

GILBERT-SUMMIT RURAL WATER DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2023

WITH

INDEPENDENT AUDITORS' REPORT

GILBERT-SUMMIT RURAL WATER DISTRICT

AUDITED FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION

YEAR ENDED JUNE 30, 2023

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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

Opinion

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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming 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. The 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.

The Brittingham Group LLP

West Columbia, South Carolina
August 16, 2023

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

YEAR ENDED JUNE 30, 2023

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, 2023. 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, 2023, by \$12,526,332. Of this amount, \$4,760,721 represents the portion not invested in capital assets. \$1,468,865 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 \$1,649,788 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, 2023

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, 2023, assets exceeded liabilities by \$12,526,332. About 62% of the net position is invested in capital assets, net of accumulated depreciation. An additional 12% of net position is designated for replacement of the capital assets and debt retirement. The following is a summary of the District's net position.

Summary Statement of Net Position

	June 30,	
	2023	2022
Assets:		
Current assets	\$ 4,476,943	\$ 4,601,874
Other non-current assets	1,468,865	1,203,724
Capital assets, net	12,146,030	11,077,140
Deferred outflows of resources	228,317	210,521
Total assets and deferred outflows of resources	18,320,155	17,093,259
Liabilities:		
Current liabilities	728,246	813,810
Non-current liabilities	5,060,840	5,265,535
Deferred inflows of resources	4,737	137,370
Total liabilities and deferred inflows of resources	5,793,823	6,216,715
Net position:		
Invested in capital assets	7,765,611	6,341,732
Restricted	1,468,865	1,203,724
Unrestricted	3,291,856	3,331,088
Total net position	\$ 12,526,332	\$ 10,876,544

The District's net position increased by \$1,649,788 for the year ended June 30, 2023. This increase is a result of the following Summary Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2023.

GILBERT-SUMMIT RURAL WATER DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023

Summary Statement of Revenues, Expenses and Changes in Net Position

	Year Ended June 30,	
	2023	2022
Operating revenues	\$ 2,492,052	\$ 2,385,906
Operating expenses	1,895,806	1,634,804
Operating income	596,246	751,102
Non-operating revenues (expenses)	67,824	(67,609)
Net income before capital contributions	664,070	683,493
Capital contributions	985,718	1,114,309
Change in net position	1,649,788	1,797,802
Net position at beginning of year	10,876,544	9,078,742
Net position at end of year	\$ 12,526,332	\$ 10,876,544

Operating Revenues

Operating revenues increased by \$106,146 (a 4% increase) over the prior year. The District’s customer base remained fairly constant for the fiscal year.

Operating Expenses

Operating expenses increased by \$261,002 over the prior year. Of this total increase, salaries increased by \$102,506, depreciation expense increased by \$44,004, and various other operating expenses increased by \$114,492. 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, 2023, amounted to \$12,146,030 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 10% during the year and consist of \$1,446,619 of additions. In addition, depreciation expense of \$377,729 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, 2023

Debt

At year-end, the District had a total of \$4,380,419 in bonds outstanding versus \$4,735,408 last year, a net decrease of 7%.

Principal payments on the bonds during the year were \$354,989.

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

Economic Factors and Future Outlook

Yet again this past year has seen more residential development coming to our service area. As of the end of June 2023, we know there are some 1,800 new homes planned for our service area in subdivision development. To meet these demands on the water supply, the District is in the early stages of drilling two new wells and acquiring property for future wells. The District was fortunate to be awarded \$9,616,356 under the SCIP grant program with a 15% local funding match which will be utilized to drill these new wells, install radium treatment, construct a new 1 MG water storage tank and booster pump station, construct 18,500 feet of 16 inch water line, 9,800 feet of 12 inch water line, 3,200 feet of 8 inch water line, and install 5 new pressure reducing valves on the trunk lines supply the Lake Murray area of the system. The District has until the end of June 2026 to expend this money and complete the projects. Another project that we are actively involved in is the construction of 7,900 feet of 8/6 inch water line connecting to the end of our existing line on Shore road to supply a Marina-RV Park on Lake Murray that has contaminated water. Funding for this project is coming from the State Revolving Fund in the amount of \$1,400,000 and is a principal forgiveness loan. 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, 2023

Assets

Current assets	
Cash and cash equivalents	\$ 4,081,139
Accounts receivable, net of allowance for uncollectible of \$10,311	225,985
Interest receivable	494
Inventory	144,743
Prepaid items	24,582
Total current assets	<u>4,476,943</u>
Noncurrent assets	
Restricted cash and cash equivalents	
Cash and cash equivalents	1,468,865
Capital assets	
Non-depreciable capital assets	475,292
Other capital assets, net accumulated depreciation	11,670,738
Total noncurrent assets	<u>13,614,895</u>
Total assets	<u>18,091,838</u>

Deferred Outflows of Resources

Net pension outflows	228,317
Total deferred outflows of resources	<u>228,317</u>
Total assets and deferred outflows of resources	<u>18,320,155</u>

Liabilities

Current liabilities	
Accounts payable	29,497
Other accrued liabilities	72,552
Customer deposits	263,665
Bonds payable - current portion	362,532
Total current liabilities	<u>728,246</u>
Noncurrent liabilities	
Bonds payable - noncurrent portion	4,017,887
Net pension liability	1,042,953
Total noncurrent liabilities	<u>5,060,840</u>
Total liabilities	<u>5,789,086</u>

Deferred Inflows of Resources

Net pension inflows	4,737
Total deferred inflows of resources	<u>4,737</u>
Total liabilities and deferred inflows of resources	<u>5,793,823</u>

Net position

Net invested in capital assets	7,765,611
Restricted for:	
Revenue bond retirement	102,986
System additions and replacement	1,365,879
Unrestricted:	
Net pension liability	(819,373)
Unrestricted	4,111,229
Total net position	<u>\$ 12,526,332</u>

GILBERT-SUMMIT RURAL WATER DISTRICT

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2023

Operating Revenues

Charges for sales and services	
Water sales	\$ 2,339,109
Tap fees	33,025
Administration fees	33,100
Other	86,818
Total operating revenues	<u>2,492,052</u>

Operating Expenses

Salaries	628,386
Depreciation	377,729
Other general and administrative expenses	889,691
Total operating expenses	<u>1,895,806</u>

Operating income	<u>596,246</u>
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Nonoperating Revenues (Expenses)

Interest income	144,439
Interest expense	(76,615)
Total nonoperating revenues (expenses)	<u>67,824</u>

Income Before Contributions	664,070
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Capital contributions	<u>985,718</u>
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Change in Net Position	1,649,788
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Net position at beginning of year	<u>10,876,544</u>
Net position at end of year	<u>\$ 12,526,332</u>

GILBERT-SUMMIT RURAL WATER DISTRICT

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2023

Cash flows from operating activities:

Cash received from customers	\$ 2,551,370
Cash paid to suppliers	(1,015,517)
Cash paid to employees	(611,030)
Net cash provided by operating activities	<u>924,823</u>

Cash flows from capital and related financing activities:

Acquisition and construction of capital assets	(687,202)
Principal payments on bonds	(354,989)
Interest payments on bonds	(76,648)
Capital contributions	226,300
Net cash used in capital and related financing activities	<u>(892,539)</u>

Cash flows from investing activities:

Interest received	<u>144,459</u>
Net cash provided by investing activities	<u>144,459</u>

Net increase in cash and cash equivalents 176,743

Cash and cash equivalents, beginning of year	<u>5,373,261</u>
Cash and cash equivalents, end of year	<u>\$ 5,550,004</u>

Reconciliation of unrestricted and restricted cash and cash equivalents:

Cash and cash equivalents - unrestricted	\$ 4,081,139
Cash and cash equivalents - restricted	1,468,865
Total cash and cash equivalents	<u>\$ 5,550,004</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>\$ 596,246</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	377,729
Decrease in accounts receivable	40,767
Increase in inventory	(7,819)
Decrease in prepaid items	3,565
Increase in deferred outflows of resources	(17,796)
Decrease in deferred inflows of resources	(132,633)
Decrease in accounts payable	(121,570)
Increase in accrued liabilities	9,946
Increase in customer deposits	18,550
Increase in net pension liability	157,838
Total adjustments	<u>328,577</u>
Net cash provided by operating activities	<u><u>\$ 924,823</u></u>

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2023

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, 2023 is as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash on hand	\$ 100	\$ -	\$ 100
Demand deposits	977,823	281,460	1,259,283
SC LGIP	2,583,122	1,187,405	3,770,527
Certificates of deposit	520,094	-	520,094
 Total	 <u>\$ 4,081,139</u>	 <u>\$ 1,468,865</u>	 <u>\$ 5,550,004</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, 2023, the District's cash and cash equivalents bank balance totaled \$5,556,479. Of this balance, \$530,234 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, 2023 is as follows:

	<u>June 30, 2022</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>June 30, 2023</u>
Non-depreciable assets					
Land	\$ 203,339	\$ -	\$ -	\$ -	\$ 203,339
Construction in progress	3,413,678	640,622	(3,782,347)	-	271,953
Total non-depreciable assets	<u>3,617,017</u>	<u>640,622</u>	<u>(3,782,347)</u>	<u>-</u>	<u>475,292</u>
Depreciable assets:					
Water lines, plant and equipment	12,250,106	759,417	3,741,456	-	16,750,979
Land improvements	20,425	-	-	-	20,425
Buildings	183,430	-	-	-	183,430
Furniture and fixtures	72,081	-	40,891	-	112,972
Other equipment	305,506	6,313	-	-	311,819
Trucks and trailers	266,226	40,267	-	-	306,493
Total depreciable assets	<u>13,097,774</u>	<u>805,997</u>	<u>3,782,347</u>	<u>-</u>	<u>17,686,118</u>
Total capital assets	<u>16,714,791</u>	<u>1,446,619</u>	<u>-</u>	<u>-</u>	<u>18,161,410</u>
Less: accumulated depreciation:					
Water lines, plant and equipment	5,016,387	325,131	-	-	5,341,518
Land improvements	20,046	381	-	-	20,427
Buildings	122,384	4,232	-	-	126,616
Furniture and fixtures	72,080	4,089	-	-	76,169
Other equipment	215,819	19,830	-	-	235,649
Trucks and trailers	190,935	24,066	-	-	215,001
Total accumulated depreciation	<u>5,637,651</u>	<u>377,729</u>	<u>-</u>	<u>-</u>	<u>6,015,380</u>
Net capital assets	<u>\$ 11,077,140</u>	<u>\$ 1,068,890</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,146,030</u>

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

4. Capital Contribution Fees and Capital Asset Contributions

A summary of capital asset contributions from developers and receipts of capital contribution fees during the year ended June 30, 2023, follows:

Capital contribution fees received	\$ 226,301
Capital asset contributions from developers	759,417
Total capital contributions	<u>\$ 985,718</u>

5. 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, 2023 are as follows:

Restricted for systems additions and replacement	\$ 1,365,879
Restricted for bond retirement	102,986
Total restricted net position	<u>\$ 1,468,865</u>

6. 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, 2023, are as follows:

Revenue Bond Number	Interest Rate	Monthly Payment	Year of Maturity	Original Issue Amount	Balance June 30,2023
05	2.280%	\$ 6,063	2026	\$ 650,000	\$ 216,419
2021	1.650%	\$ 24,000	2036	\$ 4,657,000	4,164,000
					<u>\$ 4,380,419</u>

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

6. Long Term Debt (continued)

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

Year Ended June 30,	Principal	Interest	Total
2024	\$ 362,532	\$ 70,729	\$ 433,261
2025	370,111	64,229	434,340
2026	371,725	57,663	429,388
2027	312,051	51,677	363,728
2028	314,000	46,545	360,545
Thereafter	2,650,000	178,114	2,828,114
	<u>\$ 4,380,419</u>	<u>\$ 468,957</u>	<u>\$ 4,849,376</u>

A summary of long-term debt activity for the year ended June 30, 2023 is as follows:

	June 30, 2022	Additions	Deletions	June 30, 2023	Due Within One Year
Revenue bonds	\$ 4,735,408	\$ -	\$ 354,989	\$ 4,380,419	\$ 362,532
	<u>\$ 4,735,408</u>	<u>\$ -</u>	<u>\$ 354,989</u>	<u>\$ 4,380,419</u>	<u>\$ 362,532</u>

7. 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.

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7. 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 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.

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.

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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

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. 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 17.56%. Included in the total SCRS employer contribution rate is a base retirement contribution of 17.41%, and .15% for the incidental death program. The District's actual contributions to the SCRS for the years ended June 30, 2023, June 30, 2022 and June 30, 2021 were approximately \$107,243, \$84,836, and \$71,939, 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 ongoing 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.

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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

At June 30, 2023 the District reported \$1,042,953 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, 2021 actuarial valuations, using membership data as of July 1, 2021, projected forward to June 30, 2022, and financial information of the pension trust funds as of June 30, 2022, 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, 2022, the District's SCRS proportion was 0.004302%. For the year ended June 30, 2022 the District recognized a pension expense of \$114,652.

At June 30, 2023 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	\$ (9,061)	\$ 4,545	\$ (4,516)
Assumption changes	(33,450)	-	(33,450)
Changes in proportionate share and differences between employer contributions and proportionate Share of total plan employer contributions	(76,954)	192	(76,762)
Net difference between projected and actual earnings on investments	(1,609)	-	(1,609)
Contributions made from measurement date to June 30, 2023	(107,243)	-	(107,243)
	<u>\$ (228,317)</u>	<u>\$ 4,737</u>	<u>\$ (223,580)</u>

The District's contributions of \$107,243 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, 2023. 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>
2024	\$ (99,937)
2025	(13,861)
2026	24,661
2027	(27,200)
	<u>\$ (116,337)</u>

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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

The total pension liabilities in the July 1, 2021 actuarial valuation were 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%
Projected Salary Increases	3.0% to 11.0% (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 2020 Public Retirees of South Carolina Mortality table (2020 PRSC), was developed using the Systems’ mortality experience. These base rates are adjusted for future improvement in mortality using 80% of Scale UMP projected from the year 2020. Assumptions used in the determination of the June 30, 2022, TPL are as follows:

Former Job Class	Males	Females
Educators	2020 PRSC Males multiplied by 95%	2020 PRSC Females multiplied by 94%
General Employees and Members of the General Assembly	2020 PRSC Males multiplied by 97%	2020 PRSC Females multiplied by 107%
Public Safety and Firefighters	2020 PRSC Males multiplied by 127%	2020 PRSC Females multiplied by 107%

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 2022 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 percent assumed annual investment rate of return used in the calculation of the TPL includes a 4.75 percent real rate of return and a 2.25 percent inflation component.

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7. 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>
Public Equity	46.0%	6.79%	3.12%
Bonds	26.0%	-0.35%	-0.09%
Private Equity	9.0%	8.75%	0.79%
Private Debt	7.0%	6.00%	0.42%
Real Assets	12.0%		
Real Estate	9.0%	4.12%	0.37%
Infrastructure	3.0%	5.88%	0.18%
Total Expected Real Return	100%		4.79%
Inflation for Actuarial Purposes			2.25%
			<u>7.04%</u>

The discount rate used to measure the TPL was 7 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS 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.

The following table represents the District’s proportionate share of the net SCRS pension liabilities calculated using the discount rate of 7 percent, as well as what the District’s respective net pension liabilities would be if it were calculated using a discount rate of 1 percent lower (6 percent) or 1 percent higher (8 percent) than the current rate.

<u>Plan</u>	<u>1% Decrease 6%</u>	<u>Current Rate 7%</u>	<u>1% Increase 8%</u>
SCRS	\$ 1,337,194	\$ 1,042,953	\$ 798,329

8. Other Employee Benefits

The District also offers health insurance and death benefits for eligible employees and their families; however, no liability exists for postemployment benefits.

GILBERT-SUMMIT RURAL WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

9. 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 the correction plan to satisfy the SCDHEC requirements.

10. Subsequent Events

Subsequent events were evaluated through August 16, 2023 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, 2023

Last 10 fiscal years*	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0043%	0.0041%	0.0037%	0.0037%	0.0039%	0.0039%	0.0040%	0.0036%	0.0036%
District's proportionate share of the net pension liability	\$ 1,042,953	\$ 885,115	\$ 954,659	\$ 852,007	\$ 867,394	\$ 872,100	\$ 848,841	\$ 686,740	\$ 622,576
District's covered payroll	\$ 516,977	\$ 466,833	\$ 420,876	\$ 398,119	\$ 376,368	\$ 396,021	\$ 384,849	\$ 339,563	\$ 328,249
District's proportionate share of the net pension liability as a percentage of its covered payroll	201.74%	189.60%	226.83%	214.01%	230.46%	220.22%	220.56%	202.24%	189.67%
Plan fiduciary net position as a percentage of the total pension liability	57.10%	60.70%	54.40%	54.40%	54.10%	53.30%	52.90%	57.00%	59.92%

* 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	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	\$ 107,243	\$ 84,836	\$ 71,939	\$ 64,857	\$ 57,369	\$ 50,471	\$ 45,186	\$ 41,987	\$ 36,503	\$ 34,302
Contributions in relation to the contractually required contribution	(107,243)	(84,836)	(71,939)	(64,857)	(57,369)	(50,471)	(45,186)	(41,987)	(36,503)	(34,302)
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	\$ 615,985	\$ 516,977	\$ 466,833	\$ 420,876	\$ 398,119	\$ 376,368	\$ 396,021	\$ 384,849	\$ 339,563	\$ 328,249
Contributions as a percentage of covered payroll	17.41%	16.41%	15.41%	15.41%	14.41%	13.41%	11.41%	10.91%	10.75%	10.45%

OTHER SUPPLEMENTARY INFORMATION

GILBERT-SUMMIT RURAL WATER DISTRICT

SCHEDULE OF OTHER GENERAL AND ADMINISTRATIVE EXPENSES

YEAR ENDED JUNE 30, 2023

Supplies	\$	154,244
Insurance		131,479
Utilities and telephone		118,790
Retirement expense		114,652
Repairs and maintenance		102,129
Other expenses		92,864
Radium removal		58,092
Taxes and licenses		47,890
Office expenses and postage		21,745
Gas and oil		18,883
Professional services		18,675
Director's expense		6,750
Seminars and travel		3,498
Total other general and administrative expenses	\$	<u>889,691</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, 2023, 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 16, 2023.

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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, 2023