

GILBERT-SUMMIT RURAL WATER DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2017

WITH

INDEPENDENT AUDITORS' REPORT

GILBERT-SUMMIT RURAL WATER DISTRICT

AUDITED FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION

YEAR ENDED JUNE 30, 2017

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.....	9
Statement of Cash Flows.....	10
Notes to the Financial Statements.....	12
Required Supplementary Information	
Schedule of the Proportionate Share of the South Carolina Retirement System Net Pension Liabilities.....	25
Schedule of South Carolina Retirement System Contributions.....	26
Other Supplementary Information	
Schedule of Other General and Administrative Expenses.....	27
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>	28

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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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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, 2017, 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, 25, and 26, 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 opinions 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.

The Schedule of Other General and Administrative Expenses 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 18, 2017, 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 18, 2017

GILBERT-SUMMIT RURAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

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, 2017. 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, 2017, by \$5,565,533. Of this amount, \$1,588,000 represents the portion not invested in capital assets. \$731,802 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 \$369,935 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.

GILBERT-SUMMIT RURAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

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 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, 2017, assets exceeded liabilities by \$5,565,533. About 71% of the net position is invested in capital assets, net of accumulated depreciation. An additional 13% 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,	
	2017	2016
Assets:		
Current assets	\$ 1,806,174	\$ 1,501,147
Other non-current assets	731,802	612,951
Capital assets, net	6,924,326	7,192,918
Deferred outflows of resources	175,403	60,044
Total assets and deferred outflows of resources	9,637,705	9,367,060
Liabilities:		
Current liabilities	450,006	392,292
Non-current liabilities	3,621,244	3,777,942
Deferred Inflows of Resources	922	1,228
Total liabilities and deferred inflows of resources	4,072,172	4,171,462
Net position:		
Invested in capital assets	3,977,533	3,964,438
Restricted	731,802	612,951
Unrestricted	856,198	618,209
Total net position	\$ 5,565,533	\$ 5,195,598

The District's net position increased by \$369,935 for the year ended June 30, 2017. This increase is a result of the following Summary Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2017.

GILBERT-SUMMIT RURAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017

Summary Statement of Revenues, Expenses and Changes in Net Position

	Year Ended June 30,	
	2017	2016
Operating revenues	\$ 1,720,242	\$ 1,681,399
Operating expenses	1,351,180	1,241,230
Operating income	369,062	440,169
Non-operating revenues (expenses)	(102,116)	(150,316)
Net income before capital contributions	266,946	289,853
Capital contributions	102,989	99,400
Change in net position	369,935	389,253
Net position at beginning of year, as restated	5,195,598	4,806,345
Net position at end of year	\$ 5,565,533	\$ 5,195,598

Operating Revenues

Operating revenues increased by \$38,843 (a 2% increase) over the prior year. The District's customer base remained fairly constant for the fiscal year.

Operating Expenses

Operating expenses increased by \$109,950 over the prior year. Of this total increase, salaries increased by \$6,040, depreciation expense increased by \$3,938, and various other operating expenses increased by \$99,970. 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
YEAR ENDED JUNE 30, 2017

Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets as of June 30, 2017, amounted to \$6,924,326 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 4% during the year and consist of \$41,706 of additions and \$40,700 of deletions. In addition, depreciation expense of \$309,972 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 \$2,946,793 in bonds and capital lease obligations outstanding versus \$3,228,480 last year, a net decrease of 9%.

Principal payments on the bonds during the year were \$212,542 and the principal portion of the capital lease obligation was reduced by \$69,145.

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 continued to see 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 made a decision to drill a new well and has already acquired an option on a property to begin this. Hopes are that this will be in production by the summer of 2018. The District is also in talks with the Joint Municipal Water and Sewer Commission exploring the possibility of purchasing wholesale water from them in the future. 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, 2017

Assets	
Current assets	
Cash and cash equivalents	\$ 1,538,292
Accounts receivable, net of allowance for uncollectibles of \$6,888	179,149
Interest receivable	936
Inventory	64,737
Prepaid items	23,060
Total current assets	<u>1,806,174</u>
Noncurrent assets	
Restricted cash and cash equivalents	
Cash and cash equivalents	731,802
Capital assets	
Non-depreciable capital assets	87,570
Other capital assets, net accumulated depreciation	6,836,756
Total noncurrent assets	<u>7,656,128</u>
Total assets	<u>9,462,302</u>
Deferred Outflows of Resources	
Net pension outflows	175,403
Total deferred outflows of resources	<u>175,403</u>
Total assets and deferred outflows of resources	<u>9,637,705</u>
Liabilities	
Current liabilities	
Accounts payable	46,615
Other accrued liabilities	45,536
Customer deposits	183,465
Bonds payable - current portion	101,779
Capital lease obligations - current portion	72,611
Total current liabilities	<u>450,006</u>
Noncurrent liabilities	
Bonds payable - noncurrent portion	2,696,154
Capital lease obligations - noncurrent portion	76,249
Net pension liability	848,841
Total noncurrent liabilities	<u>3,621,244</u>
Total liabilities	<u>4,071,250</u>
Deferred Inflows of Resources	
Net pension inflows	922
Total deferred inflows of resources	<u>922</u>
Total liabilities and deferred inflows of resources	<u>4,072,172</u>
Net position	
Net invested in capital assets	3,977,533
Restricted for:	
Revenue bond retirement	203,352
System additions and replacement	528,450
Unrestricted:	
Net pension liability	(674,360)
Unrestricted	1,530,558
Total net position	<u>\$ 5,565,533</u>

See accompanying notes.

GILBERT-SUMMIT RURAL WATER DISTRICT

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2017

Operating Revenues	
Charges for sales and services	
Water sales	\$ 1,617,267
Tap fees	35,741
Administration fees	19,300
Other	47,934
Total operating revenues	<u>1,720,242</u>
Operating Expenses	
Salaries	391,058
Depreciation	309,972
Other general and administrative expenses	650,150
Total operating expenses	<u>1,351,180</u>
Operating income	<u>369,062</u>
Nonoperating Revenues (Expenses)	
Interest income	4,428
Gain on sale of capital assets	12,949
Interest expense	(119,493)
Total nonoperating revenues (expenses)	<u>(102,116)</u>
Income Before Contributions	266,946
Capital contributions	<u>102,989</u>
Change in Net Position	369,935
Net position at beginning of year	<u>5,195,598</u>
Net position at end of year	<u><u>\$ 5,565,533</u></u>

GILBERT-SUMMIT RURAL WATER DISTRICT

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:	
Cash received from customers	\$ 1,749,957
Cash paid to suppliers	(644,495)
Cash paid to employees	(341,875)
Net cash provided by operating activities	<u>763,587</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(41,706)
Proceeds from sale of capital assets	13,275
Principal payments on bonds	(212,542)
Interest payments on bonds	(112,190)
Principal payments on capital lease obligation	(69,145)
Interest payments on capital lease obligation	(9,946)
Capital contributions	102,989
Net cash used for capital and related financing activities	<u>(329,265)</u>
Cash flows from investing activities:	
Interest received	4,247
Net cash used for investing activities	<u>4,247</u>
Net increase in cash and cash equivalents	438,569
Cash and cash equivalents, beginning of year	1,831,525
Cash and cash equivalents, end of year	<u>\$ 2,270,094</u>
Reconciliation of unrestricted and restricted cash and cash equivalents:	
Cash and cash equivalents - unrestricted	\$ 1,538,292
Cash and cash equivalents - restricted	731,802
Total cash and cashe equivalents	<u>\$ 2,270,094</u>

GILBERT-SUMMIT RURAL WATER DISTRICT

STATEMENT OF CASH FLOWS

(CONTINUED)

**Reconciliation of operating income to net cash
provided by operating activities:**

Operating income	<u>\$ 369,062</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	309,972
Decrease in accounts receivable	22,808
Increase in inventory	(5,447)
Increase in prepaid items	(2,487)
Increase in deferred outflows of resources	(115,359)
Decrease in deferred inflows of resources	(306)
Increase in accounts payable	13,589
Increase in accrued liabilities	2,747
Increase in customer deposits	6,908
Increase in net pension liability	162,101
Total adjustments	<u>394,525</u>
Net cash provided by operating activities	<u>\$ 763,587</u>

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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 South Carolina Special Purpose 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 appointed by the service area's Legislative Delegation. 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 Cash Equivalents

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

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.

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

1. Summary of Significant Accounting Principles (continued)

Net Position

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

- 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 Cash Equivalents

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 and cash equivalents, as of June 30, 2017 is as follows:

	Unrestricted	Restricted	Total
Cash on hand	\$ 100	\$ -	\$ 100
Demand deposits	771,735	631,802	1,403,537
Certificates of deposit	766,457	100,000	866,457
Total	<u>\$1,538,292</u>	<u>\$ 731,802</u>	<u>\$2,270,094</u>

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

2. Cash and Cash Equivalents (continued)

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, 2017, the District's cash and cash equivalents bank balance totaled \$2,280,037. Of this balance, \$500,000 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.

3. Capital Assets

Capital asset activity for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable assets				
Land	\$ 87,570	\$ -	\$ -	\$ 87,570
Total non-depreciable assets	87,570	-	-	87,570
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	207,261	17,933	(1,265)	223,929
Trucks and trailers	178,453	23,773	(39,435)	162,791
Total depreciable assets	10,915,828	41,706	(40,700)	10,916,834
Total capital assets	11,003,398	41,706	(40,700)	11,004,404
Less: accumulated depreciation:				
Water lines, plant and equipment	3,349,669	270,743	-	3,620,412
Land improvements	11,874	1,362	-	13,236
Buildings	96,992	4,232	-	101,224
Furniture and fixtures	60,318	5,424	-	65,742
Other equipment	174,248	9,961	(939)	183,270
Trucks and trailers	117,379	18,250	(39,435)	96,194
Total accumulated depreciation	3,810,480	309,972	(40,374)	4,080,078
Net capital assets	<u>\$ 7,192,918</u>	<u>\$ (268,266)</u>	<u>\$ (326)</u>	<u>\$ 6,924,326</u>

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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, 2017 are as follows:

Restricted for systems additions and replacement	\$ 528,450
Restricted for bond retirement	203,352
Total restricted net position	<u>\$ 731,802</u>

5. Long Term Debt

Revenue Bonds

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. During the year the District refinanced revenue bond number five. Revenue bonds outstanding at June 30, 2017, are as follows:

Revenue Bond Number	Interest Rate	Monthly Payment	Year of Maturity	Original Issue Amount	Balance June 30, 2017
05	2.280%	\$ 6,063	2026	\$ 650,000	\$ 596,388
06	4.625%	3,171	2042	692,200	566,551
07	4.125%	8,065	2046	1,893,000	1,634,994
					<u>\$ 2,797,933</u>

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

Year Ended June 30,	Principal	Interest	Total
2018	\$ 101,779	\$ 105,806	\$ 207,585
2019	104,985	102,600	207,585
2020	108,302	99,282	207,584
2021	111,736	95,849	207,585
2022	115,285	92,296	207,581
2023-2027	566,960	404,273	971,233
2028-2032	350,977	323,183	674,160
2033-2037	434,489	239,671	674,160
2038-2042	537,944	136,216	674,160
2043-2047	365,476	30,685	396,161
	<u>\$ 2,797,933</u>	<u>\$ 1,629,861</u>	<u>\$ 4,427,794</u>

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

5. Long Term Debt (continued)

Capital Leases

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:

2018	\$	79,092
2019		79,091
		<u>158,183</u>
Less: interest		<u>(9,323)</u>
	\$	<u>148,860</u>

A summary of long-term debt activity for the year ended June 30, 2017 is as follows:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>	<u>Due Within One Year</u>
Revenue bonds	\$ 3,010,475	\$ 650,000	\$ 862,542	\$ 2,797,933	\$ 101,779
Lease obligations	218,005	-	69,145	148,860	72,611
	<u>\$ 3,228,480</u>	<u>\$ 650,000</u>	<u>\$ 931,687</u>	<u>\$ 2,946,793</u>	<u>\$ 174,390</u>

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 a life-time monthly retirement annuity benefits to members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental benefits to eligible employees and retired members.

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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

The Retirement 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. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

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 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 payable 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 qualify for disability annuity benefits provided they have a minimum of eight years of credited service.

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.

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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

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. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years.

Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. The TERI program will end effective June 30, 2018.

Effective July 1, 2016, employees participating in the SCRS were required to contribute 8.66% of all earnable compensation. The employer contribution rate for SCRS was 11.41%. Included in the total SCRS employer contribution rate is a base retirement contribution of 11.41%, and .15% for the incidental death program. The District's actual contributions to the SCRS for the years ended June 30, 2017, June 30, 2016 and June 30, 2015 were approximately \$45,186, \$41,987, and \$36,503, respectively, and equaled the base required retirement contribution rate.

The amounts paid by the District for pension, incidental death benefit program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

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.

At June 30, 2017 the District reported \$848,841 for its proportionate share of the net pension liability of SCRS. The net pension liability defined of the SCRS defined benefit pension plan were determined based on the July 1, 2016 actuarial valuations, using membership data as of July 1, 2016, projected forward to June 30, 2017, and financial information of the pension trust funds as of June 30, 2016, using generally accepted actuarial procedures.

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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

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. At June 30, 2017, the Fund's SCRS proportion was 0.004619%. For the year ended June 30, 2017 the District recognized a pension expense of \$46,436.

At June 30, 2017 the state 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	\$ 8,799	\$ (922)	\$ 7,877
Changes in proportionate share and differences between employer contributions and proportionate Share of total plan employer contributions	50,003	-	50,003
Net difference between projected and actual earnings on investments	71,415	-	71,415
Contributions made from measurement date to June 30, 2017	45,186	-	45,186
	<u>\$ 175,403</u>	<u>\$ (922)</u>	<u>\$ 174,481</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>
2018	\$ (80,917)
2019	(31,132)
2020	(44,512)
2021	(17,920)
	<u>\$ (174,481)</u>

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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

The total pension liabilities in the July 1, 2017 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 or Return	7.50%
Projected Salary Increases	Levels Off at 3.5% to 12.5%
Inflation Rate	2.75%
Benefit Adjustments	Lesser of 1% or \$500

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, 2015, and the next experience study is scheduled to be conducted after the June 30, 2020 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, as used in the July 1, 2015, actuarial valuations, was based upon the 30 year capital markets outlook at the end of third quarter 2015. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted beginning January 1, 2016.

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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

The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

<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>
Global Equity	43.0%		
Global Public Equity	34.0%	6.52%	2.22%
Private Equity	9.0%	9.30%	0.84%
Real Assets	8.0%		
Real Estate	5.0%	4.32%	0.22%
Commodities	3.0%	4.53%	0.13%
Opportunistic	20.0%		
GTAA/Risk Parity	10.0%	3.90%	0.39%
HF (Low Beta)	10.0%	3.87%	0.39%
Diversified Credit	17.0%		
Mixed Credit	5.0%	3.52%	0.17%
Emerging Markets Debt	5.0%	4.91%	0.25%
Private Debt	7.0%	4.47%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.72%	0.17%
Cash and Short Duration (Net)	2.0%	0.71%	0.01%
Total Expected Real Return	100%		5.10%
Inflation for Actuarial Puposos			2.75%
Total Expected Nominal Return			7.85%

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, each System's 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.

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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

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.

<u>Plan</u>	<u>1% Decrease 6.50%</u>	<u>Current Rate 7.50%</u>	<u>1% Increase 8.50%</u>
SCRS	\$ 1,058,905	\$ 848,841	\$ 673,970

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

Subsequent events were evaluated through August 18, 2017 which is the date the financial statements were available for issue. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

REQUIRED SUPPLEMENTARY INFORMATION

GILBERT-SUMMIT RURAL WATER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION

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

YEAR ENDED JUNE 30, 2017

Last 10 fiscal years*	2017	2016	2015	2014
District's proportion of the net pension liability	0.0040%	0.0036%	0.0036%	0.0036%
District's proportionate share of the net pension liability	\$ 848,841	\$ 686,740	\$ 622,576	\$ 648,581
District's covered payroll	\$ 391,058	\$ 384,848	\$ 339,559	\$ 328,246
District's proportionate share of the net pension liability as a percentage of its covered payroll	217.06%	178.44%	183.35%	197.59%
Plan fiduciary net position as a percentage of the total pension liability	52.90%	57.00%	59.92%	56.39%

* The amounts presented for each fiscal year were determined as of July 1 of 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	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contributions	\$ 44,620	\$ 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	(44,620)	(41,987)	(36,503)	(34,302)	(31,791)	(30,564)	(30,790)	(28,945)	(25,326)	(22,237)	-
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State covered payroll	\$ 391,058	\$ 384,848	\$ 339,559	\$ 328,246	\$ 304,224	\$ 325,847	\$ 333,225	\$ 313,260	\$ 274,090	\$ 245,442	**
Contributions as a percentage of covered payroll	11.41%	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

STATEMENT OF OTHER GENERAL AND ADMINISTRATIVE EXPENSES

YEAR ENDED JUNE 30, 2017

Utilities and telephone	\$	87,184
Insurance		98,501
Retirement expense		91,622
Other expenses		88,996
Supplies		77,768
Repairs and maintenance		67,766
Radium removal		44,456
Taxes and licenses		35,008
Professional services		33,460
Gas and oil		12,809
Office expenses and postage		9,574
Director's expense		1,575
Seminars and travel		1,431
		<hr/>
Total other general and administrative expenses	\$	<u>650,150</u>

THE BRITTINGHAM GROUP, L.L.P.

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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, 2017, 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 18, 2017.

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 18, 2017