

STARR-IVA WATER AND SEWER DISTRICT
Starr, South Carolina

FINANCIAL STATEMENTS
December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Annual Financial Report
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December 31, 2020**

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MARTIN · SMITH

& COMPANY CPAs

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

The Board of Directors
Starr-Iva Water and Sewer District
Starr, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Starr-Iva Water and Sewer District (“the District”) as of and for the year ended December 31, 2020, which collectively comprise the District’s basic financial statements, as listed in the accompanying 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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 in the first paragraph above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of Starr-Iva Water and Sewer District at December 31, 2020, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension liability and contribution schedules as listed in the accompanying table of contents, be presented to supplement the financial statements. Such information, although not a required part of the financial statements, is supplementary information required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements taken as a whole. The introductory section, combining and individual non-major fund financial statements and the Schedule of Expenditures of Federal Awards, as required by the provisions Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"), are presented for purposes of additional analysis and are not a required part of the financial statements of Starr-Iva Water and Sewer District. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 9, 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 grants. The purpose of that report is to describe the scope of 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 and should be considered in assessing the results of our audit.

Martin Smith and Company CPAs PA

Greenville, South Carolina
April 9, 2021

**STARR-IVA WATER & SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2020**

This discussion and analysis of Starr-Iva Water and Sewer District's ("the District") financial performance provides an overview of the District's financial activities for the year ended December 31, 2020. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2020 are as follows:

- In the Statement of Net Position, the assets and deferred outflows of the District exceeded its liabilities and deferred inflows at the close of the 2020 fiscal year by \$8,000,013 (net position). The District has invested \$6,430,516 in capital assets, net of accumulated depreciation and related debt. The District also had \$1,104,232 restricted for capital projects and debt service. Therefore, the District reported a net positive position balance in unrestricted net position of \$465,265.
- The District's total net position decreased by \$159,860.
- The District's total net fixed assets decreased by \$516,336 during the current year.
- During the 2020 year, the District's operating revenues were \$2,757,760, compared to \$2,614,970 in 2019.
- The District's water purchased for resale increased from \$656,514 in 2019 to \$694,281 in 2020.
- The District adopted the modified method for selected infrastructure assets following GASB 34. The District implemented an asset management system for its three water tanks and will not be required to depreciate these assets prospectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – the financial statements, required supplementary information (which includes this management's discussion and analysis section), and the notes to the financial statements.

Fund Financial Statements. The remaining financial statements are Fund Financial Statements.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. All of the funds of the District are Proprietary Funds.

Proprietary Fund. The District maintains one type of Proprietary Fund. Enterprise Funds are used to report the same functions presented as business-type activities in the Government-wide Financial Statements. The District uses an Enterprise Fund to account for its operations.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the Fund Financial Statements.

**STARR-IVA WATER & SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2020**

Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities, deferred inflows of resources, and contributed capital by \$8,000,013 at the close of the most recent year:

Net Position

	Business-type Activities	
	2020	2019
Assets		
Current assets	\$ 2,641,122	\$ 2,597,152
Noncurrent assets	<u>19,812,699</u>	<u>20,336,466</u>
Total assets	<u>22,453,821</u>	<u>22,933,618</u>
Deferred Outflows of Resources		
Deferred pension	<u>101,468</u>	<u>95,014</u>
Liabilities		
Other liabilities	619,060	636,793
Long-term liabilities	<u>13,692,894</u>	<u>13,941,110</u>
Total liabilities	<u>14,311,954</u>	<u>14,577,903</u>
Deferred Inflows of Resources		
Deferred pension	<u>79,661</u>	<u>79,661</u>
Contributed Capital	<u>201,809</u>	<u>211,195</u>
Net Position		
Net investment in capital assets	6,430,516	6,675,105
Restricted	1,104,232	1,175,266
Unrestricted	<u>465,265</u>	<u>309,502</u>
Total net position	<u>\$ 8,000,013</u>	<u>\$ 8,159,873</u>

Net position of the District's business-type activities decreased by 2.0%, from \$8,159,873 to \$8,000,013. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements increased from a net positive position at December 2019 of \$309,502 to a net positive position of \$465,265 at December 2020.

**STARR-IVA WATER & SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2020**

The following table shows the change in net position for fiscal 2020 compared to 2019:

Change in Net Position

	Business-type Activities	
	2020	2019
Revenues		
Program revenues:		
Charges for services	\$ 2,757,760	\$ 2,614,970
Other	25,855	50,984
Total revenues	<u>2,783,615</u>	<u>2,665,954</u>
Program Expenses		
Operating expenses	1,847,728	1,634,364
Depreciation and amortization	683,687	667,377
Interest expense	<u>412,060</u>	<u>420,532</u>
Total expenses	<u>2,943,475</u>	<u>2,722,273</u>
Change in net position	(159,860)	(56,319)
Net position at beginning of year	<u>8,159,873</u>	<u>8,216,192</u>
Net position at end of year	<u>\$ 8,000,013</u>	<u>\$ 8,159,873</u>

The District's largest expense is the cost of the water that it sells to its customers. The water sales increased 2.5% in 2020, while the cost of water sold increased 5.8%. That resulted in a gross profit increase of \$18,535. The District had an increase in expenses while revenue increased resulting in a decrease in net position of \$159,860 for 2020.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Proprietary Fund

The District's only fund is the Proprietary Fund.

**STARR-IVA WATER & SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2020**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2020, the District had \$19,800,646 invested in capital assets, net of depreciation. The net decrease in the District's capital assets, net of depreciation and amortization, was \$516,336.

The following table shows fiscal 2020 capital asset balances, net of accumulated depreciation, compared to 2019:

Capital Assets (Net of depreciation and amortization)

	Business-type Activities	
	2020	2019
Land and land improvements	\$ 110,037	\$ 115,595
Buildings	755,462	779,573
Water distribution system	18,781,998	19,347,054
Furniture & equipment	61,264	4,081
Vehicles	91,885	70,679
Totals	\$ 19,800,646	\$ 20,316,982

Long-term Debt

At fiscal year-end 2020, the District had \$13,382,183 in bonds outstanding versus \$13,661,361 in 2019, as shown in the following table. All of the District's debt is backed by the revenues and capital assets of the District, as is typical with Revenue Bonds:

Outstanding Debt at Year End

	Business-type Activities	
	2020	2019
Revenue bond - Series 2003	\$ 657,961	\$ 676,528
Revenue bond - Series 2010	7,063,811	7,208,179
Revenue bond - Series 2011A	2,817,333	2,870,282
Revenue bond - Series 2011B	288,896	294,469
Revenue bond - Series 2012	474,088	493,863
Revenue bond - Series 2016	2,080,094	2,118,040
Total	\$ 13,382,183	\$ 13,661,361

**STARR-IVA WATER & SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2020**

ECONOMIC FACTORS

The District is located in the southern part of Anderson County, South Carolina and includes the small towns of Iva and Starr.

Manufacturing is the largest employment sector in the District, followed by wholesale and retail. Wholesale and retail trade and services represent the fastest growing sectors of the District.

REQUEST FOR INFORMATION

This financial report is designed to provide those interested with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the General Manager at Starr-Iva Water & Sewer District, 104 Roy Arnold Road, Starr, South Carolina 29684.

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Statements of Net Position - Proprietary Fund
December 31, 2020 and 2019

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,077,875	\$ 991,754
Restricted cash and cash equivalents for (Notes 5 and 15):		
Debt service reserve	53,784	59,248
Short-lived assets reserve	101,888	351,457
Restricted investments for (Notes 5 and 15):		
Debt service reserve	587,625	509,109
Short-lived assets reserve	360,935	255,452
Accounts receivable, net (Note 2)	397,229	371,821
Parts inventory	38,171	35,604
Accrued interest receivable	5,532	4,787
Prepaid expenses	18,083	17,920
Total current assets	<u>2,641,122</u>	<u>2,597,152</u>
NONCURRENT ASSETS		
Note receivable (Note 4)	12,053	19,484
Plant and equipment, net of accumulated depreciation (Note 3)	19,800,646	20,316,982
Total noncurrent assets	<u>19,812,699</u>	<u>20,336,466</u>
Total assets	<u>22,453,821</u>	<u>22,933,618</u>
DEFERRED OUTFLOWS OF RESOURCES - PENSIONS		
Deferred outflows of resources (Note 7)	101,468	95,014
Total assets and deferred outflows of resources	<u>\$ 22,555,289</u>	<u>\$ 23,028,632</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, CONTRIBUTED CAPITAL AND NET POSITION</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 7,282	\$ 40,201
Payroll liabilities	7,729	6,335
Accrued interest payable	21,510	21,966
Customer deposits	294,643	289,127
Current portion of long-term debt (Note 6)	287,895	279,164
	<u>619,059</u>	<u>636,793</u>
LONG-TERM DEBT		
Net pension liability (Note 7)	598,606	558,913
Bonds payable (Note 6)	13,094,288	13,382,197
	<u>13,692,894</u>	<u>13,941,110</u>
Total liabilities	<u>14,311,953</u>	<u>14,577,903</u>
DEFERRED INFLOWS OF RESOURCES - PENSIONS		
Deferred inflows of resources (Note 7)	41,515	79,661
CONTRIBUTED CAPITAL (Note 9)		
	<u>201,808</u>	<u>211,195</u>
NET POSITION		
Net investment in capital assets	6,430,516	6,675,105
Restricted (Note 10)	1,104,232	1,175,266
Unrestricted	465,265	309,502
Total net position	<u>8,000,013</u>	<u>8,159,873</u>
Total liabilities, deferred inflows of resources, contributed capital and net position	<u>\$ 22,555,289</u>	<u>\$ 23,028,632</u>

See accompanying notes to financial statements.

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Statements of Revenues, Expenses and Changes in Net Position - Proprietary Fund
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Sale of water	\$ 2,347,592	\$ 2,291,290
ServLine charges	106,129	70,494
Tap fees	101,181	67,813
Late charges	37,583	45,186
Capacity fees	48,880	34,104
Sale of sewer services	30,433	33,180
Customer service fees	27,840	32,628
Meter replacement fees	25,514	25,281
Miscellaneous income	32,608	14,994
	<u>2,757,760</u>	<u>2,614,970</u>
OPERATING EXPENSES		
Depreciation and amortization	683,687	667,377
Water purchased for resale	694,281	656,514
Salaries and wages	324,119	295,888
Repairs and maintenance	130,699	125,591
Insurance	118,225	115,342
Tank management	100,440	97,945
Utilities	37,806	46,574
ServLine costs	69,198	41,905
Professional fees	66,403	32,525
Sewer services purchased	30,628	28,770
Office supplies and expense	29,304	25,676
Vehicle expense	20,746	22,660
Billing services	23,646	22,513
Payroll taxes	25,179	21,433
Subcontract services	21,089	20,164
Communications	14,356	16,507
Board fees and expenses	20,141	14,974
Environmental fee	13,723	13,671
Training and dues	4,755	10,433
Uniforms	6,542	8,355
State retirement system (Note 7)	45,764	8,200
Bank charges and merchant fees	24,434	6,969
Marketing	1,030	1,755
Bad debts	25,220	-
	<u>2,531,415</u>	<u>2,301,741</u>
Net operating income	<u>226,345</u>	<u>313,229</u>
OTHER INCOME (EXPENSE)		
Gain on disposal of fixed assets	-	22,366
Interest income	25,855	28,618
Interest expense	(412,060)	(420,532)
	<u>(386,205)</u>	<u>(369,548)</u>
Change in net position	<u>(159,860)</u>	<u>(56,319)</u>
NET POSITION, beginning of year	<u>8,159,873</u>	<u>8,216,192</u>
NET POSITION, end of year	<u>\$ 8,000,013</u>	<u>\$ 8,159,873</u>

See accompanying notes to financial statements.

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Statements of Cash Flows - Proprietary Fund
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,732,352	\$ 2,620,852
Interest received from operations and savings accounts	1,493	2,174
Cash paid to suppliers	(724,909)	(685,284)
Cash paid for wages and related expenses	(393,668)	(327,355)
Cash paid for other operating expenses	(763,401)	(589,368)
Interest paid	<u>(412,515)</u>	<u>(420,974)</u>
Net cash provided by operating activities	<u>439,352</u>	<u>600,045</u>
Cash flows from noncapital investing activities:		
Transfer from cash equivalents to investments	<u>(169,000)</u>	<u>(413,410)</u>
Net cash used in noncapital financing activities	<u>(169,000)</u>	<u>(413,410)</u>
Cash flows from capital and related investing activities:		
Proceeds from sale of plant and equipment	-	76,922
Principal received from note receivable	7,431	6,998
Cash payments for the purchase of plant and equipment	<u>(173,030)</u>	<u>(36,237)</u>
Net cash provided by (used in) capital and related financing activities	<u>(165,599)</u>	<u>47,683</u>
Cash flows from financing activities:		
Customer deposits	5,512	22,581
Principal payments on long-term debt	<u>(279,177)</u>	<u>(270,718)</u>
Net cash used in financing activities	<u>(273,665)</u>	<u>(248,137)</u>
Net decrease in cash and cash equivalents	(168,912)	(13,819)
Cash and cash equivalents, beginning of year	<u>1,402,459</u>	<u>1,416,278</u>
Cash and cash equivalents, end of year	<u>\$ 1,233,547</u>	<u>\$ 1,402,459</u>
Reconciliation of cash and cash equivalents to the cash and cash equivalents reported on the Statements of Net Position:		
Cash and cash equivalents	\$ 1,077,875	\$ 991,754
Restricted cash and cash equivalents - debt service reserve	53,784	59,248
Restricted cash and cash equivalents - short-lived assets reserve	<u>101,888</u>	<u>351,457</u>
	<u>\$ 1,233,547</u>	<u>\$ 1,402,459</u>

See accompanying notes to financial statements.

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Statements of Cash Flows - Proprietary Fund
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of change in net position to net cash provided by operating activities:		
Change in net position	\$ <u>(159,860)</u>	\$ <u>(56,319)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	683,687	667,377
Interest earned on non-cash equivalents	(23,613)	(21,954)
Loss on disposal of fixed assets	-	(22,366)
(Increase) decrease in accounts receivable	(25,408)	5,883
(Increase) decrease in parts inventory	(2,566)	559
(Increase) decrease in accrued interest receivable	(745)	(4,490)
(Increase) decrease in prepaid expenses	(163)	(1,924)
Increase (decrease) in accounts payable	(32,919)	35,555
Increase (decrease) in payroll liabilities	1,394	(1,834)
Increase (decrease) in accrued interest payable	<u>(455)</u>	<u>(442)</u>
Total adjustments	<u>599,212</u>	<u>656,364</u>
Net cash provided by operating activities	<u>\$ 439,352</u>	<u>\$ 600,045</u>

There were no non-cash investing or financing transactions.

See accompanying notes to financial statements.

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of Entity

Starr-Iva Water and Sewer District (“the District”) owns and operates a water and sewer system (“the System”) that provides services to member customers located in Starr, South Carolina, and the surrounding rural areas. The District is a governmental entity, and its financial statements are prepared on the full accrual basis of accounting. As of December 10, 2001, Starr-Iva Water and Sewer Company, Inc. became Starr-Iva Water and Sewer District when the District converted from a non-profit corporation to a public service district, pursuant to Section 33-36-1310, et seq. of the 1976 South Carolina Code of Laws. This conversion was primarily a legal change that allowed the District to enter into a water purchase and sale agreement (see Note 8).

Reporting Entity

This report includes all operations of the District for which the District's Board of Directors (“the Board”) are financially accountable.

Government-Wide Financial Statements

The Government-Wide Financial Statements (i.e., the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position) report information on all of the activities of the District.

Fund Accounting

The District has organized its accounting systems on the basis of funds, each of which is considered an accounting entity having a self-balancing set of accounts for recording its assets, liabilities, fund equity, revenues, and expenses. Since the District is a special purpose government involved solely in the provision of water and wastewater services to its customers on a fee basis, all funds are accounted for in the Proprietary Fund.

The focus of proprietary fund measurement is the determination of net income, financial position, and cash flows. The generally accepted accounting principles applicable to proprietary funds are similar to those applicable to businesses in the private sector. The District’s Enterprise Fund (its only proprietary fund) is used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting as recommended by the Government Accounting Standards Board (“GASB”) and the American Institute of Certified Public Accountants. Basis of accounting refers to the timing of revenues and expenses. Under the accrual basis of accounting, revenues and receivables are recognized when earned and expenses and liabilities are recognized when incurred. Grants and similar items are recognized as soon as all eligibility requirements by the provider have been met. Proprietary Fund operating statements present increases (i.e. revenue) and decreases (i.e. expenses) in net position by distinguishing operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operation. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

Cash and Cash Equivalents

All cash is in checking accounts or certificates of deposit. For purposes of the Statements of Cash Flows, the District considers cash and liquid investments with original maturities of three months or less to be cash and cash equivalents.

Accounts Receivable

The District provides an allowance for doubtful accounts equal to approximately the amounts greater the 60 days past due. The District determines the current status of trade accounts receivable based upon contractual terms. Accounts receivable are presented net of an allowance for doubtful accounts of \$45,000 and \$45,000 at December 31, 2020 and 2019, respectively. All accounts receivable deemed to be uncollectible are written off to the allowance for doubtful accounts. All accounts receivable are pledged as collateral for bonds payable.

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Parts Inventory

Parts inventory is stated at the lower of cost (first-in, first-out) or market.

Investments

Investments consist only of certificates of deposit at a local financial institution with original maturities of greater than three months. The fair market value of investments approximates cost.

The District is authorized to invest money subject to their control and jurisdiction in the following:

1. Obligations of the United States and agencies thereof;
2. General obligations of the State of South Carolina or any of its political units;
3. Financial institutions to the extent that the same are secured by the Federal Deposit Insurance Corporation ("FDIC");
4. Certificates of deposit where the certificates are secured by securities of the type described in (1) and (2) above and held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest.

The District does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Capital Assets

Plant and equipment are recorded at historical cost with depreciation computed on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the respective assets are as follows:

Water distribution system	40 years
Vehicles	4 years
Office furniture and fixtures	5-10 years
Equipment	4-10 years
Paving	5 years
Buildings	25-33 years

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized.

Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost.

The District capitalizes interest cost on borrowings incurred during the new construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is depreciated over the useful lives of the assets.

When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in the results of operations for the respective period.

Modified Approach for Infrastructure Assets

During the December 31, 2019 fiscal year, the District's Board passed a resolution that transitions to the modified approach for maintaining three water tanks under an asset management system. To meet the requirements under GASB 34, paragraphs 23 and 24, the District must manage the eligible infrastructure assets using an asset management system, and the District must document that the eligible infrastructure assets are preserved at (or above) a condition level established and disclosed by the District. The asset management system must have an up-to-date inventory of the eligible infrastructure assets; perform condition assessments of the asset and summarize the results using a measurement scale; and estimate each year the annual amount to maintain and preserve the eligible assets at the condition level established and disclosed by the District. The District contracted with a company to oversee this process. As a result of this system, the three water tanks will not continue to depreciate, and all expenditures incurred to maintain the assets will be expensed in the period incurred. Additions or improvements to these assets will be capitalized.

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Income Taxes

The District is a Special Purpose District and is exempt from taxation under Internal Revenue Code Section 115 as a public utility.

Restricted Assets

Certain cash and cash equivalents and investments are classified as restricted assets on the statements of net position because their use is limited by Rural Development. These assets include debt service reserves and short-lived asset reserves the Rural Development requires. The District has continued to fund these reserves above the required amounts.

Pension Plan

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting, regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The District recognizes a net pension liability ("NPL"), which represents the District's proportionate share of the excess of the total pension liability over the fiduciary net position of the qualified pension plan, measured as of the District's fiscal year-end. Changes in the NPL during the period are recorded as pension expense, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in NPL that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. District contributions to the plan subsequent to the measurement date and the net difference between expected and actual experience in the pension plan are included as deferred outflows of resources. These deferred pension charges are either (a) recognized in the subsequent period as a reduction of the net pension liability (which includes pension contributions made after the measurement date) or (b) amortized in a systematic and rational way to pension expense in future periods in accordance with GAAP.

In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The net difference between projected and actual earnings on pension plan investments are included as deferred inflows of resources. These deferred pension credits are amortized in a systematic and rational way as a reduction to pension expense in future periods in accordance with GAAP.

Net Position

Net position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Outstanding debt, which has not been spent, is included in the same net position component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The board established a meter replacement fund which is funded by monthly charges to its customers. The balance of this fund was \$113,521 and \$86,507 as of December 31, 2020 and 2019, respectively.

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain recorded and contingent amounts and disclosures. Actual results could differ from those estimates. Significant estimates include determining depreciable lives of assets and methods of depreciation, calculating an allowance for uncollectible accounts, and disclosing investment cost as it approximates fair value.

Fair Value

The fair value measurement and disclosure framework provides for a three-tier fair value hierarchy that gives highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District can access at the measurement date.

Level 2 – Inputs to the valuation methodology, other than quoted prices included in Level 1 that are observable for an asset or liability either directly or indirectly and include:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted market prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology that are unobservable for an asset or liability and include:

- Fair value is often based on developed models in which there are few, if any, observable inputs.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable values or reflective of future fair values. The District believes that the valuation methods used are appropriate and consistent with GAAP. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no significant changes from the prior year in the methodologies used to measure fair value.

Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains a \$1,000,000 per occurrence general liability policy and a \$2,000,000 per occurrence errors and omissions policy with a commercial carrier.

The District carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and claims have not exceeded coverage in any of the past two fiscal years.

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the current year financial statements. These reclassifications had no effect on current or prior year total net assets.

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020

2) ACCOUNTS RECEIVABLE

Customer accounts receivable as of December 31 are as follows:

	2020	2019
Current	\$ 371,690	\$ 337,292
Delinquent - over 60 days past due	70,539	79,529
	442,229	416,821
Less allowance for uncollectible amounts	(45,000)	(45,000)
Net accounts receivable	\$ 397,229	\$ 371,821

The accounts receivable balance is adjusted to reflect amounts due on water sales and other charges. The allowance for uncollectible amounts is adjusted periodically so as to estimate uncollectible balances based upon the District's collection experience.

3) PLANT AND EQUIPMENT

Included in plant and equipment are the totals of all construction costs of the system as well as all items expended arising in connection with putting the system into operation. At December 31, plant and equipment consists of the following:

	2020			Balance December 31
	Balance January 1	Additions	Disposals	
Capital assets, not being depreciated:				
Land	\$ 72,958	\$ -	\$ -	\$ 72,958
Water tanks	1,713,700	-	-	1,713,700
Total capital assets not being depreciated	1,786,658	-	-	1,786,658
Capital assets, being depreciated:				
Water distribution system	25,782,430	61,547	-	25,843,977
Vehicles	121,510	42,924	-	164,434
Office furniture and fixtures	54,935	-	-	54,935
Equipment	67,185	72,267	-	139,452
Buildings	964,420	-	-	964,420
Land improvements	85,249	-	-	85,249
Total capital assets being depreciated	27,075,729	176,738	-	27,252,467
Less accumulated depreciation and amortization	(8,545,405)	(693,074)	-	(9,238,479)
Net plant and equipment	\$ 20,316,982	\$ (516,336)	\$ -	\$ 19,800,646

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020**

2) PLANT AND EQUIPMENT, continued

	2019			
	Balance January 1	Additions	Disposals	Balance December 31
Capital assets, not being depreciated:				
Land	\$ 123,777	\$ -	\$ (50,819)	\$ 72,958
Water tanks	1,713,700	-	-	1,713,700
Total capital assets, not being depreciated	1,837,477	-	(50,819)	1,786,658
Capital assets, being depreciated:				
Water distribution system	25,760,772	21,658	-	25,782,430
Vehicles	96,112	65,500	(40,102)	121,510
Office furniture and fixtures	54,935	-	-	54,935
Equipment	87,231	-	(20,046)	67,185
Buildings	964,420	-	-	964,420
Land and land improvements	85,249	-	-	85,249
Total capital assets, being depreciated	27,048,719	87,158	(60,148)	27,075,729
Less accumulated depreciation and amortization	(7,925,052)	(676,764)	56,411	(8,545,405)
Net plant and equipment	\$ 20,961,144	\$ (589,606)	\$ (54,556)	\$ 20,316,982

Depreciation and amortization expense totaled \$683,687 and \$667,377, for the years ended December 31, 2020 and 2019, respectively. All property and equipment are pledged as collateral for bonds payable.

As previously mentioned in Note 1, the District adopted the modified approach for selected infrastructure assets beginning in 2019. Consequently, the District's three water tanks will not be depreciated for years 2019 and thereafter.

4) NOTE RECEIVABLE

In April of 2013, the District sold its old office building to an unrelated individual. The sales price was \$65,000, with a \$10,000 down payment. The balance of \$55,000 was financed with an interest rate of 6%, resulting in a monthly payment of \$611. The principal received in the year 2020 was \$7,431, and the interest received was \$969. For 2019 the principal received was \$6,998 and the interest received was \$1,410. Since the property is financed with a bond held by Rural Development ("RD"), an agency of the US Department of Agriculture, the District entered into an agreement with RD whereby RD permitted the District to sell the property in exchange for remitting the monthly payment received to RD as additional principal payments towards the bond.

5) RESTRICTED CASH AND INVESTMENTS

The debt service reserve fund and the short-lived assets reserve fund are part of the restrictive covenants associated with the bonds described in Note 6. RD requires calculated amounts to be deposited monthly until the funds reach a certain minimum balance. See Note 15.

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020

6) BONDS AND NOTES PAYABLE

On April 17, 2002, the District “recast” its debt in the form of Waterworks System Revenue Refunding Bonds. Each series replaced a loan previously obtained from RD. RD is the bondholder of all bonds, and bonds are to be paid from revenues from the operation of the system. To secure payment of the principal of the bonds, all properties, assets and revenues are pledged as collateral by the District.

Bonds payable consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
5% Series 2003 Waterworks System Revenue Bond; payable in monthly installments of \$4,122, including interest; maturing January 2044	\$ 657,961	\$ 676,528
3% Series 2010 Waterworks System Revenue Bond; payable in monthly installments of \$29,886, including interest; maturing October 2050	7,063,811	7,208,179
3.375% Series 2011A Waterworks System Revenue Bond; payable in monthly installments of \$12,417, including interest; maturing February 2051	2,817,333	2,870,282
3.25% Series 2011B Waterworks System Revenue Bond; payable in monthly installments of \$1,255, including interest; maturing February 2051	288,896	294,469
3.00% Series 2012 Waterworks System Revenue Bond; payable in monthly installments of \$2,245, including interest; maturing February 2052	474,088	493,863
2.25% Series 2016 Waterworks System Revenue Bond; payable in monthly installments of \$7,101, including interest; maturing February 2056	2,080,094	2,118,040
	<hr/>	<hr/>
Total bonds payable	13,382,183	13,661,361
Less current maturities	<u>(287,895)</u>	<u>(279,164)</u>
Long-term portion of bonds payable	<u>\$ 13,094,288</u>	<u>\$ 13,382,197</u>

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020

6) BONDS AND NOTES PAYABLE, continued

Scheduled principal payments on all debt for future years are as follows:

<u>Year(s) Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 287,895	\$ 403,797	\$ 691,692
2022	296,907	394,785	691,692
2023	306,210	385,482	691,692
2024	315,812	375,880	691,692
2025	325,725	365,967	691,692
2026-2030	1,788,920	1,669,540	3,458,460
2031-2035	2,089,670	1,368,790	3,458,460
2036-2040	2,367,041	1,017,984	3,385,025
2041-2045	2,425,182	648,472	3,073,654
2046-2050	2,717,094	261,522	2,978,616
2051-2055	423,801	27,584	451,385
2056-2060	37,926	228	38,154
	<u>\$ 13,382,183</u>	<u>\$ 6,920,031</u>	<u>\$ 20,302,214</u>

The following is a summary of changes in notes and bonds payable for the years ending December 31, 2020 and 2019, and principal payments for 2021:

	2020			Balance December 31	2021 Principal
	Balance January 1	Additions	Reductions		
<u>Bonds</u>					
Bond Series 2003	\$ 676,528	\$ -	\$ (18,566)	\$ 657,962	\$ 19,442
Bond Series 2010	7,208,179	-	(144,368)	7,063,811	148,752
Bond Series 2011A	2,870,282	-	(52,949)	2,817,333	54,761
Bond Series 2011B	294,469	-	(5,573)	288,896	5,756
Bond Series 2012	493,863	-	(19,775)	474,088	20,376
Bond Series 2016	2,118,040	-	(37,947)	2,080,093	38,808
			-		
Total debt	<u>\$ 13,661,361</u>	<u>\$ -0-</u>	<u>\$ (279,178)</u>	<u>\$ 13,382,183</u>	<u>\$ 287,895</u>

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020**

6) **BONDS AND NOTES PAYABLE, continued**

	2019			
	Balance			Balance
	January 1	Additions	Reductions	December 31
<u>Bonds</u>				
Bond Series 2003	\$ 694,256	\$ -	\$ (17,728)	\$ 676,528
Bond Series 2010	7,348,284	-	(140,105)	7,208,179
Bond Series 2011A	2,921,476	-	(51,194)	2,870,282
Bond Series 2011B	299,865	-	(5,396)	294,469
Bond Series 2012	513,055	-	(19,192)	493,863
Bond Series 2016	2,155,143	-	(37,103)	2,118,040
Total debt	\$ <u>13,932,079</u>	\$ <u>-0-</u>	\$ <u>(270,718)</u>	\$ <u>13,661,361</u>

Interest expense totaled \$412,060 and \$420,532 for the years ended December 31, 2020 and 2019, respectively.

Subsequent to December 31, 2020, the District issued \$11,030,000 in revenue bonds (2021 Series) that refinanced all of the above bonds, except for the 2016 Series. The 2021 Series bonds carry interest rates of 2.25% to 4.00% and mature in 2050. The first principal and interest payments are due Jun 1, 2021. The following future repayment schedule reflects the expected payments of the 2021 Series and the 2016 Series bonds:

Year(s) Ending December 31	Principal	Interest	Total
2021	\$ 273,808	\$ 291,881	\$ 565,689
2022	279,691	327,584	607,275
2023	290,593	316,881	607,474
2024	301,516	305,759	607,275
2025	312,460	294,215	606,675
2026-2030	1,767,224	1,280,148	3,047,372
2031-2035	2,089,253	960,620	3,049,873
2036-2040	2,319,497	727,825	3,047,322
2041-2045	2,478,339	473,996	2,952,335
2046-2050	2,561,207	193,546	2,754,753
2051-2055	398,580	27,480	426,060
2056-2060	37,926	228	38,154
	\$ <u>13,110,094</u>	\$ <u>5,200,163</u>	\$ <u>18,310,257</u>

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020

7) STATE RETIREMENT SYSTEM

The District participates in the State of South Carolina's retirement plans, which are administered by the South Carolina Public Employee Benefit Authority ("PEBA"), which was created July 1, 2012, and administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the systems and the trust funds. By law, the State Fiscal Accountability Authority ("SFAA"), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems ("Systems") and serves as a co-trustee of the Systems in conducting that review. Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board of Directors as the Custodian of the Retirement Trust Funds and assigned SC PEBA and the Retirement Systems Investment Commission ("RSIC") as co-trustees of the Retirement Trust Funds.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with GAAP. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on 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.

Plan Description – The South Carolina Retirement System ("SCRS"), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election.

The State Optional Retirement Program ("State ORP") is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired employees of state agencies, institutions of higher education, public school districts, and individuals first elected to the General Assembly at or after the general election in November 2012. State ORP participants direct the investment of their funds into an account administered by one of four third party record keepers.

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020

7) **STATE RETIREMENT SYSTEM, continued**

Plan Membership – Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below:

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.

State ORP – As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election have the option to participate in the State ORP. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the four third party record keepers. For this reason, State ORP assets are not part of the retirement systems' trust funds for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employer to the member's account with the ORP vendor for the employee contribution and a portion of the employer contribution (5%). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

Plan Benefits – Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary. A brief summary of benefit terms for each system is as follows:

SCRS – 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 1% or \$500 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.

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020**

7) STATE RETIREMENT SYSTEM, continued

Funding Policy – 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 both SCRS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year through July 1, 2022. 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 PEBA Board is prohibited from decreasing the SCRS contribution rates until the funded ratio is at least 85%. 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%, then the PEBA Board, effective on the following July first, 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%. 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%, then effective on the following July first, and annually thereafter as necessary, the PEBA 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%.

As noted above, both employees and the District are required to contribute to the plans at rates established and as amended by the PEBA. The District’s contributions are actuarially determined but are communicated to and paid by the District as a percentage of the employees’ annual eligible compensation.

Contribution Summary – The contribution requirements for the current and two preceding years are as follows:

	SCRS and State ORP Rates		
	2020	2019	2018
Employer Contribution Rate: [^]			
Retirement*	15.41%	14.41%	13.41%
Incidental Death Benefit	0.15%	0.15%	0.15%
	15.56%	14.56%	13.56%
Employee Contribution Rate	9.00%	9.00%	9.00%

[^] Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

* Of the rate for the State ORP Plan, 5% of earnable compensation must be remitted by the employer directly to the ORP service provider to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020**

7) STATE RETIREMENT SYSTEM, continued

Contribution Summary, continued

The required contributions and percentages of amounts contributed by the District to the plans for the past three years were as follows:

Year	SCRS Contributions	
	Required	% Contributed
2020	\$ 49,949	100%
2019	44,156	100%
2018	37,196	100%

Eligible payrolls of the District covered under the plans for the past three years were as follows:

Year Ended June 30,	SCRS Payroll	Total Payroll
2020	\$ 324,137	\$ 324,137
2019	295,888	295,888
2018	267,261	267,261

Actuarial Assumptions – 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, 2015.

The June 30, 2019, total pension liability, net pension liability, and sensitivity information shown in this report were determined by the consulting actuary, Gabriel, Roeder, Smith and Company (“GRS”) and are based on an actuarial valuation performed as of July 1, 2018. The total pension liability was rolled-forward from the valuation date to the plans’ fiscal year end, June 30, 2019, using generally accepted actuarial principles.

The following table provides a summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2019:

	SCRS
Actuarial Cost Method	Entry age normal
Actuarial assumptions:	
Investment rate of return*	7.25%
Projected salary increases*	3.0% to 12.5% (varies by service)
Benefit adjustments	lesser of 1% or \$500 annually

*Includes inflation at 2.25%

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020**

7) **STATE RETIREMENT SYSTEM, continued**

Actuarial Assumptions, continued

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, 2019 total pension liability are as follows:

<u>Former Job Class</u>	<u>Males</u>	<u>Females</u>
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%

Long-Term Expected Rate of Return – The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The long-term expected rate of return represents 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 2019 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 following table. For actuarial purposes, the 7.25% assumed annual investment rate of return used in the calculation of the total pension liability includes a 5.00% real rate of return and a 2.25% inflation component.

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020**

7) **STATE RETIREMENT SYSTEM, continued**

Long-Term Expected Rate of Return, continued

<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%	7.29%	2.55%
Private Equity	9.0%	7.67%	0.69%
Equity Options Strategies	7.0%	5.23%	0.37%
Real Assets	12.0%		
Real Estate (Private)	8.0%	5.59%	0.45%
Real Estate (REITs)	1.0%	8.16%	0.08%
Infrastructure (Private)	2.0%	5.03%	0.10%
Infrastructure (Public)	1.0%	6.12%	0.06%
Opportunistic	8.0%		
Global Tactical Asset Allocation	7.0%	3.09%	0.22%
Other Opportunistic Strategies	1.0%	3.82%	0.04%
Credit	15.0%		
High Yield Bonds/Bank Loans	4.0%	3.14%	0.13%
Emerging Markets Debt	4.0%	3.31%	0.13%
Private Debt	7.0%	5.49%	0.38%
Rate Sensitive	14.0%		
Core Fixed Income	13.0%	1.62%	0.21%
Cash and Short Duration (Net)	1.0%	0.31%	0.00%
Total Expected Real Return	<u>100.0%</u>		<u>5.41%</u>
Inflation for Actuarial Purposes			<u>2.25%</u>
Total Expected Nominal Return			<u><u>7.66%</u></u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – The net pension liability (“NPL”) is calculated separately for each system and represents that particular system’s total pension liability (“TPL”) determined in accordance with GASB No. 67 less that system’s fiduciary net position. NPL totals, as of June 30, 2019, for SCRS are presented below:

<u>System</u>	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Employers' Net Pension Liability (Asset)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
SCRS	\$ 50,073,060,256	\$ 27,238,916,138	\$ 22,834,144,118	54.4%

The TPL is calculated by the Systems’ actuary, and each plan’s fiduciary net position is reported in the Systems’ financial statements. The NPL is disclosed in accordance with the requirement of GASB No. 67 in the Systems’ notes to the financial statements and required supplementary information. Liability calculations performed by the Systems’ actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans’ funding requirements.

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020**

7) **STATE RETIREMENT SYSTEM, continued**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

At December 31, 2020, the District reported a liability of \$598,606 for its proportionate share of the PEBA's NPL. The NPL was measured as of June 30, 2019, and the TPL used to calculate the NPL was determined based on the most recent actuarial valuation report as of July 1, 2018 that was projected forward to the measurement date. The District's proportion of the NPL was based on a projection of the District's long-term share of contributions to the plans relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the June 30, 2019 measurement date, the District's proportion was 0.002622%, which was an increase of 0.000128% from its proportion measured as of June 30, 2018.

For the year ended December 31, 2020, the District recognized pension expense of \$41,191 for its proportionate share of the PEBA's pension expense. At December 31, 2020, the District reported its proportionate share of the PEBA's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ 411	\$ 4,300
Assumption changes	12,063	-
Net difference between projected and actual earnings on pension plan investments	18,764	13,464
Changes in proportionate share and differences between employer contributions and proportionate share of total plan employer contributions	20,281	23,751
District contributions subsequent to the measurement date	<u>49,949</u>	<u>-</u>
	<u>\$ 101,468</u>	<u>\$ 41,515</u>

\$49,949 reported as deferred outflows of resources related to pensions resulting from District contributions to the PEBA subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to the PEBA will be recognized in pension expense as follows:

<u>Year Ended Dec 31</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2021	\$ 1,354
2022	(620)
2023	7,062
2024	<u>2,208</u>
	<u>\$ 10,004</u>

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020**

7) STATE RETIREMENT SYSTEM, continued

Discount Rate – The discount rate used to measure the TPL was 7.25%. 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.

Pension Liability Sensitivity – The following table presents the District’s proportionate share of the NPL, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District’s proportionate share of the NPL would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

<u>Asset Class</u>	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
District's proportionate share of the Net Pension Liability	\$ 754,118	\$ 598,606	\$ 468,822

Pension Plan Fiduciary Net Position – Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for the SCRS. The CAFR is publicly available through the Retirement Benefits’ link on the 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.

8) POSTRETIREMENT BENEFITS

The District is a member of SCRS which was established July 1, 1945. The system covers public school employees, public higher-education personnel, state employees, city, county, and other local public employees. It provides a complete schedule of benefits for regular retirement. A member is eligible for a full-service retirement at age 65 or upon completion of thirty years of membership. On or after January 1, 2002, members are eligible after twenty-eight years of membership. Reduced benefits are payable as early as age 55.

As described more fully in Note 7, funding of the plan is made from employee/employer contributions. Benefits vest after five years of service. Vested members, who retire at age 65, or with twenty-eight years of service at any age, receive an annual benefit payable monthly for life. The benefit is based on length of service and on average final compensation.

In addition to providing pension plan and supplemental benefits, the state currently provides its retired employees with health care benefits. All postretirement benefits paid to District retired members are made from SCRS and from South Carolina’s General Fund (“Health Care”).

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020**

9) CONTRIBUTED CAPITAL

Prior to becoming a special purpose district in 2001, certain member subscribers contributed to help fund plant expansion. Only member subscribers affected by the construction assisted with the funding. The majority of these funds were from contractors developing residential subdivisions. The depreciation related to contributed capital reduces the outstanding balance. Depreciation related to the contributed capital was \$9,386 and \$9,386 for 2020 and 2019, respectively; for a net contributed capital balance of \$201,808 for 2020 and \$211,195 for 2019.

10) RESTRICTED NET POSITION

As of December 31, net position is restricted for the following purposes:

	2020	2019
Debt service reserve (Note 15)	\$ 641,409	\$ 568,358
Short-lived assets reserve (Note 15)	462,823	606,909
Total Restricted Net Position	\$ 1,104,232	\$ 1,175,267

11) RELATED PARTY TRANSACTIONS

On April 17, 2002, the District and ten other entities (“the Purchasers”) entered into a Water Sale and Purchase Agreement (“Agreement”) with the Anderson Regional Joint Water System (“ARJWS”). ARJWS concurrently purchased the Duke Energy Water Filtration Plant (“the Plant”) located on Lake Hartwell in South Carolina, certain transmission mains, and related facilities. This is the same water plant that supplied the District with its potable water in the past. The District now purchases its water from ARJWS, which purchased the Plant by issuing \$58.615 million of revenue bonds.

Pursuant to the Agreement, the District's water cost is based on the operating costs of the Plant plus a capital charge. The capital charge that the ARJWS collects from each Purchaser is used to service the revenue bonds.

Related to this transaction, the District acquired the rights to purchase a percentage of the total capacity of the Plant. The District purchased \$694,281 and \$656,514 of potable water from the ARJWS in 2020 and 2019, respectively.

12) CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the District to concentrations of credit risk consist principally of cash balances, investment balances, and trade accounts receivable.

The District maintains cash and investments (certificates of deposit) at one financial institution in South Carolina, and its accounts are insured by the FDIC up to \$250,000. At December 31, 2020, the excess amount of the District's cash and investments was collateralized by pledged securities.

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020**

13) MAJOR SUPPLIERS

The District purchases all of the water it sells from one supplier. See Note 11.

14) FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of the District’s financial instruments, none of which are held for trading purposes, are as follows at December 31, 2020:

	Carrying Amount	Fair Value
Financial assets:		
Trade accounts receivable	\$ 397,229	\$ 397,229
Certificates of deposit	1,425,426	1,425,426
Money market accounts	206,408	206,408
Financial liabilities:		
Bonds payable	\$ 13,382,183	\$ 13,382,183

The District has adopted provisions of the *Fair Value Measurements and Disclosures* topic of FASB ASC. This guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

15) COMPLIANCE WITH BOND RESERVE REQUIREMENTS

The District has several bond issues that require two different reserves to be established and funded as conditions to issuing the bonds. One fund is the Short-Lived Assets Reserve (“SLAR”), and the other fund is the Debt Service Reserve (“DSR”). The monthly deposits to these funds are determined as follows:

- **SLAR** - The monthly deposit amount is determined by RD and was \$9,195 for 2020 and 2019. Amounts can be used by the District for various asset purchases if approved by the Board and RD. The District is in compliance with this Rural Development requirement. During 2020, \$260,000 was withdrawn to pay for the 2019 and 2020 water tank maintenance contract.
- **DSR** - The District must fund this reserve monthly by an amount equal to 10% of the monthly payment over the life of the bond until the accumulated amount equals an annual payment amount. This calculation is done for each bond issue. The reserve is established to assist with debt payments should the need arise and use of these funds must have RD approval.

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020**

15) COMPLIANCE WITH BOND RESERVE REQUIREMENTS, Continued

The required funding levels, actual funding levels and activity for 2020 and 2019 are as follows:

		2020				
		Balance January 1	Additions	Transfers	Reductions	Balance December 31
<u>Debt Service Reserve</u>						
Bond Series 2003	**	\$ 49,464	\$ -	\$ -	\$ -	\$ 49,464
Bond Series 2010	**	328,790	29,842	-	-	358,632
Bond Series 2011A		115,506	14,904	-	-	130,410
Bond Series 2011B		11,718	1,512	-	-	13,230
Bond Series 2012		20,925	2,700	-	-	23,625
Bond Series 2016		28,400	8,520	-	-	36,920
Total amounts required		\$ 554,803	\$ 57,478	\$ -0-	\$ -0-	612,281
Actual amounts funded		\$ 568,358	\$ 73,051	\$ -0-	\$ -0-	641,409
Over funded						\$ 29,128

** The reserve for this bond is fully funded. No further additions required.

		2019				
		Balance January 1	Additions	Transfers	Reductions	Balance December 31
<u>Debt Service Reserve</u>						
Bond Series 2003	**	\$ 49,464	\$ -	\$ -	\$ -	\$ 49,464
Bond Series 2010		292,922	35,868	-	-	328,790
Bond Series 2011A		100,602	14,904	-	-	115,506
Bond Series 2011B		10,206	1,512	-	-	11,718
Bond Series 2012		18,225	2,700	-	-	20,925
Bond Series 2016		19,880	8,520	-	-	28,400
Total amounts required		\$ 491,299	\$ 63,504	\$ -0-	\$ -0-	554,803
Actual amounts funded		\$ 495,588	\$ 65,006	\$ -0-	\$ -0-	568,358
Over funded						\$ 13,555

** The reserve for this bond is fully funded. No further additions required.

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to Financial Statements
December 31, 2020**

15) COMPLIANCE WITH BOND RESERVE REQUIREMENTS, continued

The actual funded amounts are restricted for use by RD and are presented in the Statements of Net Position as follows:

	2020	2019
Debt service reserve:		
Cash and cash equivalents	\$ 53,784	\$ 59,248
Investments	587,625	509,110
Total debt service reserve funded	\$ 641,409	\$ 568,358
Short-lived assets reserve:		
Cash and cash equivalents	\$ 101,888	\$ 351,457
Investments	360,935	255,452
Total short-lived assets reserve funded	\$ 462,823	\$ 606,909

16) OTHER

In December 2019, an outbreak of novel coronavirus (“COVID-19”) originated in China and spread to other countries, including the U.S. In March 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency, and have limited most aspects of business, education, travel, and personal physical interactions. It is anticipated that these substantial impacts will continue for some time. Beginning in March 2020, the District was forced to limit the ability to work of some employees and move some employees to remote work. These necessary actions did cause additional expenses to be incurred. Future significant impacts may include continued possible adjustments to operations and may include disruptions or restrictions on employees’ ability to work. Changes in the operating environment may also increase operating costs. Management of the District is carefully monitoring this situation and has budgeted so as to enable the District to maintain its financial stability.

17) SUBSEQUENT EVENTS

On January 27, 2021, the District closed on \$11,030,000 refunding revenue bonds to pay off five of the six bonds held by Rural Development. See Note 6. The District did not have any other subsequent events through April 9, 2021, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended December 31, 2020.

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Schedule of the Proportionate Share of the Net Pension Liability
December 31, 2020

Year	District's proportion of the net pension liability	District's proportionate share of the net pension liability	District's covered- employee payroll	District's proportionate share of the net pension liability as a percentage of the covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2020	0.002622%	\$ 598,606	\$ 295,888	202.31%	54.40%
2019	0.002494%	\$ 558,913	\$ 267,261	209.13%	54.10%
2018	0.002509%	\$ 564,816	\$ 256,926	219.84%	53.30%
2017	0.002920%	\$ 623,708	\$ 271,511	229.72%	52.90%
2016	0.003157%	\$ 598,740	\$ 294,264	203.47%	57.00%
2015	0.003555%	\$ 612,053	\$ 317,463	192.80%	59.90%

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Schedule of District Contributions
December 31, 2020

<u>Year</u>	<u>Contractually required contributions</u>	<u>Contributions in relation to the contractually required contributions</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered- employee payroll</u>	<u>Contributions as percentage of covered- employee payroll</u>
2020	\$ 49,949	\$ 49,949	\$ -0-	\$ 324,137	15.41%
2019	\$ 44,156	\$ 44,156	\$ -0-	\$ 295,888	14.92%
2018	\$ 37,196	\$ 37,196	\$ -0-	\$ 267,261	13.92%
2017	\$ 29,700	\$ 29,700	\$ -0-	\$ 256,926	11.56%
2016	\$ 32,269	\$ 32,269	\$ -0-	\$ 294,264	10.97%
2015	\$ 48,033	\$ 48,033	\$ -0-	\$ 444,667	10.80%

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Schedule of Water Storage Tank Infrastructure Assets
December 31, 2020

Inventory of Water Tanks

<u>Project #</u>	<u>Tank Name</u>	<u>Location</u>	<u>Size (Gallons)</u>	<u>Type</u>
144926	Payne Drive Tank	Hwy 81/Payne Dr	200,000	Elevated
144927	Frigidaire Tank	101 Masters Blvd	500,000	Elevated
144923	Office Tank	104 Roy Arnold Rd	1,000,000	Composite
TOTAL GALLONS			1,700,000	

Condition Assessment

<u>Project #</u>	<u>Tank Name</u>	<u>Established TAI</u>	<u>Current Yr TAI</u>	<u>Prior Yr TAI</u>
144926	Payne Drive Tank	5.0	9.7	9.7
144927	Frigidaire Tank	5.0	7.9	8.2
144923	Office Tank	5.0	7.5	8.0

Maintenance Cost - Budget vs Actual

<u>Project #</u>	<u>Tank Name</u>	<u>2020 Budget</u>	<u>2020 Actual</u>	<u>2021 Budget</u>
144927	Payne Drive Tank	\$ 39,111	\$ 39,111	\$ 39,111
144927	Frigidaire Tank	58,834	58,834	58,834
144923	Office Tank	2,500	2,500	2,500
		\$ 100,445	\$ 100,445	\$ 100,445

Condition Assessment Rankings

<u>Tank Assessment Index (TAI)</u>		<u>Tank Assessment Components</u>
<u>TAI Range</u>		Tank Structure
9 - 10	Very Good	Tank Exterior Coating
7 - 8.9	Good	Tank Interior Coating
5 - 6.9	Satisfactory	Tank Dry Interior (where applicable)
3 - 4.9	Sub Standard	Tank Foundations
1 - 2.9	Unacceptable	Tank Security
		Tank Safety

The condition of the District's water storage tanks is determined using the USCI AMRS via their maintenance program. The tank condition rating, which is a weighted average of an assessment of the ability of individual water storage tanks to function structurally, such that water is stored safely and securely, uses a numerical condition scale ranging from 1.0 (unacceptable) to 10.0 (very good). It is the District's policy to keep all the water storage tanks at a condition level of not less than 5 (satisfactory).

All water storage tanks are inspected every year and washed out every other year. Repairs are done as needed.

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Schedule of Findings and Questioned Costs
For Fiscal Year Ended December 31, 2020**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant weakness(es) identified that are not considered to be material weakness(es)? _____ Yes X No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant weakness(es) identified that are not considered to be material weakness(es)? _____ Yes X No

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X Yes _____ No

Identification of major programs:

CFDA Numbers
10.760

Name of Federal Program or Cluster
Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Schedule of Findings and Questioned Costs
For Fiscal Year Ended December 31, 2020**

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

2020-001

Deadline Exceeded

- Condition:** The District did not meet the deadline for submission of its data collection form and reporting package to the Federal Audit Clearinghouse for the fiscal year ended December 31, 2019. The data collection form and reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditors' report or nine months after the end of the audit period. Therefore, the deadline for submission of the required information for the fiscal year ended December 31, 2019 was June 11, 2020. The data collection form and reporting package were not submitted by that date.
- Criteria:** 2 CFR 200.512
- Cause:** Due to the Covid-19 pandemic, the District and independent audit were not focused on submitting the data collection report and reporting package.
- Effect:** The District did not meet the deadline of 30 calendar days after receipt of the auditors' report.
- Recommendation:** Establish procedures to verify that the data collection form and reporting package have been properly submitted on a timely basis.
- Response:** The District has implemented procedures to monitor communications with its audit firm and the Federal Audit Clearinghouse to ensure timely submission of complete and accurate reports to federal entities.

**STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Summary of Prior Year Findings and Questioned Costs
For Fiscal Year Ended December 31, 2020**

Findings Related to Financial Statements

None.

Federal Award Findings and Questioned Costs

None.

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended December 31, 2020

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Total Expenditures
<u>U.S. Department of Agriculture</u>			Beginning of Year Outstanding <u>Loan Balances</u>
Water and Waste Disposal Systems for Rural Communities	10.760	91-09	\$ 676,528
Water and Waste Disposal Systems for Rural Communities	10.760	91-10	7,208,179
Water and Waste Disposal Systems for Rural Communities	10.760	91-12	2,870,282
Water and Waste Disposal Systems for Rural Communities	10.760	91-16	294,469
Water and Waste Disposal Systems for Rural Communities	10.760	91-14	493,863
Water and Waste Disposal Systems for Rural Communities	10.760	91-18	2,118,040
			<u>13,661,361</u>
Total U.S. Department of Agriculture			<u>13,661,361</u>
Total Federal Assistance Expended			<u>\$ 13,661,361</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

STARR-IVA WATER AND SEWER DISTRICT
STARR, SOUTH CAROLINA
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended December 31, 2020

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards ("the SEFA") includes the federal grant activity of Starr-Iva Water & Sewer District under programs of the federal government for the year ended December 31, 2020. The information in the SEFA is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations* ("CFR") *Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"). Because the SEFA presents only a selected portion of the operations of Starr-Iva Water & Sewer District, it is not intended to and does not present the financial position, change in net assets, or cash flows of Starr-Iva Water & Sewer District.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 - Outstanding Loans

Federal loans outstanding at December 31, 2020:

Water and Waste Disposal Systems for Rural Communities (CFDA 10.760) :

	Beginning Balance	Additions	Reductions	Ending Balance
USDA/RD Loan 91-09	\$ 676,528	\$ -	\$ (18,566)	\$ 657,962
USDA/RD Loan 91-10	7,208,179	-	(144,368)	7,063,811
USDA/RD Loan 91-12	2,870,282	-	(52,949)	2,817,333
USDA/RD Loan 91-16	294,469	-	(5,573)	288,896
USDA/RD Loan 91-14	493,863	-	(19,775)	474,088
USDA/RD Loan 91-18	2,118,040	-	(37,947)	2,080,093
Totals	<u>\$ 13,661,361</u>	<u>\$ -0-</u>	<u>\$ (279,178)</u>	<u>\$ 13,382,183</u>

Note 4 - Reconciliation of SEFA to the Financial Statements

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for timing differences relating to revenues and expenditures received or made subsequent to the filing of federal financial reports.

Note 5 - Indirect Cost Rate

The District has elected not to use the 10% de minimus cost rate allowed under the Uniform Guidance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Directors
Starr-Iva Water and Sewer District
Starr, South Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Starr-Iva Water and Sewer District as of and for the year ended December 31, 2020, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 9, 2021. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of internal control over financial reporting.

A deficiency in 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 combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the 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 the 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, deficiencies, 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.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Martin Smith and Company CPAs PA

Greenville, South Carolina
April 9, 2021

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE**

The Board of Directors
Starr-Iva Water and Sewer District
Starr, South Carolina

Report on Compliance for Each Major Federal Program

We have audited the compliance of Starr-Iva Water and Sewer District with the types of compliance requirements described in the United States Office of Management and Budget (“OMB”) Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020. The District’s major federal programs are identified in the accompanying Schedule of Expenditures of Federal Awards.

Management’s Responsibility

Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District’s management.

Auditor’s Responsibility

Our responsibility is to express an opinion on the District’s compliance based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District’s compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Starr-Iva Water and Sewer District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Report on Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District’s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in an entity’s internal control over compliance 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, by Starr-Iva Water and Sewer District’s internal controls on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Report on Internal Control Over Compliance, continued

Our consideration of the internal control over compliance was for the limited purpose described above and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations, we noted no matters involving the internal control over compliance that we consider material weaknesses. However, material weaknesses may exist that have not been identified. We did have a finding requiring disclosure as described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Martin Smith and Company CPAs PA

Greenville, South Carolina
April 9, 2021