

GILBERT-SUMMIT RURAL WATER DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2021

WITH

INDEPENDENT AUDITORS' REPORT

GILBERT-SUMMIT RURAL WATER DISTRICT

AUDITED FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION

YEAR ENDED JUNE 30, 2021

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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, 2021, 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, 2021, 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 16, 2021, 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 16, 2021

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

YEAR ENDED JUNE 30, 2021

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, 2021. 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, 2021, by \$8,851,275. Of this amount, \$3,090,156 represents the portion not invested in capital assets. \$982,763 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 \$832,311 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, 2021

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, 2021, assets exceeded liabilities by \$8,851,275. About 65% of the net position is invested in capital assets, net of accumulated depreciation. An additional 11% of net position is designated for replacement of the capital assets and debt retirement. The following is a summary of the District’s net position.

Summary Statement of Net Position

	June 30,	
	2021	2020
Assets:		
Current assets	\$ 3,253,259	\$ 3,169,674
Other non-current assets	982,762	702,188
Capital assets, net	8,132,273	7,796,771
Deferred outflows of resources	155,149	91,997
Total assets and deferred outflows of resources	12,523,443	11,760,630
Liabilities:		
Current liabilities	442,542	484,628
Non-current liabilities	3,210,524	3,223,104
Deferred inflows of resources	19,102	33,934
Total liabilities and deferred inflows of resources	3,672,168	3,741,666
Net position:		
Invested in capital assets	5,761,119	5,313,939
Restricted	982,763	702,188
Unrestricted	2,107,393	2,002,837
Total net position	\$ 8,851,275	\$ 8,018,964

The District’s net position increased by \$832,311 for the year ended June 30, 2021. This increase is a result of the following Summary Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2021.

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

YEAR ENDED JUNE 30, 2021

Summary Statement of Revenues, Expenses and Changes in Net Position

	Year Ended June 30,	
	2021	2020
Operating revenues	\$ 2,204,114	\$ 2,134,204
Operating expenses	1,564,875	1,454,666
Operating income	639,239	679,538
Non-operating revenues (expenses)	(80,078)	(61,789)
Net income before capital contributions	559,161	617,749
Capital contributions	273,150	530,988
Change in net position	832,311	1,148,737
Net position at beginning of year	8,018,964	6,870,227
Net position at end of year	\$ 8,851,275	\$ 8,018,964

Operating Revenues

Operating revenues increased by \$69,910 (an 3% increase) over the prior year. The District's customer base remained fairly constant for the fiscal year.

Operating Expenses

Operating expenses increased by \$110,209 over the prior year. Of this total increase, salaries increased by \$49,491, depreciation expense increased by \$13,532, and various other operating expenses increased by \$47,186. Additional detail on these other operating expenses can be found in the *Other Supplementary Information* section of this report.

Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets as of June 30, 2021, amounted to \$8,132,273 net of accumulated depreciation. Capital assets consist of the water system, land and buildings, vehicles, equipment, furniture and fixtures, and work in process. Net capital assets increased by approximately 4% during the year and consist of \$335,502 of additions. In addition, depreciation expense of \$331,294 was recorded.

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

GILBERT-SUMMIT RURAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021

Debt

At year-end, the District had a total of \$2,371,154 in bonds outstanding versus \$2,482,832 last year, a net decrease of 4%.

Principal payments on the bonds during the year were \$111,678.

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

Economic Factors and Future Outlook

New residential housing growth steadily continues in our service area. One of the Board's top priorities is planning ahead to be able to meet these demands on water supply. A new 12-inch water line was laid along Hwy #1 extending almost to the western boundary of the District. This will supply water to a proposed new Lexington County Complex to be built at the corner of West Hampton Street and Hwy #1 as well as any new development in that area. An 8-inch waterline was laid along Hwy#378 from Spoolwheel Rd. to Hammock Bay, closing the gap in that part of the water system and supplying far better water flow. Also, a new 16-inch water pipeline from the southern area (I-20 area) of the system, currently where the main source water is located, running along Juniper Springs Road to the Town of Gilbert has been contracted out and construction should begin soon. Our engineers did a complete hydraulic model study and worked on a Capital Improvement Plan for the next 40 years. This plan revealed the need of a new 1-million-gallon water storage tank and booster pump station on Pond Branch Road as well as more waterlines at various places in the system to be able to supply the needs forecast for our growing service area. As the demand for water increases, the finding of additional source water remains a constant issue to deal with, and the District is actively seeking future well sites. 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, 2021

Assets

Current assets	
Cash and cash equivalents	\$ 2,932,473
Accounts receivable, net of allowance for uncollectible of \$9,418	220,167
Interest receivable	760
Inventory	78,956
Prepaid items	20,903
Total current assets	<u>3,253,259</u>
Noncurrent assets	
Restricted cash and cash equivalents	
Cash and cash equivalents	982,762
Capital assets	
Non-depreciable capital assets	990,057
Other capital assets, net accumulated depreciation	7,142,216
Total noncurrent assets	<u>9,115,035</u>
Total assets	<u>12,368,294</u>

Deferred Outflows of Resources

Net pension outflows	155,149
Total deferred outflows of resources	<u>155,149</u>
Total assets and deferred outflows of resources	<u>12,523,443</u>

Liabilities

Current liabilities	
Accounts payable	27,578
Other accrued liabilities	63,910
Customer deposits	235,765
Bonds payable - current portion	115,289
Total current liabilities	<u>442,542</u>
Noncurrent liabilities	
Bonds payable - noncurrent portion	2,255,865
Net pension liability	954,659
Total noncurrent liabilities	<u>3,210,524</u>
Total liabilities	<u>3,653,066</u>

Deferred Inflows of Resources

Net pension inflows	19,102
Total deferred inflows of resources	<u>19,102</u>
Total liabilities and deferred inflows of resources	<u>3,672,168</u>

Net position

Net invested in capital assets	5,761,119
Restricted for:	
Revenue bond retirement	207,585
System additions and replacement	775,178
Unrestricted:	
Net pension liability	(818,612)
Unrestricted	2,926,005
Total net position	<u>\$ 8,851,275</u>

GILBERT-SUMMIT RURAL WATER DISTRICT

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2021

Operating Revenues

Charges for sales and services	
Water sales	\$ 2,059,127
Tap fees	31,800
Administration fees	34,200
Other	78,987
Total operating revenues	<u>2,204,114</u>

Operating Expenses

Salaries	476,061
Depreciation	331,294
Other general and administrative expenses	757,520
Total operating expenses	<u>1,564,875</u>

Operating income	<u>639,239</u>
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Nonoperating Revenues (Expenses)

Interest income	16,128
Interest expense	(96,206)
Total nonoperating revenues (expenses)	<u>(80,078)</u>

Income Before Contributions	559,161
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Capital contributions	<u>273,150</u>
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Change in Net Position	832,311
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Net position at beginning of year	<u>8,018,964</u>
Net position at end of year	<u><u>\$ 8,851,275</u></u>

GILBERT-SUMMIT RURAL WATER DISTRICT

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021

Cash flows from operating activities:

Cash received from customers	\$ 2,250,471
Cash paid to suppliers	(824,925)
Cash paid to employees	(445,814)
Net cash provided by operating activities	<u>979,732</u>

Cash flows from capital and related financing activities:

Acquisition and construction of capital assets	(666,796)
Principal payments on bonds	(111,678)
Interest payments on bonds	(95,905)
Capital contributions	273,150
Net cash used for capital and related financing activities	<u>(601,229)</u>

Cash flows from investing activities:

Interest received	<u>23,690</u>
Net cash provided by investing activities	<u>23,690</u>

Net increase in cash and cash equivalents 402,193

Cash and cash equivalents, beginning of year	<u>3,513,042</u>
Cash and cash equivalents, end of year	<u>\$ 3,915,235</u>

Reconciliation of unrestricted and restricted cash and cash equivalents:

Cash and cash equivalents - unrestricted	\$ 2,932,473
Cash and cash equivalents - restricted	982,762
Total cash and cash equivalents	<u>\$ 3,915,235</u>

GILBERT-SUMMIT RURAL WATER DISTRICT

STATEMENT OF CASH FLOWS

(CONTINUED)

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

Operating income	\$ 639,239
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	331,294
Decrease in accounts receivable	29,257
Decrease in inventory	2,697
Increase in prepaid items	(1,481)
Increase in deferred outflows of resources	(63,151)
Decrease in deferred inflows of resources	(14,832)
Decrease in accounts payable	(68,622)
Increase in accrued liabilities	5,579
Increase in customer deposits	17,100
Increase in net pension liability	102,652
Total adjustments	<u>340,493</u>
Net cash provided by operating activities	<u>\$ 979,732</u>

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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, 2021 is as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash on hand	\$ 100	\$ -	\$ 100
Demand deposits	700,060	832,327	1,532,387
SC LGIP	1,526,829	150,435	1,677,264
Certificates of deposit	705,484	-	705,484
 Total	 <u>\$ 2,932,473</u>	 <u>\$ 982,762</u>	 <u>\$ 3,915,235</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, 2021, the District's cash and cash equivalents bank balance totaled \$3,917,452. 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, 2021 is as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Non-depreciable assets				
Land	\$ 203,339	\$ -	\$ -	\$ 203,339
Construction in progress	203,759	657,597	(74,638)	786,718
Total non-depreciable assets	<u>407,098</u>	<u>657,597</u>	<u>(74,638)</u>	<u>990,057</u>
Depreciable assets:				
Water lines, plant and equipment	11,643,372	9,199	74,638	11,727,209
Land improvements	20,425	-	-	20,425
Buildings	183,430	-	-	183,430
Furniture and fixtures	72,081	-	-	72,081
Other equipment	236,006	-	-	236,006
Trucks and trailers	201,870	-	-	201,870
Total depreciable assets	<u>12,357,184</u>	<u>9,199</u>	<u>74,638</u>	<u>12,441,021</u>
Total capital assets	<u>12,764,282</u>	<u>666,796</u>	<u>-</u>	<u>13,431,078</u>
Less: accumulated depreciation:				
Water lines, plant and equipment	4,416,887	293,786	-	4,710,673
Land improvements	17,322	1,362	-	18,684
Buildings	113,920	4,232	-	118,152
Furniture and fixtures	72,080	-	-	72,080
Other equipment	190,045	13,934	-	203,979
Trucks and trailers	157,257	17,980	-	175,237
Total accumulated depreciation	<u>4,967,511</u>	<u>331,294</u>	<u>-</u>	<u>5,298,805</u>
Net capital assets	<u>\$ 7,796,771</u>	<u>\$ 335,502</u>	<u>\$ -</u>	<u>\$ 8,132,273</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, 2021 are as follows:

Restricted for systems additions and replacement	\$ 775,177
Restricted for bond retirement	<u>207,585</u>
Total restricted net position	<u><u>\$ 982,762</u></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. Revenue bonds outstanding at June 30, 2021, 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 30,2021</u>
05	2.280%	\$ 6,063	2026	\$ 650,000	\$ 348,888
06	4.625%	\$ 3,171	2042	\$ 692,200	514,603
07	4.125%	\$ 8,065	2046	\$ 1,893,000	<u>1,507,663</u>
					<u><u>\$ 2,371,154</u></u>

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

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 115,289	\$ 92,296	\$ 207,585
2023	118,968	88,617	207,585
2024	122,775	84,810	207,585
2025	126,718	80,867	207,585
2026	130,781	76,785	207,566
Thereafter	<u>1,756,623</u>	<u>802,951</u>	<u>2,559,574</u>
	<u><u>\$ 2,371,154</u></u>	<u><u>\$ 1,226,326</u></u>	<u><u>\$ 3,597,480</u></u>

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

5. Long Term Debt (continued)

A summary of long-term debt activity for the year ended June 30, 2021 is as follows:

	June 30, 2020	Additions	Deletions	June 30, 2021	Due Within One Year
Revenue bonds	\$ 2,482,832	\$ -	\$ 111,678	\$ 2,371,154	\$ 115,289
	<u>\$ 2,482,832</u>	<u>\$ -</u>	<u>\$ 111,678</u>	<u>\$ 2,371,154</u>	<u>\$ 115,289</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. 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.

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 publicly available through PEBA’s website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Under the SCRS, Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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

A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five or eight year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. Legislation in 2017 increased, but also established a ceiling for SCRS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for SCRS. The legislation also increased employer contribution rates beginning July 1, 2017, for SCRS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year in accordance with state statute. However, the General Assembly postponed the one percent increase in the SCRS employer contribution rates that was scheduled to go into effect beginning July 1, 2020. If the scheduled contributions are not sufficient to meet the funding periods set in state statute, the board shall increase the employer contribution rates as necessary to meet the funding periods set for the applicable year. The maximum funding period of SCRS is scheduled to be reduced over a ten year schedule from 30 years beginning fiscal year 2018 to 20 years by fiscal year 2028.

Additionally, the Board is prohibited from decreasing the SCRS contribution rates until the funded ratio is at least 85 percent. If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 85 percent, then the board, effective on the following July 1, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85 percent.

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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

If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than 85 percent, then effective on the following July 1, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 85 percent.

The employer contribution rate for SCRS was 15.56%. Included in the total SCRS employer contribution rate is a base retirement contribution of 15.41%, and .15% for the incidental death program. The District's actual contributions to the SCRS for the years ended June 30, 2021, June 30, 2020 and June 30, 2019 were approximately \$71,938, \$64,857, and \$57,369, 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.

Actuarial valuations of the plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five year period. An experience report on the Systems was most recently issued for the period ending June 30, 2019 for first use in the July 1, 2021 actuarial valuation.

At June 30, 2021 the District reported \$954,659 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, 2019 actuarial valuations, using membership data as of July 1, 2019, projected forward to June 30, 2020, and financial information of the pension trust funds as of June 30, 2020, 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. At June 30, 2021, the District's SCRS proportion was 0.003736%. For the year ended June 30, 2021 the District recognized a pension expense of \$96,607.

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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

At June 30, 2021 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	\$ (11,015)	\$ 3,610	\$ (7,405)
Assumption changes	(1,170)	-	(1,170)
Changes in proportionate share and differences between employer contributions and proportionate Share of total plan employer contributions	(802)	15,492	14,690
Net difference between projected and actual earnings on investments	(70,223)	-	(70,223)
Contributions made from measurement date to June 30, 2021	(71,939)	-	(71,939)
	<u>\$ (155,149)</u>	<u>\$ 19,102</u>	<u>\$ (136,047)</u>

The District's contributions of \$71,939 subsequent to the measurement date reported as deferred outflows of resources related to pensions will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. 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>
2022	\$ 445
2023	(22,195)
2024	(24,439)
2025	(17,919)
	<u>\$ (64,108)</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, 2019 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	7.25%
Projected Salary Increases	3.0% to 12.5% (varies by service)
Inflation Rate	2.25%
Benefit Adjustments	Lesser of 1% or \$500

The post retiree mortality assumption is dependent upon the member’s job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems’ mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016. Assumptions used in the determination of the June 30, 2020, TPL are as follows:

Former Job Class	Males	Females
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

The long term expected rate of return on pension plan investments is based upon 20 year capital market assumptions. The long term expected rates of return 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 target asset allocation adopted at the beginning of the 2020 fiscal year. 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 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long Term Expected Portfolio Real Rate of Return</u>
Global Equity	51.0%		
Global Public Equity	35.0%	7.81%	2.73%
Private Equity	9.0%	8.91%	0.80%
Equity Options Strategies	7.0%	5.09%	0.36%
Real Assets	12.0%		
Real Estate (Private)	8.0%	5.55%	0.44%
Real Estate (REITs)	1.0%	7.78%	0.08%
Infrastructure (Private)	2.0%	4.88%	0.10%
Infrastructure (Public)	1.0%	7.05%	0.07%
Opportunistic	8.0%		
Global Tactical Asset Allocation	7.0%	3.56%	0.25%
Other Opportunistic Strategies	1.0%	4.41%	0.04%
Credit	15.0%		
High Yield Bonds/Bank Loans	4.0%	4.21%	0.17%
Emerging Markets Debt	4.0%	3.44%	0.14%
Private Debt	7.0%	5.79%	0.40%
Rate Sensitive	14.0%		
Core Fixed Income	13.0%	1.60%	0.21%
Cash and Short Duration (Net)	<u>1.0%</u>	0.56%	<u>0.01%</u>
Total Expected Real Return	100%		5.80%
Inflation for Actuarial Purposes			<u>2.25%</u>
			<u><u>8.05%</u></u>

The discount rate used to measure the TPL was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the 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 TPL.

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 District’s proportionate share of the net SCRS pension liabilities calculated using the discount rate of 7.25 percent, as well as what the District’s respective net pension liabilities would be if it were calculated using a discount rate of 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

<u>Plan</u>	<u>1% Decrease 6.25%</u>	<u>Current Rate 7.25%</u>	<u>1% Increase 8.25%</u>
SCRS	\$ 1,183,182	\$ 954,659	\$ 763,839

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. Commitments and Contingencies

The District is operating under a Consent Order from the South Carolina Department of Health and Environmental Control (the “SCDHEC”) for high radium levels in Well #13. The District is currently working on a correction plan to satisfy the SCDHEC requirements.

9. Subsequent Events

Subsequent events were evaluated through August 16, 2021 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, 2021

Last 10 fiscal years*	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.0037%	0.0037%	0.0039%	0.0039%	0.0040%	0.0036%	0.0036%	0.0036%
District's proportionate share of the net pension liability	\$ 954,659	\$ 852,007	\$ 867,394	\$ 872,100	\$ 848,841	\$ 686,740	\$ 622,576	\$ 648,581
District's covered payroll	\$ 420,876	\$ 398,119	\$ 376,368	\$ 396,021	\$ 384,849	\$ 339,563	\$ 328,249	\$ 304,220
District's proportionate share of the net pension liability as a percentage of its covered payroll	226.83%	214.01%	230.46%	220.22%	220.56%	202.24%	189.67%	213.19%
Plan fiduciary net position as a percentage of the total pension liability	50.70%	54.40%	54.10%	53.30%	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	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contributions	\$ 71,939	\$ 64,857	\$ 57,369	\$ 50,471	\$ 45,186	\$ 41,987	\$ 36,503	\$ 34,302	\$ 31,791	\$ 30,564
Contributions in relation to the contractually required contribution	(71,939)	(64,857)	(57,369)	(50,471)	(45,186)	(41,987)	(36,503)	(34,302)	(31,791)	(30,564)
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 payroll	\$ 466,833	\$ 420,876	\$ 398,119	\$ 376,368	\$ 396,021	\$ 384,849	\$ 339,563	\$ 328,249	\$ 304,220	\$ 325,842
Contributions as a percentage of covered payroll	15.41%	15.41%	14.41%	13.41%	11.41%	10.91%	10.75%	10.45%	10.45%	9.38%

** Information not available.

OTHER SUPPLEMENTARY INFORMATION

GILBERT-SUMMIT RURAL WATER DISTRICT

SCHEDULE OF OTHER GENERAL AND ADMINISTRATIVE EXPENSES

YEAR ENDED JUNE 30, 2021

Other expenses	\$	126,431
Supplies		124,068
Insurance		104,608
Utilities and telephone		99,396
Retirement expense		96,607
Repairs and maintenance		68,344
Radium removal		48,846
Taxes and licenses		38,656
Office expenses and postage		20,275
Professional services		17,219
Gas and oil		11,316
Director's expense		1,754
Total other general and administrative expenses	\$	<u>757,520</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, 2021, 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 --, 2021.

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) as a basis for designing 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 16, 2021