

GILBERT-SUMMIT RURAL WATER DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2016

WITH

INDEPENDENT AUDITORS REPORT

GILBERT-SUMMIT RURAL WATER DISTRICT

BASIC FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION

YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

Independent Auditors Report	1
Management’s Discussion and Analysis.....	4
Basic Financial Statements	
Statement of Net Position.....	8
Statement of Revenues, Expenses, and Changes in Net Position	10
Statement of Cash Flows.....	11
Notes to the Financial Statements	12
Required Supplementary Information	
Schedule of the Proportionate Share of the South Carolina Retirement System Net Pension Liabilities	27
Schedule of South Carolina Retirement System Contributions	28
Other Supplementary Information	
Schedule of Other General and Administrative Expenses	30
Independent Auditors Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	31

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INDEPENDENT AUDITORS REPORT

The Board of Directors
Gilbert-Summit Rural Water District
136 Hampton Street, Post Office Box 172
Gilbert, South Carolina 29054

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, 2016, 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, 2016, 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.

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 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 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 August 23, 2016, 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
August 23, 2016

GILBERT-SUMMIT RURAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

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, 2016. 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, 2016, by \$5,195,598. Of this amount, \$1,231,160 represents the portion not invested in capital assets. \$612,951 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 \$389,253 which represents the increase in net position.

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
YEAR ENDED JUNE 30, 2016

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, 2016, assets exceeded liabilities by \$5,195,577. About 76% of the net position is invested in capital assets, net of accumulated depreciation. An additional 12% 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,	
	<u>2016</u>	<u>2015</u>
Assets:		
Current assets	\$ 1,501,147	\$ 1,098,831
Other non-current assets	612,951	531,348
Capital assets, net	7,192,918	7,466,162
Deferred outflows of resources	60,044	54,653
Total assets and deferred outflows of resources	<u>9,367,060</u>	<u>9,150,994</u>
Liabilities:		
Current liabilities	392,292	384,726
Non-current liabilities	3,777,942	3,907,437
Deferred Inflows of Resources	1,228	52,486
Total liabilities and deferred inflows of resources	<u>4,171,462</u>	<u>4,344,649</u>
Net position:		
Invested in capital assets	3,964,438	4,020,881
Restricted	612,951	531,347
Unrestricted	618,209	254,117
Total net position	<u>\$ 5,195,598</u>	<u>\$ 4,806,345</u>

The District's net position increased by \$389,253 for the year ended June 30, 2016. This increase is a result of the following Summary Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2016.

GILBERT-SUMMIT RURAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

Summary Statement of Revenues, Expenses and Changes in Net Position

	Year Ended June 30,	
	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 1,681,399	\$ 1,583,883
Operating expenses	<u>1,241,230</u>	<u>1,153,567</u>
Operating income	440,169	430,316
Non-operating revenues (expenses)	<u>(150,316)</u>	<u>(155,520)</u>
Net income before capital contributions	289,853	274,796
Capital contributions	<u>99,400</u>	<u>49,900</u>
Change in net position	389,253	324,696
Net position at beginning of year, as restated	<u>4,806,345</u>	<u>4,481,649</u>
Net position at end of year	<u><u>\$ 5,195,598</u></u>	<u><u>\$ 4,806,345</u></u>

Operating Revenues

Operating revenues increased by \$97,516 (a 6% increase) over the prior year. The District's customer base remained fairly constant for the fiscal year.

Operating Expenses

Operating expenses increased by \$87,684 over the prior year. Of this total increase, salaries increased by \$42,941, depreciation expense increased by \$22,599, and various other operating expenses increased by \$22,123. 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
YEAR ENDED JUNE 30, 2016

Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets as of June 30, 2016, amounted to \$7,192,918 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 decreased by approximately 3.66% during the year and consist of \$32,789 of additions and \$12,100 of deletions. In addition, depreciation expense of \$306,033 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 \$3,228,480 in bonds and capital lease obligations outstanding versus \$3,445,281 last year, a net decrease of 6%.

Principal payments on the bonds during the year were \$150,955 and the principal portion of the capital lease obligation was reduced by \$65,846.

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

Economic Factors and Future Outlook

This past year we have seen growing interest in new development in our service area, particularly in the northern part around Lake Murray. Along with that, demand for water has increased, so finding additional source water is becoming a more pressing priority. The District has various options, with the Saluda County Water and Sewer Authority's new water treatment plant, starting construction in the latter part of this year, appearing to be the most favorable. As we move forward The District continues to strive to provide the best quality drinking water at reasonable cost along with efficient service, and timely response to the needs of our customers.

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, 136 Hampton Street, Post Office Box 172, Gilbert, South Carolina 29054.

GILBERT-SUMMIT RURAL WATER DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016

Assets

Current assets

Cash and equivalents	\$ 820,820
Investments	397,754
Accounts receivable, net of allowance for uncollectibles of \$7,686	201,957
Interest receivable	753
Inventory	59,290
Prepaid items	20,573
Total current assets	<u>1,501,147</u>

Noncurrent assets

Restricted cash, cash equivalents and investments	
Cash and equivalents	512,951
Investments	100,000
Capital assets	
Non-depreciable capital assets	87,570
Other capital assets, net accumulated depreciation	7,105,348
Total noncurrent assets	<u>7,805,869</u>
Total assets	<u>9,307,016</u>

Deferred Outflows of Resources

Retirement contributions	<u>60,044</u>
Total deferred outflows of resources	<u>60,044</u>
Total assets and deferred outflows of resources	<u>\$ 9,367,060</u>

(CONTINUED)

GILBERT-SUMMIT RURAL WATER DISTRICT

STATEMENT OF NET POSITION

(CONTINUED)

Liabilities

Current liabilities

Accounts payable \$ 33,026

Other accrued liabilities 45,431

Customer deposits 176,557

Bonds payable - current portion 68,133

Capital lease obligations - current portion 69,145

Total current liabilities 392,292

Noncurrent liabilities

Bonds payable - noncurrent portion 2,942,342

Capital lease obligations - noncurrent portion 148,860

Net pension liability 686,740

Total noncurrent liabilities 3,777,942

Total liabilities 4,170,234

Deferred Inflows of Resources

Retirement contributions 1,228

Total deferred inflows of resources 1,228

Total liabilities and deferred inflows of resources 4,171,462

Net position

Net invested in capital assets 3,964,438

Restricted for:

Revenue bond retirement 193,674

System additions and replacement 419,277

Unrestricted:

Net pension liability (686,761)

Unrestricted 1,304,970

Total net position \$ 5,195,598

GILBERT-SUMMIT RURAL WATER DISTRICT
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 YEAR ENDED JUNE 30, 2016

Operating Revenues	
Charges for sales and services	
Water sales	\$ 1,587,740
Tap fees	28,500
Administration fees	19,328
Other	45,831
Total operating revenues	<u>1,681,399</u>
Operating Expenses	
Salaries	385,017
Depreciation	306,033
Other general and administrative expenses	550,180
Total operating expenses	<u>1,241,230</u>
Operating income	<u>440,169</u>
Nonoperating Revenues (Expenses)	
Interest income	3,353
Gain on sale of capital assets	550
Interest expense	(154,219)
Total nonoperating revenues (expenses)	<u>(150,316)</u>
Income Before Contributions	289,853
Capital contributions	99,400
Change in Net Position	389,253
Net position at beginning of year	<u>4,806,345</u>
Net position at end of year	<u>\$ 5,195,598</u>

See accompanying notes.

GILBERT-SUMMIT RURAL WATER DISTRICT

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

Cash flows from operating activities:	
Cash received from customers	\$ 1,684,568
Cash paid to suppliers	(526,649)
Cash paid to employees	(373,760)
Net cash provided by operating activities	784,159
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(32,789)
Proceeds from sale of capital assets	550
Principal payments on bonds	(150,955)
Interest payments on bonds	(142,167)
Principal payments on capital lease obligation	(65,846)
Interest payments on capital lease obligation	(13,246)
Capital contributions	99,400
Net cash used for capital and related financing activities	(305,053)
Cash flows from investing activities:	
Purchase of investments	(10,108)
Interest on investments	3,095
Net cash used for investing activities	(7,013)
Net increase in cash and cash equivalents	472,093
Cash and cash equivalents, beginning of year	861,678
Cash and cash equivalents, end of year	\$ 1,333,771
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 440,169
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	306,033
Increase in accounts receivable	(4,361)
Decrease in inventory	(2,502)
Increase in prepaid items	5,907
Increase in deferred outflows of resources	(5,391)
Increase in deferred inflows of resources	(51,258)
Increase in accounts payable	20,126
Increase in accrued liabilities	3,742
Increase in customer deposits	7,530
Increase in net pension liability	64,164
Total adjustments	343,990
Net cash provided by operating activities	\$ 784,159

See accompanying notes.

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.

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, 2016 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	802,743	512,951	1,315,694
Certificates of deposit	17,977	-	17,977
Investments:			
Certificates of deposit	397,754	100,000	497,754
 Total	 \$ 1,218,574	 \$ 612,951	 \$ 1,831,525

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, 2016, the District's cash and cash equivalent bank balance totaled \$1,341,945. 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, 2016, investments totaled \$497,754. 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, 2016 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable assets:				
Land	\$ 87,570	\$ -	\$ -	\$ 87,570
Total non-depreciable assets	<u>87,570</u>	<u>-</u>	<u>-</u>	<u>87,570</u>
Depreciable assets:				
Water lines, plant and equipment	10,254,178	-	-	10,254,178
Land improvements	20,425	-	-	20,425
Buildings	183,430	-	-	183,430
Furniture and fixtures	72,081	-	-	72,081
Other equipment	204,413	2,848	-	207,261
Trucks and trailers	160,612	29,941	(12,100)	178,453
Total depreciable assets	<u>10,895,139</u>	<u>32,789</u>	<u>(12,100)</u>	<u>10,915,828</u>
Total capital assets	<u>10,982,709</u>	<u>32,789</u>	<u>(12,100)</u>	<u>11,003,398</u>
Less: accumulated depreciation:				
Water lines, plant and equipment	3,078,369	271,300	-	3,349,669
Land improvements	10,512	1,362	-	11,874
Buildings	92,760	4,232	-	96,992
Furniture and fixtures	54,322	5,996	-	60,318
Other equipment	166,193	8,055	-	174,248
Trucks and trailers	114,391	15,088	(12,100)	117,379
Total accumulated depreciation	<u>3,516,547</u>	<u>306,033</u>	<u>(12,100)</u>	<u>3,810,480</u>
Net capital assets	<u>\$ 7,466,162</u>	<u>\$ (273,244)</u>	<u>\$ -</u>	<u>\$ 7,192,918</u>

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, 2016 are as follows:

Restricted for systems additions and replacement	\$ 419,277
Restricted for bond retirement	<u>193,674</u>
Total restricted net position	<u>\$ 612,951</u>

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, 2016 is as follows:

	<u>6/30/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2016</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 3,161,430	\$ -	\$ 150,955	\$ 3,010,475	\$ 68,133
Lease obligations	283,851	-	65,846	218,005	69,145
	<u>\$ 3,445,281</u>	<u>\$ -</u>	<u>\$ 216,801</u>	<u>\$ 3,228,480</u>	<u>\$ 137,278</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, 2016, are as follows:

<u>Revenue Bond Number</u>	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Year of Maturity</u>	<u>Original Issue Amount</u>	<u>Balance June 30, 2016</u>
05	5.375%	\$ 5,710	2033	\$ 1,059,872	\$ 768,685
06	4.625%	3,171	2042	692,200	578,108
07	4.125%	8,065	2046	1,893,000	1,663,682
					<u>\$ 3,010,475</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
2017	\$ 68,133	\$ 135,219	\$ 203,352
2018	71,422	131,930	203,352
2019	74,871	128,481	203,352
2020	78,490	124,862	203,352
2021	82,286	121,066	203,352
2022-2026	475,235	541,525	1,016,760
2027-2031	602,426	414,334	1,016,760
2032-2036	559,722	266,902	826,624
2037-2041	515,443	158,717	674,160
2042-2046	482,447	48,544	530,991
	<u>\$ 3,010,475</u>	<u>\$ 2,071,580</u>	<u>\$ 5,082,055</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
2017	\$ 69,145	\$ 9,946	\$ 79,091
2018	72,611	6,481	79,092
2019	76,249	2,842	79,091
	<u>\$ 218,005</u>	<u>\$ 19,269</u>	<u>\$ 237,274</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, 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, 2015, 2014 and 2013 employees participating in the SCRS were required to contribute 8.16%, 8.00% and 7.50%, respectively, of all earnable compensation. The employer contribution rate for SCRS was 11.06%, 10.90% and 10.60% effective July 1, 2015, 2014 and 2013, respectively. Included in the total SCRS employer contribution rate is the base retirement contribution (10.91% effective July 1, 2015, 10.75% effective July 1, 2014, and 10.45% effective July 1, 2013) and .15% for the incidental death benefit program. The District's actual contributions to the SCRS for the years ended June 30, 2016, 2015, and 2014 were \$41,987, \$36,503, and \$34,302 respectively, and equaled the required retirement contribution rate of 10.91% for 2016, 10.75% for 2015, and 10.45% for 2014. The District also paid employer incidental death program contributions of \$577, \$509 and \$492, at the rate of .15% of compensation for the years ended June 30, 2016, 2015, and 2014, respectively.

Covered payroll for the years ended June 30, 2016, 2015 and 2014 was \$384,848, \$339,559 and \$328,246 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 2016, 2015 or 2014 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 \$686,740 for its proportionate share of the net pension liabilities of the SCRS at June 30, 2016. The net pension liability of the SCRS defined benefit pension plan was determined based on the July 1, 2014 actuarial valuations, using membership data as of July 1, 2014, projected forward to June 30, 2015, and financial information of the pension trust funds as of June 30, 2015, 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, 2015, 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, 2014. As a result of the implementation of this Statement, the District recognized additional pension expenses of \$7,536 for a total of \$50,100 for the year ended June 30, 2016.

At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources to pensions from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Net</u>
Differences between expected and actual experience	\$ 12,201	\$ (1,228)	\$ 10,973
Changes in proportionate share and Differences between employer contributions and proportion share of total plan employer contributions	682	-	682
Net difference between projected and actual earnings on investments	4,597	-	4,597
Current year employer contributions	<u>42,564</u>	<u>-</u>	<u>42,564</u>
	<u>\$ 60,044</u>	<u>\$ (1,228)</u>	<u>\$ 58,816</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

<u>Year ended June 30,</u>	<u>Net</u>
2017	\$(45,720)
2018	(3,155)
2019	1,035
2020	<u>(10,976)</u>
	<u>\$ (58,816)</u>

The total pension liabilities in the July 1, 2014 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%
Salary increases	3.5% to 12.5%
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 currently underway.

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 (which is set in statute) 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:

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Short Term	5.0%		
Cash	2.0%	1.9%	0.04%
Short duration	3.0%	2.0%	0.06%
Domestic Fixed Income	13.0%		
Core fixed income	7.0%	2.7%	0.19%
Mixed credit	6.0%	3.8%	0.23%
Global Fixed Income	9.0%		
Global fixed income	3.0%	2.8%	0.08%
Emerging markets debt	6.0%	5.1%	0.31%
Global Public Equity	31.0%	7.1%	2.20%
Global Tactical Asset Allocation	10.0%	4.9%	0.49%
Alternatives	32.0%		
Hedge funds (low beta)	8.0%	4.3%	0.34%
Private debt	7.0%	9.9%	0.69%
Private equity	9.0%	9.9%	0.89%
Real estate (broad market)	5.0%	6.0%	0.30%
Commodities	3.0%	5.9%	0.18%
Total expected real return	100.0%		6.00%
Inflation for actuarial purposes			2.75%
Total expected nominal return			8.75%

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)

	1% Decrease	Current Rate	1% Increase
<u>Plan</u>	<u>6.50%</u>	<u>7.50%</u>	<u>8.50%</u>
SCRS	\$ 865,783	\$ 686,740	\$ 536,679

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. Subsequent Events

The District has evaluated all events subsequent to the Statement of Net Position date of June 30, 2016, through the date of the audit report, which is the date the financial statements were available to be issued, and have determined the only subsequent event requiring disclosure is the District's refinancing of Bond Issue #5 during July 2016. The District refinanced Bond Issue #5 five because of favorable interest rates that will result in lower interest expense and improved cash flow.

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

Last 10 fiscal years*	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.0036%	0.0036%	0.0036%
District's proportionate share of the net pension liability	\$ 686,740	\$ 622,576	\$ 648,581
District's covered-employee payroll	\$ 384,848	\$ 339,559	\$ 328,246
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	178.44%	183.35%	197.59%
Plan fiduciary net position as a percentage of the total pension liability	57.00%	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

Last 10 fiscal years	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contributions	\$ 41,987	\$ 36,503	\$ 34,302	\$ 31,791	\$ 30,564	\$ 30,790	\$ 28,945	\$ 25,326	\$ 22,237	**
Contributions in relation to the contractually required contribution	(41,987)	(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	\$ 384,848	\$ 339,559	\$ 328,246	\$ 304,224	\$ 325,847	\$ 333,225	\$ 313,260	\$ 274,090	\$ 245,442	**
Contributions as a percentage of covered-employee payroll	10.91%	10.75%	10.45%	10.45%	9.38%	9.24%	9.24%	9.24%	9.06%	8.05%

** Information not available

OTHER SUPPLEMENTARY INFORMATION

GILBERT-SUMMIT RURAL WATER DISTRICT

SCHEDULE OF OTHER GENERAL AND ADMINISTRATIVE EXPENSES

YEAR ENDED JUNE 30, 2016

Utilities and telephone	\$	91,543
Insurance		97,696
Supplies		70,845
Repairs and maintenance		40,177
Other expenses		57,350
Retirement expense		50,079
Taxes and licenses		35,061
Radium removal		61,639
Professional services		13,989
Office expenses and postage		18,947
Gas and oil		7,306
Seminars and travel		4,218
Director's expense		1,330
		<hr/>
Total other general and administrative expenses	\$	<u>550,180</u>

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INDEPENDENT AUDITORS 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
136 Hampton Street, P.O. Box 172
Gilbert, South Carolina 29054

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 23, 2016.

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
August 23, 2016