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 our report dated October 21, 2015, on our consideration of the District's internal control over financial reporting and on our tests

of its compliance with certain provisions of 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 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 the District's internal control over financial reporting and compliance.

*The Brittingham Group LLP*

West Columbia, South Carolina  
October 21, 2015

GILBERT-SUMMIT RURAL WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015

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This section of the District's Annual Financial Report presents management's overview and analysis of the District's financial performance for the fiscal year ended June 30, 2015. This section should be read in conjunction with the financial statements which follow this section.

### **Financial Highlights**

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at June 30, 2015, by \$4,806,345. Of this amount, \$785,464 represents the portion not invested in capital assets. \$531,347 of the total not invested in capital assets is restricted for bond retirement and system additions and replacements.
- The District's excess of revenue over expenses was \$324,696 but total net position decreased by \$289,091 as a result of the implementation of a new accounting policy.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the District's net position changed during the fiscal year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities and provides answers to such questions as "from where did cash come?," "for what was cash used?," and "what was the change in cash balance during the reporting period?"

### **Financial Analysis**

One of the most important questions asked about the District's finances is "is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District's net position - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases

GILBERT-SUMMIT RURAL WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015

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or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation.

For the year ended June 30, 2015, assets exceeded liabilities by \$4,806,345. About 84% of the net position is invested in capital assets, net of accumulated depreciation. An additional 11% of net position is designated for replacement of the capital assets and debt retirement. The following is a summary of the District's net position.

**Summary Statement of Net Position**

	June 30,	
	2015	2014
<b>Assets:</b>		
Current assets	\$ 1,098,831	\$ 1,208,162
Other non-current assets	531,348	464,783
Capital assets, net	7,466,162	7,486,306
Deferred outflows of resources	54,653	-
Total assets and deferred outflows of resources	9,150,994	9,159,251
<b>Liabilities:</b>		
Current liabilities	384,726	618,543
Non-current liabilities	3,907,437	3,445,272
Deferred Inflows of Resources	52,486	-
Total liabilities and deferred inflows of resources	4,344,649	4,063,815
<b>Net position:</b>		
Invested in capital assets	4,020,881	3,888,345
Restricted	531,347	464,783
Unrestricted	254,117	742,308
Total net position	\$ 4,806,345	\$ 5,095,436

\* The unrestricted net position was restated during the year ended June 30, 2015 as a result of the implementation of GASB 68. The June 30, 2014 balances do not reflect this restatement. See *Note 1*, *Note 7* and *Note 9* to the financial statements for additional information.

The District's net position decreased by \$289,091 for the year ended June 30, 2015. This decrease is a result of the implementation of GASB 68 and the following Summary Statement of Revenues, Expenses and Changes in Net Position shows an increase in net position of \$324,696 which is a more accurate representation of the District's activity for the year ended June 30, 2015.

GILBERT-SUMMIT RURAL WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015

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**Summary Statement of Revenues, Expenses and Changes in Net Position**

	Year Ended June 30,	
	2015	2014
Operating revenues	1,583,883	1,372,041
Operating expenses	1,153,567	1,150,305
Operating income	430,316	221,736
Non-operating revenues (expenses)	(155,520)	(168,133)
Net income before capital contributions	274,796	53,603
Capital contributions	49,900	241,937
Change in net position	324,696	295,540
Net position at beginning of year, as restated	4,481,649 *	4,799,896 *
Net position at end of year	<u>\$ 4,806,345</u>	<u>\$ 5,095,436</u>

\* The unrestricted net position was restated during the year ended June 30, 2015 as a result of the implementation of GASB 68. The June 30, 2014 balances do not reflect this restatement. See *Note 1*, *Note 7* and *Note 9* to the financial statements for additional information.

**Operating Revenues**

Operating revenues increased by \$211,842 (a 15% increase) over the prior year. The District's customer base remained fairly constant for the fiscal year.

**Operating Expenses**

Operating expenses increased by \$3,262 over the prior year. Of this total increase, salaries decreased by \$4,718, depreciation expense increased by \$13,950, and various other operating expenses decreased by \$5,970. Additional detail on these other operating expenses can be found in the *Supplemental Information* section of this report.



GILBERT-SUMMIT RURAL WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015

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## **Capital Assets and Debt Administration**

### *Capital Assets*

The District's investment in capital assets as of June 30, 2015, amounted to \$7,466,162 net of accumulated depreciation. Capital Assets consist of the water system, land and buildings, vehicles, equipment, furniture and fixtures, and work in process. Net capital assets increased by approximately 2% during the year and consist of \$263,290 of additions and \$22,300 of deletions. In addition, depreciation expense of \$283,434 was recorded.

Additional information on the District's capital assets can be found in *Note 1* and *Note 3* to the financial statements.

### *Debt*

At year-end, the District had a total of \$3,445,281 in bonds, notes and capital lease obligations outstanding versus \$3,597,960 last year, a net decrease of 4%.

Principal payments on the bonds during the year were \$89,976 and the principal portion of the capital lease obligation was reduced by \$62,703.

Additional information on the District's debt can be found in *Note 5* to the financial statements.

## **Economic Factors and Future Outlook**

The hope of acquiring funds from the proposed Lexington County "Penny for Progress" sales tax never came about after it was voted down in November 2014. All of the projects associated with that initiative have obviously been put on hold for now. The biggest project undertaken and completed this past year was the relocation of the water mains associated with the SCDOT widening of Highway #1. This was bid for \$463,000 and entailed the relocation of all existing waterlines along the road, and those affected in the multiple road intersection improvements. There has been steady growth in our customer base resulting in increasing water demand. To keep pace with this growth, the District continues to look for the best source of future water supply. Currently the option that fits the District's future needs best, appears to be an interconnection with the proposed new Saluda Water and Sewer Authority water treatment facility.

## **Request for Information**

This financial report is designed to provide a general overview of the District's finances for all those who have an interest in the District's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Manager, Gilbert-Summit Rural Water District, Post Office Box 172, Gilbert, South Carolina 29054.

GILBERT-SUMMIT RURAL WATER DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2015

**Assets**

Current assets

Cash and equivalents	\$ 430,330
Investments	387,142
Accounts receivable, net of allowance for uncollectibles of \$7,264	197,596
Interest receivable	495
Inventory	56,788
Prepaid items	26,480
<b>Total current assets</b>	<b>1,098,831</b>

Noncurrent assets

Restricted cash, cash equivalents and investments

Cash and equivalents	431,348
Investments	100,000

Capital assets

Non-depreciable capital assets	87,570
Other capital assets, net accumulated depreciation	7,378,592
<b>Total noncurrent assets</b>	<b>7,997,510</b>
<b>Total assets</b>	<b>9,096,341</b>

**Deferred Outflows of Resources**

Retirement contributions	54,653
<b>Total deferred outflows of resources</b>	<b>54,653</b>

(CONTINUED)

GILBERT-SUMMIT RURAL WATER DISTRICT  
STATEMENT OF NET POSITION  
(CONTINUED)

**Liabilities**

Current liabilities	
Accounts payable	12,900
Construction contracts and retainage payable	-
Other accrued liabilities	42,379
Customer deposits	169,027
Bonds payable - current portion	94,574
Capital lease obligations - current portion	65,846
Total current liabilities	384,726
Noncurrent liabilities	
Bonds payable - noncurrent portion	3,066,856
Capital lease obligations - noncurrent portion	218,005
Net pension liability	622,576
Total noncurrent liabilities	3,907,437
Total liabilities	4,292,163

**Deferred Inflows of Resources**

Retirement contributions	52,486
Total deferred inflows of resources	52,486

**Net position**

Net invested in capital assets	4,020,881
Restricted for:	
Revenue bond retirement	218,148
System additions and replacement	313,199
Unrestricted:	
Net pension liability	(622,576)
Unrestricted	876,693
Total net position	\$ 4,806,345

*The accompanying notes to the financial statements are an integral part of this statement.*

GILBERT-SUMMIT RURAL WATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2015

**Operating Revenues**

Charges for sales and services	
Water sales	\$ 1,495,680
Tap fees	20,500
Administration fees	21,350
Other	46,353
Total operating revenues	1,583,883

**Operating Expenses**

Salaries	342,076
Depreciation	283,434
Other general and administrative expenses	528,057
Total operating expenses	1,153,567
Operating income	430,316

**Nonoperating Revenues (Expenses)**

Interest income	2,433
Gain on sale of fixed assets	5,000
Interest expense	(162,953)
Total nonoperating revenues (expenses)	(155,520)

<b>Income Before Contributions</b>	274,796
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Capital contributions	49,900
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<b>Change in Net Position</b>	324,696
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Net position at beginning of year, as restated	4,481,649
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Net position at end of year	\$ 4,806,345
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*The accompanying notes to the financial statements are an integral part of this statement.*

GILBERT-SUMMIT RURAL WATER DISTRICT  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2015

<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 1,550,124
Cash paid to suppliers	(533,662)
Cash paid to employees	(334,433)
Net cash provided by operating activities	<u>682,029</u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition and construction of capital assets	(511,380)
Proceeds from sale of capital assets	5,000
Principal payments on bonds	(89,976)
Interest payments on bonds	(148,078)
Principal payments on capital lease obligation	(62,704)
Interest payments on capital lease obligation	(15,837)
Capital contributions	49,900
Net cash used for capital and related financing activities	<u>(773,075)</u>
<b>Cash flows from investing activities:</b>	
Purchase of investments	(158,697)
Sale of investments	150,000
Interest on investments	2,504
Net cash used for investing activities	<u>(6,193)</u>
Net decrease in cash and cash equivalents	(97,239)
Cash and cash equivalents, beginning of year	958,917
Cash and cash equivalents, end of year	<u>\$ 861,678</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	<u>\$ 430,316</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	283,434
Increase in accounts receivable	(40,808)
Decrease in inventory	1,974
Increase in prepaid items	(7,014)
Increase in deferred outflows of resources	(54,653)
Increase in deferred inflows of resources	52,486
Decrease in accounts payable	(565)
Increase in accrued liabilities	1,021
Increase in customer deposits	7,049
Increase in net pension liability	8,789
Total adjustments	<u>251,713</u>
Net cash provided by operating activities	<u>\$ 682,029</u>

*The accompanying notes to the financial statements are an integral part of this statement.*

GILBERT-SUMMIT RURAL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015

**1. Summary of Significant Accounting Principles**

The financial statements of the Gilbert-Summit Rural Water District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

*Reporting Entity*

Gilbert-Summit Rural Water District is a rural water district providing water distribution primarily in the Gilbert and Summit areas of Lexington County, South Carolina.

The Gilbert-Summit Rural Water District operates under the control of the Gilbert-Summit Rural Water District Board of Directors, which are elected by the customers of the District. The accompanying financial statements present the financial position and results of operations and cash flows of the Gilbert-Summit Rural Water District.

As defined by generally accepted accounting principles, the financial reporting entity is defined as the primary government and its component units. The primary government, which is the nucleus of the reporting entity, has a separately appointed governing body. A component unit is a legally separate entity for which the oversight body of the component unit is fiscally accountable to the primary government.

Gilbert-Summit Rural Water District is the primary government and does not have any component units.

*Basis of Presentation*

The Gilbert-Summit Rural Water District is accounted for as a proprietary fund, which is used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

*Measurement Focus and Basis of Accounting*

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

(CONTINUED)

GILBERT-SUMMIT RURAL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

**1. Summary of Significant Accounting Principles (continued)**

The Gilbert-Summit Rural Water District transactions are recorded in a proprietary fund. The proprietary fund utilizes an “*economic resources*” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net position.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the District’s proprietary fund is charges to customers for sales and service. Operating expenses for the District’s proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

New customers of Gilbert-Summit Rural Water District are charged a tap fee as well as an impact fee to connect to the existing system. The amount charged for the tap fee is equal to the cost of physically connecting new customers to the system and is reported as operating revenue, to match the operating expense incurred in connecting the new customer. The amount charged for the impact fee represents a charge to the new customer for their fair share of the cost of increasing the capacity of the system to meet the additional demand created by the connection of new customers. These impact fees are reported as capital contributions.

*Cash and Investments*

The District’s cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition. Investments consist of certificates of deposit with original maturities of more than three months.

*Restricted Assets*

Certain proceeds of the District’s operations are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or set aside for future improvements to or expansion of the system.

*Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. water system), are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

GILBERT-SUMMIT RURAL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

**1. Summary of Significant Accounting Principles (continued)**

The cost of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the relative capital assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed.

It is the policy of the District to capitalize items costing \$1,000 or greater with a useful life of 2 years or greater.

Depreciation is computed using the straight-line method over the following estimated useful lives, which are as follows:

<u>Assets</u>	<u>Years</u>
Water System, Lines and Wells	40
Buildings	40
Vehicles	5
Equipment	3-20

*Inventory*

Inventory consists of unused pipe and small parts needed for repairs or improvements. Inventory is valued at cost, on a first-in, first-out basis.

*Deferred Outflows and Inflows of Resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

*Net Position*

Net position in proprietary fund financial statements is classified in three components:



GILBERT-SUMMIT RURAL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

**1. Summary of Significant Accounting Principles (continued)**

- a. Net invested in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted – Consists of net position with constraints placed on resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- c. Unrestricted – Portion of net position that does not meet the definition of “restricted” or “invested in capital assets.”

*Estimates*

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Pension Liability*

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (Statement), was issued by the GASB in June 2012 and was implemented as required by the District during the current fiscal year. The primary objective of this Statement was to improve accounting and financial reporting by state and local governments for pensions. Governmental entities who participate in a cost-sharing multiple employer plan are now required to recognize a liability for its proportionate share of the net pension liability of that plan. It is GASB’s intention that this new Statement will provide users of the financial statements with a clearer picture of the size and nature of the District’s financial obligations to current and former employees for past services rendered. See *Note 7* and *Note 9* for additional information.

**2. Cash and Investments**

Statutes authorize the District to invest in obligations of the United States and its agencies, general obligations of the State of South Carolina and its subdivisions, savings and loan associations to the extent of federal insurance, certificates of deposit collaterally secured, repurchase agreements secured by the foregoing obligations, and the State Treasurer’s Investment Pool. The composition of the District’s cash, cash equivalents and investments, as of June 30, 2015 is as follows:

GILBERT-SUMMIT RURAL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

**2. Cash and Investments (continued)**

	Unrestricted	Restricted	Total
Cash and cash equivalents:			
Cash on hand	\$ 100	\$ -	\$ 100
Demand deposits	412,262	431,348	843,610
Certificates of deposit	17,968	-	17,968
Investments:			
Certificates of deposit	387,142	100,000	487,142
 Total	 \$ 817,472	 \$ 531,348	 \$ 1,348,820

Investments are stated at cost, as they consist of certificates of deposit.

*Custodial credit risk of deposits:*

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a policy to reduce its exposure to this risk by requiring deposits in excess of Federal Deposit Insurance Coverage (FDIC) limits to be collateralized in accordance with state law. As of June 30, 2015, the District's cash and cash equivalent bank balance totaled \$862,976. Of this balance, \$250,000 was insured by the FDIC and the remainder was collateralized by obligations of the United States of America and its agencies (as required by state law) and is held at SunTrust Bank.

*Custodial credit risk of investments:*

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the 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 District has a policy to reduce its exposure to this risk by requiring deposits in excess of FDIC limits to be collateralized in accordance with state law. As of June 30, 2015, investments totaled \$487,142. Of this amount, \$250,000 was insured by the FDIC and the remainder was collateralized by obligations of the United States of America and its agencies (as required by state law) and is held at SunTrust Bank.

GILBERT-SUMMIT RURAL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

**3. Capital Assets**

Capital asset activity for the year ended June 30, 2015 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Non-depreciable Assets:</b>				
Land	\$ 87,570	\$ -	\$ -	\$ 87,570
Construction in Process	509,522	-	(509,522)	-
<b>Total Non-depreciable Assets</b>	<b>597,092</b>	<b>-</b>	<b>(509,522)</b>	<b>87,570</b>
<b>Depreciable Assets:</b>				
Water Lines, Plant and Equipment	9,521,227	732,951	-	10,254,178
Land Improvements	20,425	-	-	20,425
Buildings	183,430	-	-	183,430
Furniture and Fixtures	68,781	3,300	-	72,081
Other Equipment	204,413	-	-	204,413
Trucks and Trailers	146,351	36,561	(22,300)	160,612
<b>Total Depreciable Assets</b>	<b>10,144,627</b>	<b>772,812</b>	<b>(22,300)</b>	<b>10,895,139</b>
<b>Total Capital Assets</b>	<b>10,741,719</b>	<b>772,812</b>	<b>(531,822)</b>	<b>10,982,709</b>
<b>Less: Accumulated Depreciation:</b>				
Water Lines, Plant and Equipment	2,823,048	255,321	-	3,078,369
Land Improvements	9,151	1,361	-	10,512
Buildings	88,529	4,231	-	92,760
Furniture and Fixtures	48,440	5,882	-	54,322
Other Equipment	158,140	8,053	-	166,193
Trucks and Trailers	128,105	8,586	(22,300)	114,391
<b>Total Accumulated Depreciation</b>	<b>3,255,413</b>	<b>283,434</b>	<b>(22,300)</b>	<b>3,516,547</b>
<b>Net Capital Assets</b>	<b>\$ 7,486,306</b>	<b>\$ 489,378</b>	<b>\$ (509,522)</b>	<b>\$ 7,466,162</b>

**4. Restricted Net Position**

The District's bond covenants require certain restrictions of net assets. The restricted portions, which are included as part of the District's restricted cash, at June 30, 2015 are as follows:

Restricted for additions and replacement of System	\$ 313,199
Restricted for current debt service	218,148
<b>Total restricted net position</b>	<b>\$ 531,347</b>

GILBERT-SUMMIT RURAL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

**5. Long Term Debt**

A summary of long-term debt activity for the year ended June 30, 2015 is as follows:

	6/30/2014	Additions	Deletions	6/30/2015	Due Within One Year
Revenue bonds	\$ 3,251,406	\$ -	\$ 89,976	\$3,161,430	\$ 94,574
Lease obligations	346,554	-	62,703	283,851	65,846
	<u>\$ 3,597,960</u>	<u>\$ -</u>	<u>\$ 152,679</u>	<u>\$3,445,281</u>	<u>\$ 160,420</u>

The District has issued revenue bonds in connection with the administration, operation and upgrade of the water system. These bonds are collateralized by net revenues of the district and accrue interest at a fixed rate as specified below. The revenues derived from the operation of the respective systems are to be used for expenses in connection with the administration and operations of the system. Revenue Bonds outstanding at June 30, 2015, are as follows:

Revenue Bond Number	Interest Rate	Monthly Payment	Year of Maturity	Original Issue Amount	Balance June 30, 2015
02	5.000%	\$ 312	2017	\$ 63,000	\$ 7,759
03	5.000%	1,485	2016	305,000	23,449
04	6.875%	1,052	2020	160,100	54,756
05	5.375%	5,710	2033	1,059,872	795,110
06	4.625%	3,171	2042	692,200	589,142
07	4.125%	8,065	2046	1,893,000	1,691,214
					<u>\$ 3,161,430</u>

GILBERT-SUMMIT RURAL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

**5. Long Term Debt (continued)**

The District is obligated under the revenue bonds to make the following aggregate debt payments:

Year Ended June 30,	Principal	Interest	Total
2016	\$ 94,574	\$ 142,930	\$ 237,504
2017	87,988	138,258	226,246
2018	82,625	134,072	216,697
2019	86,103	129,873	215,976
2020	90,519	125,457	215,976
2021-2025	455,334	563,514	1,018,848
2026-2030	574,482	442,278	1,016,760
2031-2035	601,402	293,745	895,147
2036-2040	493,886	180,274	674,160
2041-2045	501,224	69,224	570,448
2046	93,293	2,070	95,363
	<u>\$ 3,161,430</u>	<u>\$ 2,221,695</u>	<u>\$ 5,383,125</u>

Gilbert-Summit Rural Water District has a lease-purchase financing agreement for the purchase of certain water meters and automated meter reading equipment in order to provide for remote reading of water meters. The lease obligation is secured by the equipment. The terms of the lease call for semi-annual payments of \$39,546, which includes interest at 4.95% per annum.

The District is obligated under the capital lease to make the following aggregate annual lease payments:

Year Ended June 30,	Principal	Interest	Total
2016	\$ 65,846	\$ 13,246	\$ 79,092
2017	69,145	9,946	79,091
2018	72,611	6,481	79,092
2019	76,249	2,842	79,091
	<u>\$ 283,851</u>	<u>\$ 32,515</u>	<u>\$ 316,366</u>

GILBERT-SUMMIT RURAL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

**6. Employee Retirement System and Net Pension Liability**

Substantially all employees of the District are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Benefits Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. The PEBA has the authority to establish and amend benefits and funding policy. Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental death benefits to eligible employees and retired members.

The Retirement Division (Division) maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information.

The CAFR is available online at [www.retirement.sc.gov](http://www.retirement.sc.gov), or a copy may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960.

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of the 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are available to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service.

GILBERT-SUMMIT RURAL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

**6. Employee Retirement System and Net Pension Liability (continued)**

Members of SCRS have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits.

An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement.

Effective July 1, 2014, 2013 and 2012 employees participating in the SCRS were required to contribute 8.00%, 7.50% and 7.00%, respectively, of all earnable compensation. The employer contribution rate for SCRS was 10.90%, 10.60% and 10.60% effective July 1, 2014, 2013 and 2012, respectively. Included in the total SCRS employer contribution rate is the base retirement contribution (10.75% effective July 1, 2014 and 10.45% effective July 1, 2014 and 2013) and .15% for the incidental death benefit program. The District's actual contributions to the SCRS for the years ended June 30, 2015, 2014, and 2013 were \$36,503, \$34,302, and \$31,791 respectively, and equaled the required retirement contribution rate of 10.75% for 2015 and 10.45% for 2014 and 2013. The District also paid employer incidental death program contributions of \$509, \$492 and \$457, at the rate of .15% of compensation for the years ended June 30, 2015, 2014, and 2013, respectively.

Covered payroll for the years ended June 30, 2015, 2014 and 2013 was \$339,559, \$328,246 and 304,224 respectively.

As an alternative to membership in the SCRS, newly hired employees of the Fund may elect to participate in the State Optional Retirement Program (ORP), a defined contribution retirement plan. The District did not have any employees participating in the ORP during the 2015, 2014 or 2013 fiscal years.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined.

As a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (Statement), the District reported \$622,576 for its proportionate share of the net pension liabilities of the SCRS at June 30, 2015. The net pension liability of the SCRS defined benefit pension plan was determined based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013, projected forward to June 30, 2014, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. The District's portion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities.

GILBERT-SUMMIT RURAL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

**6. Employee Retirement System and Net Pension Liability (continued)**

At June 30, 2014, the District's SCRS proportion was 0.0036%, which was the same as its portion of the net pension liability measured as of June 30, 2013. As a result of the implementation of this Statement, the District recognized additional pension expenses of \$6,622 for a total of \$43,634 for the year ended June 30, 2015.

At June 30, 2015 the District reported deferred outflows of resources and deferred inflows of resources to pensions from the following sources:

Deferred Outflows of Resources

Differences between expected and actual experience	\$ 17,641
Contributions made to SCRS from measurement date to June 30, 2015	37,012
Total deferred outflows of resources	\$ 54,653

Deferred Inflows of Resources

Net differences between projected and actual earnings on pension plan investments	\$ 52,486
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Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

Year ended June 30,	Deferred Outflows	Deferred Inflows	Net
2016	\$ 40,893	\$ (11,546)	\$ 29,347
2017	3,881	(11,546)	(7,665)
2018	3,881	(11,546)	(7,665)
2019	5,998	(17,848)	(11,850)
	\$ 54,653	\$ (52,486)	\$ 2,167

The total pension liabilities in the July 1, 2013 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Actuarial cost method	Entry age
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	Levels off at 3.5%
Inflation rate	2.75%
Benefit Adjustments	Lesser of 1% or \$500



GILBERT-SUMMIT RURAL WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 (CONTINUED)

**6. Employee Retirement System and Net Pension Liability (continued)**

South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Former Job Class	Males	Females
Educators and Judges	RP-2000 males (with white collar adjustment) multiplied by 110%	RP-2000 females (with white collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 males multiplied by 100%	RP-2000 females multiplied by 90%
Public Safety, Firefighters and Members of the South Carolina National Guard	RP-2000 males (with blue collar adjustment) multiplied by 115%	RP-2000 females (with blue collar adjustment) multiplied by 115%

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgement.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provision and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculated of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

GILBERT-SUMMIT RURAL WATER DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

**6. Employee Retirement System and Net Pension Liability (continued)**

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long-Term Expected Portfolio Real Rate of Return</u>
<b>Short Term</b>	<b>5.0%</b>		
Cash	2.0%	0.3%	0.01%
Short Duration	3.0%	0.6%	0.02%
<b>Domestic Fixed Income</b>	<b>13.0%</b>		
Core Fixed Income	7.0%	1.1%	0.08%
High Yield	2.0%	3.5%	0.07%
Bank Loans	4.0%	3.8%	0.11%
<b>Global Fixed Income</b>	<b>9.0%</b>		
Global Fixed Income	3.0%	0.8%	0.02%
Emerging Markets Debt	6.0%	4.1%	0.25%
<b>Global Public Equity</b>	<b>31.0%</b>	7.8%	2.42%
<b>Global Tactical Asset Allocation Alternatives</b>	<b>10.0%</b>	5.1%	0.51%
Hedge Funds (Low Beta)	8.0%	4.0%	0.32%
Private Debt	7.0%	10.2%	0.71%
Private Equity	9.0%	10.2%	0.92%
Real Estate (Broad Market)	5.0%	5.9%	0.29%
Commodities	3.0%	5.1%	0.15%
<b>Total Expected Real Return</b>	<b>100.0%</b>		5.88%
<b>Inflation for Actuarial Purposes</b>			2.75%
<b>Total Expected Nominal Return</b>			<b>8.63%</b>

The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all SCRS participating employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table represents the Fund's proportionate share of the net SCRS pension liabilities calculated using the discount rate of 7.50 percent, as well as what the Fund's respective net pension liabilities would be if it were calculated using a discount rate of 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

GILBERT-SUMMIT RURAL WATER DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 (CONTINUED)

**6. Employee Retirement System and Net Pension Liability (continued)**

Plan	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
SCRS	\$ 805,625	\$ 622,576	\$ 469,823

**7. Other Employee Benefits**

The District also offers Health insurance and death benefits for eligible employees and their families, however no liability exist for postemployment benefits.

**8. Restatement of Net Position**

During the year ended June 30, 2015, the District implemented GASB 68 (as discussed in *Note 1* and *Note 7*). The implementation required a restatement of beginning net position as follows:

	As originally stated	Change due to pension liability and deferred items	As Restated
Net pension liability	\$ -	\$ 613,787	\$ 613,787
Net position	5,095,436	(613,787)	4,481,649

**9. Subsequent Events**

The District has evaluated all events subsequent to the Statement of Net Position date of June 30, 2015, through the date of the audit report, which is the date the financial statements were available to be issued, and have determined there are no subsequent events requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

GILBERT-SUMMIT RURAL WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE SOUTH CAROLINA  
RETIREMENT SYSTEM NET PENSION LIABILITIES

YEAR ENDED JUNE 30, 2015

Last 10 fiscal years*	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.0036%	0.0036%
District's proportionate share of the net pension liability	\$ 622,576	\$ 648,581
District's covered-employee payroll	\$ 339,559	\$ 328,246
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	183.35%	197.59%
Plan fiduciary net position as a percentage of the total pension liability	59.92%	56.39%

\*The amounts presented for each fiscal year were determined as of July 1, of the two years prior, using membership data projected forward to June 30 of the previous year. GASB 68 was implemented by the District during fiscal year 2015 and information prior to 2014 is not available.

GILBERT-SUMMIT RURAL WATER DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF SOUTH CAROLINA RETIREMENT SYSTEM CONTRIBUTIONS

YEAR ENDED JUNE 30, 2015

Last 10 fiscal years	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contributions	\$ 36,503	\$ 34,302	\$ 31,791	\$ 30,564	\$ 30,790	\$ 28,945	\$ 25,326	\$ 22,237	**	**
Contributions in relation to the contractually required contribution	(36,503)	(34,302)	(31,791)	(30,564)	(30,790)	(28,945)	(25,326)	(22,237)	-	-
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
State covered-employee payroll	\$ 339,559	\$ 328,246	\$ 304,224	\$ 325,847	\$ 333,225	\$ 313,260	\$ 274,090	\$ 245,442	**	**
Contributions as a percentage of covered-employee payroll	10.75%	10.45%	10.45%	9.38%	9.24%	9.24%	9.24%	9.06%	8.05%	7.55%

\*\* Information not available

OTHER SUPPLEMENTARY INFORMATION

GILBERT-SUMMIT RURAL WATER DISTRICT  
OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

YEAR ENDED JUNE 30, 2015

Utilities and telephone	\$	97,380
Insurance		90,138
Supplies		68,624
Repairs and maintenance		55,081
Other expenses		50,481
Retirement expense		43,634
Taxes and licenses		40,036
Radium removal		28,127
Professional services		20,552
Office expenses and postage		16,043
Gas and oil		15,062
Seminars and travel		1,499
Director's expense		1,400
		<hr/>
Total other general and administrative expenses	\$	<u><u>528,057</u></u>



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## **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***

To the Board of Directors  
Gilbert-Summit Rural Water District  
Gilbert, South Carolina

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, the financial statements of the business-type activities of Gilbert-Summit Rural Water District, South Carolina, (hereafter referred to as the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 21, 2015.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

### **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.

*The Brittingham Group LLP*

West Columbia, South Carolina  
October 21, 2015