

**STARR-IVA WATER AND SEWER DISTRICT**  
**Starr, South Carolina**

**FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**(With Independent Auditors' Report Thereon)**

**STARR-IVA WATER & SEWER DISTRICT**  
**STARR, SOUTH CAROLINA**

**Financial Statements**

**December 31, 2019 and 2018**

**(With Independent Auditors' Report Thereon)**

**STARR-IVA WATER AND SEWER DISTRICT  
STARR, SOUTH CAROLINA  
Annual Financial Report  
Table of Contents  
December 31, 2019**

**FINANCIAL SECTION**

	<b><u>Page(s)</u></b>
<b>Independent Auditors' Report on Financial Statements</b> .....	1 - 2
<b>Management's Discussion and Analysis</b> .....	3 - 7
 <b><u>Exhibit</u></b>	
<b>Government-wide Financial Statements</b>	
<b>A</b> Statements of Net Position - Proprietary Fund.....	8
<b>B</b> Statements of Revenues, Expenses and Changes in Net Position - Proprietary Fund.....	9
<b>Fund Financial Statements</b>	
<b>C</b> Statements of Cash Flows - Proprietary Fund.....	10 - 11
<b>Notes to Financial Statements</b> .....	12 - 31

**REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule**

<b>1</b> Schedule of the Proportionate Share of the Net Pension Liability.....	32
<b>2</b> Schedule of District Contributions.....	33
<b>3</b> Schedule of Water Storage Tank Infrastructure Assets .....	34

**COMPLIANCE SECTION**

<b>4</b> Schedule of Findings and Questioned Costs.....	35 - 36
<b>5</b> Summary of Prior Year Findings and Questioned Costs.....	37
<b>6</b> Schedule of Expenditures of Federal Awards.....	38 - 39

**Reports**

Independent Auditors' Report on Compliance and Other Matters and on Internal Control Over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with <u>Government Auditing Standards</u> .....	40 - 41
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Uniform Guidance.....	42 - 43



# 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, 2019, 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, 2019, 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 basic financial statements. Such information, although not a required part of the basic 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 basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic 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 basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic 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 May 12, 2020, 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  
May 12, 2020

**STARR-IVA WATER & SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2019**

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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, 2019. 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 2019 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 2019 fiscal year by \$8,159,873 (net position). The District has invested \$6,675,105 in capital assets, net of accumulated depreciation and related debt. The District also had \$1,175,266 restricted for capital projects and debt service. Therefore, the District reported a net positive position balance in unrestricted net position of \$309,502.
- The District's total net position decreased by \$56,319.
- The District's total net fixed assets decreased by \$644,162 during the current year.
- During the 2019 year, the District's operating revenues were \$2,614,970, compared to \$2,498,939 in 2018.
- The District's water purchased for resale increased from \$645,362 in 2018 to \$656,514 in 2019.
- 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 basic 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 basic 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, 2019**

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**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 \$8,159,873 at the close of the most recent year.

**Net Position**

	<b>Business-type Activities</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets	\$ 2,597,152	\$ 2,262,513
Noncurrent assets	<u>20,336,466</u>	<u>20,987,626</u>
Total assets	<u>22,933,618</u>	<u>23,250,139</u>
<b>Deferred Outflows of Resources</b>		
Deferred pension	<u>95,014</u>	<u>88,545</u>
<b>Liabilities</b>		
Other liabilities	695,305	572,475
Long-term liabilities	<u>13,882,598</u>	<u>14,226,191</u>
Total liabilities	<u>14,577,903</u>	<u>14,798,666</u>
<b>Deferred Inflows of Resources</b>		
Deferred pension	<u>79,661</u>	<u>103,245</u>
<b>Contributed Capital</b>	<u>211,195</u>	<u>220,581</u>
<b>Net Position</b>		
Net investment in capital assets	6,675,105	7,055,547
Restricted	1,175,266	987,367
Unrestricted	<u>309,502</u>	<u>173,278</u>
Total net position	<u>\$ 8,159,873</u>	<u>\$ 8,216,192</u>

Net position of the District's business-type activities decreased by 0.7%, from \$8,216,192 to \$8,159,873. 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 2018 of \$173,278 to a net positive position of \$309,502 at December 2019.

**STARR-IVA WATER & SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2019**

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The following table shows the changes in net assets for fiscal 2019 compared to 2018:

**Change in Net Position**

	<u>Business-type Activities</u>	
	<u>2019</u>	<u>2018</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 2,614,970	\$ 2,498,939
Grant revenues	-	-
Other	<u>50,984</u>	<u>5,135</u>
Total revenues	<u>2,665,954</u>	<u>2,504,074</u>
<b>Program Expenses</b>		
Operating expenses	1,634,364	1,468,385
Depreciation and amortization	667,377	711,224
Interest expense	<u>420,532</u>	<u>428,985</u>
Total expenses	<u>2,722,273</u>	<u>2,608,594</u>
Change in net position	(56,319)	(104,520)
Net position at beginning of year	<u>8,216,192</u>	<u>8,320,712</u>
Net position at end of year	<u>\$ 8,159,873</u>	<u>\$ 8,216,192</u>

The District's largest expense is the cost of the water that it sells to its customers. The water sales increased 0.7% in 2019, while the cost of water sold increased 1.7%. That resulted in a gross profit increase of \$5,776. The District had an increase in expenses while revenue increased resulting in a decrease in net position of \$56,319 for 2019.

**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 Funds**

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, 2019**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2019, the District had \$20,316,982 invested in capital assets, net of depreciation. The net decrease in the District's investment in capital assets, not considering depreciation and amortization, was \$644,162.

The following table shows fiscal 2019 capital asset balances, net of accumulated depreciation, compared to 2018:

<b>Capital Assets (Net of depreciation and amortization)</b>			
	<b>Business-type Activities</b>		
	<b>2019</b>		<b>2018</b>
Land and land improvements	\$ 115,595	\$	171,971
Buildings	779,573		803,683
Water distribution system	19,347,054		19,951,241
Furniture & equipment	4,081		13,019
Vehicles	70,679		21,230
<b>Totals</b>	<b>\$ 20,316,982</b>	<b>\$</b>	<b>20,961,144</b>

**Long-term Debt**

At fiscal year-end 2019, the District had \$13,661,361 in bonds outstanding versus \$13,932,079 in 2018, 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**

	<b>Business-type Activities</b>	
	<b>2019</b>	<b>2018</b>
Revenue bond - Series 2003	\$ 676,528	\$ 694,256
Revenue bond - Series 2010	7,208,179	7,348,284
Revenue bond - Series 2011A	2,870,282	2,921,476
Revenue bond - Series 2011B	294,469	299,865
Revenue bond - Series 2012	493,863	513,055
Revenue bond - Series 2016	2,118,040	2,155,143
<b>Total</b>	<b>\$ 13,661,361</b>	<b>\$ 13,932,079</b>

**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.

**STARR-IVA WATER & SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2019**

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**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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b><u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 991,754	\$ 844,986
Restricted cash and cash equivalents for (Notes 5 and 15):		
Debt service reserve	59,248	59,856
Short-lived assets reserve	351,457	491,779
Restricted investments for (Notes 5 and 15):		
Debt service reserve	509,109	435,732
Short-lived assets reserve	255,452	-
Accounts receivable, net (Note 2)	371,821	377,704
Parts inventory	35,604	36,163
Accrued interest receivable	4,787	297
Prepaid expenses	17,920	15,996
Total current assets	<u>2,597,152</u>	<u>2,262,513</u>
<b>NONCURRENT ASSETS</b>		
Note receivable (Note 4)	19,484	26,482
Plant and equipment, net of accumulated depreciation (Note 3)	<u>20,316,982</u>	<u>20,961,144</u>
Total noncurrent assets	<u>20,336,466</u>	<u>20,987,626</u>
Total assets	<u>22,933,618</u>	<u>23,250,139</u>
<b>DEFERRED OUTFLOWS OF RESOURCES - PENSIONS</b>		
Deferred outflows of resources (Note 7)	<u>95,014</u>	<u>88,545</u>
Total assets and deferred outflows of resources	<u>\$ 23,028,632</u>	<u>\$ 23,338,684</u>
<b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, CONTRIBUTED CAPITAL AND NET POSITION</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 40,201	\$ 4,646
Payroll liabilities	6,335	8,169
Accrued interest payable	21,966	22,407
Customer deposits	289,127	266,548
Current portion of long-term debt (Note 6)	<u>337,676</u>	<u>270,705</u>
	<u>695,305</u>	<u>572,475</u>
<b>LONG-TERM DEBT</b>		
Net pension liability (Note 7)	558,913	564,817
Bonds payable (Note 6)	<u>13,323,685</u>	<u>13,661,374</u>
	<u>13,882,598</u>	<u>14,226,191</u>
Total liabilities	<u>14,577,903</u>	<u>14,798,666</u>
<b>DEFERRED INFLOWS OF RESOURCES - PENSIONS</b>		
Deferred inflows of resources (Note 7)	<u>79,661</u>	<u>103,245</u>
CONTRIBUTED CAPITAL (Note 9)	<u>211,195</u>	<u>220,581</u>
<b>NET POSITION</b>		
Net investment in capital assets	6,675,105	7,055,547
Restricted (Note 10)	1,175,266	987,367
Unrestricted	<u>309,502</u>	<u>173,278</u>
Total net position	<u>8,159,873</u>	<u>8,216,192</u>
Total liabilities, deferred inflows of resources, contributed capital and net position	<u>\$ 23,028,632</u>	<u>\$ 23,338,684</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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>OPERATING REVENUES</b>		
Sale of water	\$ 2,291,290	\$ 2,274,362
ServLine charges	70,494	-
Tap fees	67,813	83,758
Late charges	45,186	41,975
Capacity fees	34,104	-
Sale of sewer services	33,180	30,618
Customer service fees	32,628	28,020
Meter replacement fees	25,281	25,242
Miscellaneous income	14,994	14,964
	<u>2,614,970</u>	<u>2,498,939</u>
<b>OPERATING EXPENSES</b>		
Depreciation and amortization	667,377	711,224
Water purchased for resale	656,514	645,362
Salaries and wages	295,888	288,273
Repairs and maintenance	125,591	133,515
Insurance	115,342	99,098
Tank management	97,945	-
Utilities	46,574	35,350
ServLine costs	41,905	-
Professional fees	32,525	43,005
Sewer services purchased	28,770	28,071
Office supplies and expense	25,676	43,580
Vehicle expense	22,660	22,781
Billing services	22,513	11,826
Payroll taxes	21,433	21,845
Subcontract services	20,164	13,951
Communications	16,507	13,368
Board fees and expenses	14,974	13,906
Environmental fee	13,671	13,644
Training and dues	10,433	9,898
Uniforms	8,355	7,474
State retirement system (Note 7)	8,200	12,520
Bank charges and merchant fees	6,969	8,409
Marketing	1,755	-
Miscellaneous	-	2,509
	<u>2,301,741</u>	<u>2,179,609</u>
Net operating income	<u>313,229</u>	<u>319,330</u>
<b>OTHER INCOME (EXPENSE)</b>		
Gain on disposal of fixed assets	22,366	-
Interest income	28,618	5,135
Interest expense	(420,532)	(428,985)
	<u>(369,548)</u>	<u>(423,850)</u>
Change in net position	<u>(56,319)</u>	<u>(104,520)</u>
NET POSITION, beginning of year	<u>8,216,192</u>	<u>8,320,712</u>
NET POSITION, end of year	<u>\$ 8,159,873</u>	<u>\$ 8,216,192</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,620,852	\$ 2,476,418
Interest received from operations and savings accounts	2,174	3,669
Cash paid to suppliers	(685,284)	(653,776)
Cash paid for wages and related expenses	(327,355)	(347,881)
Cash paid for other operating expenses	(589,368)	(481,119)
Interest paid	(420,974)	(429,414)
Net cash provided by operating activities	<u>600,045</u>	<u>567,897</u>
Cash flows from noncapital investing activities:		
Transfer from cash equivalents to investments	(413,410)	(63,000)
Transfer from short-lived assets reserve	<u>-</u>	<u>82,499</u>
Net cash provided by (used in) noncapital financing activities	(413,410)	19,499
Cash flows from capital and related investing activities:		
Proceeds from sale of plant and equipment	76,922	-
Principal received from note receivable	6,998	6,590
Cash payments for the purchase of plant and equipment	<u>(16,580)</u>	<u>(24,598)</u>
Net cash provided by (used in) capital and related financing activities	<u>67,340</u>	<u>(18,008)</u>
Cash flows from financing activities:		
Customer deposits	22,581	17,832
Principal payments on long-term debt	<u>(270,718)</u>	<u>(262,523)</u>
Net cash provided by (used in) financing activities	<u>(248,137)</u>	<u>(244,691)</u>
Net increase (decrease) in cash and cash equivalents	5,838	324,697
Cash and cash equivalents, beginning of year	<u>1,416,278</u>	<u>1,091,581</u>
Cash and cash equivalents, end of year	<u>\$ 1,422,116</u>	<u>\$ 1,416,278</u>
Reconciliation of cash and cash equivalents to the cash and cash equivalents reported on the Statements of Net Position:		
Cash and cash equivalents	\$ 991,754	\$ 844,986
Restricted cash and cash equivalents - debt service reserve	59,248	59,856
Restricted cash and cash equivalents - short-lived assets reserve	<u>351,457</u>	<u>491,779</u>
	<u>\$ 1,402,459</u>	<u>\$ 1,396,621</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of change in net position to net cash provided by operating activities:		
Change in net position	\$ <u>(56,319)</u>	\$ <u>(104,520)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	667,377	711,224
Interest earned on non-cash equivalents	(21,954)	(1,466)
Loss on disposal of fixed assets	(22,366)	(22,522)
(Increase) decrease in accounts receivable	5,883	664
(Increase) decrease in parts inventory	559	-
(Increase) decrease in accrued interest receivable	(4,490)	-
(Increase) decrease in prepaid expenses	(1,924)	(1,417)
Increase (decrease) in accounts payable	35,555	(15,527)
Increase (decrease) in payroll liabilities	(1,834)	1,890
Increase (decrease) in accrued interest payable	<u>(442)</u>	<u>(429)</u>
Total adjustments	<u>656,364</u>	<u>672,417</u>
Net cash provided by operating activities	\$ <u><u>600,045</u></u>	\$ <u><u>567,897</u></u>

There were no non-cash investing or financing transactions.

See accompanying notes to financial statements.

**PSTARR-IVA WATER AND SEWER DISTRICT**  
**STARR, SOUTH CAROLINA**  
**Notes to Financial Statements**  
**Year Ended December 31, 2019**

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 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, 2019 and 2018, 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.

**Parts Inventory**

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



**STARR-IVA WATER AND SEWER DISTRICT**  
**STARR, SOUTH CAROLINA**  
**Notes to Financial Statements**  
**Year Ended December 31, 2019**

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

**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 is 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 current fiscal year, the District's Board of Directors 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.

**Income Taxes**

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

**STARR-IVA WATER AND SEWER DISTRICT**  
**STARR, SOUTH CAROLINA**  
**Notes to Financial Statements**  
**Year Ended December 31, 2019**

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

**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 statement 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 statement 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 at the end of 2019 was \$60,508.

**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.

**STARR-IVA WATER AND SEWER DISTRICT**  
**STARR, SOUTH CAROLINA**  
**Notes to Financial Statements**  
**Year Ended December 31, 2019**

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

**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.

**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.

2) **ACCOUNTS RECEIVABLE**

Customer accounts receivable as of December 31 are as follows:

	<b>2019</b>	<b>2018</b>
Current	\$ 337,292	\$ 375,401
Delinquent - over 60 days past due	79,529	47,303
	416,821	422,704
Less allowance for uncollectible amounts	(45,000)	(45,000)
Net accounts receivable	\$ 371,821	\$ 377,704

**STARR-IVA WATER AND SEWER DISTRICT**  
**STARR, SOUTH CAROLINA**  
**Notes to Financial Statements**  
**Year Ended December 31, 2019**

2) **ACCOUNTS RECEIVABLE, continued**

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:

	<b>2019</b>			
	<b><u>Balance</u></b> <b><u>January 1</u></b>	<b><u>Additions</u></b>	<b><u>Disposals</u></b>	<b><u>Balance</u></b> <b><u>December 31</u></b>
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	<u>1,837,477</u>	<u>-</u>	<u>(50,819)</u>	<u>1,786,658</u>
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 improvements	85,249	-	-	85,249
Total capital assets being depreciated	<u>27,048,719</u>	<u>87,158</u>	<u>(60,148)</u>	<u>27,075,729</u>
Less accumulated depreciation and amortization	<u>(7,925,052)</u>	<u>(676,764)</u>	<u>56,411</u>	<u>(8,545,405)</u>
Net plant and equipment	<u>\$ 20,961,144</u>	<u>\$ (589,606)</u>	<u>\$ (3,737)</u>	<u>\$ 20,316,982</u>
	<b>2018</b>			
	<b><u>Balance</u></b> <b><u>January 1</u></b>	<b><u>Additions</u></b>	<b><u>Disposals</u></b>	<b><u>Balance</u></b> <b><u>December 31</u></b>
Water distribution system	\$ 27,449,875	\$ 24,597	\$ -	\$ 27,474,472
Vehicles	96,112	-	-	96,112
Office furniture and fixtures	54,935	-	-	54,935
Equipment	87,231	-	-	87,231
Buildings	964,420	-	-	964,420
Land and land improvements	<u>209,026</u>	<u>-</u>	<u>-</u>	<u>209,026</u>
	28,861,599	24,597	-	28,886,196
Less accumulated depreciation and amortization	<u>(7,204,442)</u>	<u>(720,610)</u>	<u>-</u>	<u>(7,925,052)</u>
Net plant and equipment	<u>\$ 21,657,157</u>	<u>\$ (696,013)</u>	<u>\$ -</u>	<u>\$ 20,961,144</u>

**STARR-IVA WATER AND SEWER DISTRICT**  
**STARR, SOUTH CAROLINA**  
**Notes to Financial Statements**  
**Year Ended December 31, 2019**

**3) PLANT AND EQUIPMENT, continued**

Depreciation and amortization expense totaled \$667,377 and \$711,224, for the years ended December 31, 2019 and 2018, 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 2019 was \$6,998, and the interest received was \$1,410. For 2018 the principal received was \$6,590 and the interest received was \$1,810. 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.

**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.

**STARR-IVA WATER AND SEWER DISTRICT**  
**STARR, SOUTH CAROLINA**  
**Notes to Financial Statements**  
**Year Ended December 31, 2019**

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

Bonds payable consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
5% Series 2003 Waterworks System Revenue Bond; payable in monthly installments of \$4,122, including interest; maturing January 2044	\$ 676,528	\$ 694,256
3% Series 2010 Waterworks System Revenue Bond; payable in monthly installments of \$29,886, including interest; maturing October 2050	7,208,179	7,348,284
3.375% Series 2011A Waterworks System Revenue Bond; payable in monthly installments of \$12,417, including interest; maturing February 2051	2,870,282	2,921,476
3.25% Series 2011B Waterworks System Revenue Bond; payable in monthly installments of \$1,255, including interest; maturing February 2051	294,469	299,864
3.00% Series 2012 Waterworks System Revenue Bond; payable in monthly installments of \$2,245, including interest; maturing February 2052	493,863	513,055
2.25% Series 2016 Waterworks System Revenue Bond; payable in monthly installments of \$7,101, including interest; maturing February 2056	2,118,040	2,155,144
	<hr/>	<hr/>
	13,661,361	13,932,079
Less current maturities	<u>(337,676)</u>	<u>(270,705)</u>
Long-term portion of bonds payable	<u>\$ 13,323,685</u>	<u>\$ 13,661,374</u>

**STARR-IVA WATER AND SEWER DISTRICT  
STARR, SOUTH CAROLINA  
Notes to Financial Statements  
Year Ended December 31, 2019**

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

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

<u>Year(s) Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 279,164	\$ 412,528	\$ 691,692
2021	287,895	403,797	691,692
2022	296,910	394,785	691,695
2023	306,209	385,483	691,692
2024	315,811	375,880	691,691
2025-2029	1,734,325	1,724,135	3,458,460
2030-2034	2,025,603	1,432,857	3,458,460
2035-2039	2,327,799	1,091,547	3,419,346
2040-2044	2,401,413	721,708	3,123,121
2045-2049	2,696,053	343,487	3,039,540
2050-2054	868,912	44,269	913,181
2055-2059	121,267	2,101	123,368
	<u>\$ 13,661,361</u>	<u>\$ 7,332,577</u>	<u>\$ 20,993,938</u>

The following is a summary of changes in notes and bonds payable for the years ending December 31, 2019 and 2018, and principal payments for 2019:

	<u>2019</u>			<u>Balance December 31</u>	<u>2020 Principal</u>
	<u>Balance January 1</u>	<u>Additions</u>	<u>Reductions</u>		
<u>Bonds</u>					
Bond Series 2003	\$ 694,256	\$ -	\$ (17,729)	\$ 676,527	\$ 18,565
Bond Series 2010	7,348,284	-	(140,106)	7,208,178	144,360
Bond Series 2011A	2,921,476	-	(51,194)	2,870,282	52,946
Bond Series 2011B	299,865	-	(5,395)	294,470	5,572
Bond Series 2012	55	-	(19,191)	(19,136)	19,775
Bond Series 2016	2,155,143	-	(37,103)	2,118,040	37,946
Total debt	<u>\$ 13,419,079</u>	<u>\$ -</u>	<u>\$ (270,718)</u>	<u>\$ 13,148,361</u>	<u>\$ 279,164</u>

**STARR-IVA WATER AND SEWER DISTRICT  
STARR, SOUTH CAROLINA  
Notes to Financial Statements  
Year Ended December 31, 2019**

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

	2018			
	Balance		Balance	
	January 1	Additions	Reductions	December 31
<u>Bonds</u>				
Bond Series 2003	\$ 711,185	\$ -	\$ (16,929)	\$ 694,256
Bond Series 2010	7,484,254	-	(135,970)	7,348,284
Bond Series 2011A	2,970,974	-	(49,498)	2,921,476
Bond Series 2011B	305,087	-	(5,222)	299,865
Bond Series 2012	531,680	-	(18,625)	513,055
Bond Series 2016	2,191,422	-	(36,279)	2,155,143
Total debt	\$ 14,194,602	\$ -0-	\$ (262,523)	\$ 13,932,079

Interest expense totaled \$420,532 and \$428,985 for the years ended December 31, 2019 and 2018, respectively.

7) **STATE RETIREMENT SYSTEM**

The South Carolina Public Employee Benefit Authority (“PEBA”), which was created July 1, 2012, 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 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 (“the 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.

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](http://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 allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

The State Optional Retirement Program (“State ORP”) is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.



**STARR-IVA WATER AND SEWER DISTRICT**  
**STARR, SOUTH CAROLINA**  
**Notes to Financial Statements**  
**Year Ended December 31, 2019**

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 S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State ORP, which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs 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 employers to the member's account with investment providers 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. A brief summary of benefit terms for each system is presented below:

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

**STARR-IVA WATER AND SEWER DISTRICT  
STARR, SOUTH CAROLINA  
Notes to Financial Statements  
Year Ended December 31, 2019**

**7) STATE RETIREMENT SYSTEM, continued**

**Funding Policy** – Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA board may increase the percentage rate in SCRS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and total employer contribution rate that exceeds 2.9% of earnable compensation for SCRS. An increase in the contribution rates adopted by the PEBA board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the PEBA board are insufficient to maintain a thirty-year amortization schedule of the unfunded liabilities of the plans, the PEBA board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

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%.

The Retirement System Funding and Administration Act increases employer contribution rates to 13.56% for SCRS, effective July 1, 2017. It also removes the 2.9% differential and increases and establishes a ceiling on employee contribution rates at 9% for SCRS. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation’s ultimate scheduled employer rate is 18.56% for SCRS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty-year amortization schedule. The recent pension reform legislation also changes the long-term funded ratio requirement from ninety to eighty-five.

As noted above, both employees and the District are required to contribute to the plans at rates established and as amended by the PEBA.

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

	SCRS and State ORP Rates		
	2019	2018	2017
Employer Contribution Rate: <sup>^</sup>			
Retirement*	14.41%	13.41%	11.41%
	14.41%	13.41%	11.41%
Employee Contribution Rate	9.00%	9.00%	8.66%

<sup>^</sup> 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 vendor 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  
Year Ended December 31, 2019**

**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
2019	\$ 44,156	100%
2018	37,196	100%
2017	29,700	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
2019	\$ 295,888	\$ 295,888
2018	267,261	267,261
2017	256,926	256,926

**Actuarial Assumptions** – Actuarial valuations of the ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued as of July 1, 2015. The June 30, 2018, total pension liability, net pension liability, and sensitivity information were determined by the System’s consulting actuary, Gabriel, Roeder, Smith and Company (“GRS”) and are based on an actuarial valuation performed as of July 1, 2017. The total pension liability was rolled-forward from the valuation date to the plans’ fiscal year end, June 30, 2018, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017 and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2018.

The following table provides a summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2018:

	<u>SCRS</u>
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  
Year Ended December 31, 2019**

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 System's 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, 2018, 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 30-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 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.25% 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  
Year Ended December 31, 2019**

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>
<b>Global Equity</b>	<b>47.0%</b>		
Global Public Equity	33.0%	6.99%	2.31%
Private Equity	9.0%	8.73%	0.79%
Equity Options Strategies	5.0%	5.52%	0.28%
<b>Real Assets</b>	<b>10.0%</b>		
Real Estate (Private)	6.0%	3.54%	0.21%
Real Estate (REITs)	2.0%	5.46%	0.11%
Infrastructure	2.0%	5.09%	0.10%
<b>Opportunistic</b>	<b>13.0%</b>		
GTAA/Risk Parity	8.0%	3.75%	0.30%
Hedge Funds (non-PA)	2.0%	3.45%	0.07%
Other Opportunistic Strategies	3.0%	3.75%	0.11%
<b>Diversified Credit</b>	<b>18.0%</b>		
Mixed Credit	6.0%	3.05%	0.18%
Emerging Markets Debt	5.0%	3.94%	0.20%
Private Debt	7.0%	3.89%	0.27%
<b>Conservative Fixed Income</b>	<b>12.0%</b>		
Core Fixed Income	10.0%	0.94%	0.09%
Cash and Short Duration (Net)	2.0%	0.34%	0.01%
Total Expected Real Return	<u>100.0%</u>		<u>5.03%</u>
Inflation for Actuarial Purposes			<u>2.25%</u>
Total Expected Nominal Return			<u>7.28%</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 determined in accordance with GASB No. 67 less that system’s fiduciary net position. NPL totals, as of June 30, 2018, 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	\$48,821,730,067	\$ 26,414,916,370	\$ 22,406,813,697	54.1%

The total pension liability is calculated by the Systems’ actuary, and each plan’s fiduciary net position is reported in the Systems’ financial statements. The net pension liability is disclosed in accordance with the requirements 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  
Year Ended December 31, 2019**

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, 2019, the District reported a liability of \$558,913 for its proportionate share of the PEBA's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017, using membership data as of that date, projected forward to the end of that fiscal year, and financial information of the pension trust funds as of June 30, 2018. The District's proportion of the net pension liability was based on the District's contributions received by PEBA during the measurement period, relative to the total employer contributions received from all of PEBA's participating employers. At the June 30, 2018 measurement date, the District's proportion was .002494%, which was a decrease of .00015% from its proportion measured as of June 30, 2017.

For the year ended December 31, 2019, the District recognized pension expense of \$6,054 for its proportionate share of the PEBA's pension expense. At December 31, 2019, 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:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Net difference between expected and actual experience	\$ 1,009	\$ 3,289
Assumption changes	22,175	-
Net difference between projected and actual earnings on pension plan investments	27,674	18,796
Changes in proportionate share and differences between employer contributions and proportionate share of total plan employer contributions	-	57,576
District contributions subsequent to the measurement date	<u>44,156</u>	<u>-</u>
	<b><u>\$ 95,014</u></b>	<b><u>\$ 79,661</u></b>

\$44,156 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 net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to the PEBA will be recognized in pension expense as follows:

<b>Year Ended</b>	<b>Deferred Outflows (Inflows)</b>
<b>Dec 31</b>	<b>of Resources</b>
2020	\$ (11,966)
2021	(7,457)
2022	(8,395)
2023	<u>(985)</u>
	<b><u>\$ (28,803)</u></b>

**STARR-IVA WATER AND SEWER DISTRICT  
STARR, SOUTH CAROLINA  
Notes to Financial Statements  
Year Ended December 31, 2019**

**7) STATE RETIREMENT SYSTEM, continued**

**Discount Rate** – The discount rate used to measure the total pension liability 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 total pension liability.

**Pension Liability Sensitivity** – The following table presents the District’s proportionate share of the net pension liability, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District’s proportionate share of the net pension liability 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	\$ 714,187	\$ 558,913	\$ 447,907

**Pension Plan Fiduciary Net Position** – Detailed information regarding the fiduciary net position of the plan administered by PEBA is available in the system’s audited financial statements for the fiscal year ended June 30, 2018 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2018.

**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**  
**Year Ended December 31, 2019**

**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 2019 and 2018, respectively; for a net contributed capital balance of \$211,195 for 2019 and \$220,581 for 2018.

**10) RESTRICTED NET POSITION**

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

	<b>2019</b>	<b>2018</b>
Debt service reserve (Note 15)	\$ 568,358	\$ 495,588
Short-lived assets reserve (Note 15)	606,909	491,779
Unspent designated construction funds	-	-
Total Restricted Net Position	\$ 1,175,267	\$ 987,367

**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 \$656,514 and \$645,362 of potable water from the Joint System in 2019 and 2018, 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, 2019, 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**  
**Year Ended December 31, 2019**

**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, 2019:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Trade accounts receivable	\$ 371,821	\$ 371,821
Certificates of deposit	1,232,809	1,232,809
Money market accounts	436,037	436,037
Financial liabilities:		
Bonds payable	\$ 13,661,361	\$ 13,661,361

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.

**STARR-IVA WATER AND SEWER DISTRICT  
STARR, SOUTH CAROLINA  
Notes to Financial Statements  
Year Ended December 31, 2019**

**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 2019 and 2018. 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.
- **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.

The required funding levels, actual funding levels and activity for 2019 and 2018 are as follows:

		<b>2019</b>				
		<u>Balance</u>		<u>Transfers</u>	<u>Reductions</u>	<u>Balance</u>
		<u>January 1</u>	<u>Additions</u>			<u>December 31</u>
<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		<u>19,880</u>	<u>8,520</u>	<u>-</u>	<u>-</u>	<u>28,400</u>
Total amounts required		<u>\$ 491,299</u>	<u>\$ 63,504</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	554,803
Actual amounts funded		<u>\$ 495,588</u>	<u>\$ 65,006</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>568,358</u>
<b>Over funded</b>						<u>\$ 13,555</u>

\*\* 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  
Year Ended December 31, 2019**

**15) COMPLIANCE WITH BOND RESERVE REQUIREMENTS, continued**

		2018				
		Balance January 1	Additions	Transfers	Reductions	Balance December 31
<u>Debt Service Reserve</u>						
Bond Series 2003	**	\$ 49,464	\$ -	\$ -	\$ -	\$ 49,464
Bond Series 2010		257,054	35,868	-	-	292,922
Bond Series 2011A		85,698	14,904	-	-	100,602
Bond Series 2011B		8,694	1,512	-	-	10,206
Bond Series 2012		15,525	2,700	-	-	18,225
Bond Series 2016		11,360	8,520	-	-	19,880
Total amounts required		\$ 427,795	\$ 63,504	\$ -0-	\$ -0-	491,299
Actual amounts funded		\$ 430,582	\$ 65,006	\$ -0-	\$ -0-	495,588
<b>Over funded</b>						<b>\$ 4,289</b>

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

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

	2019	2018
<u>Debt service reserve:</u>		
Cash and cash equivalents	\$ 59,248	\$ 59,856
Investments	509,110	435,732
Total debt service reserve funded	\$ 568,358	\$ 495,588
<u>Short-lived assets reserve:</u>		
Cash and cash equivalents	\$ 351,457	\$ 491,779
Investments	255,452	-
Total short-lived assets reserve funded	\$ 606,909	\$ 491,779

**16) SUBSEQUENT EVENTS**

The District did not have any other subsequent events through May 12, 2020, 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, 2019.

**STARR-IVA WATER AND SEWER DISTRICT**  
**STARR, SOUTH CAROLINA**  
**Schedule of the Proportionate Share of the Net Pension Liability**  
**December 31, 2019**

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

**STARR-IVA WATER AND SEWER DISTRICT**  
**STARR, SOUTH CAROLINA**  
**Schedule of District Contributions**  
**December 31, 2019**

<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>
2015	\$ 48,033	\$ 48,033	\$ -0-	\$ 444,667	10.80%
2016	\$ 32,269	\$ 32,269	\$ -0-	\$ 294,264	10.97%
2017	\$ 29,700	\$ 29,700	\$ -0-	\$ 256,926	11.56%
2018	\$ 37,196	\$ 37,196	\$ -0-	\$ 267,261	13.92%
2019	\$ 44,156	\$ 44,156	\$ -0-	\$ 295,888	14.92%

**STARR-IVA WATER AND SEWER DISTRICT**  
**STARR, SOUTH CAROLINA**  
**Schedule of Water Storage Tank Infrastructure Assets**  
**December 31, 2019**

**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
<b>TOTAL GALLONS</b>			<b>1,700,000</b>	

**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	N/A
144927	Frigidaire Tank	5.0	8.2	N/A
144923	Office Tank	5.0	8.0	N/A

**Maintenance Cost - Budget vs Actual**

<u>Project #</u>	<u>Tank Name</u>	<u>2019 Budget</u>	<u>2019 Actual</u>	<u>2020 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
		<b>100,445</b>	<b>100,445</b>	<b>100,445</b>

**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, 2019

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Section I - Summary of Auditors' Results

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**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)? \_\_\_\_\_ Yes      X   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?   X   Yes    \_\_\_\_\_ No

**STARR-IVA WATER AND SEWER DISTRICT  
STARR, SOUTH CAROLINA  
Schedule of Findings and Questioned Costs  
For Fiscal Year Ended December 31, 2019**

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**Section II - Financial Statement Findings**

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None

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**Section III - Federal Award Findings and Questioned Costs**

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None



**STARR-IVA WATER AND SEWER DISTRICT  
Summary of Prior Year Findings and Questioned Costs  
For Fiscal Year Ended December 31, 2019**

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**Findings Related to Financial Statements**

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**2018-001**

**Internal Control over Financial Reporting**

**Condition:**

Under current professional standards, the District is responsible for the internal control process which includes the preparation of year-end financial statements in accordance with generally accepted accounting principles. This preparation of materially accurate financial statements will help the District to prevent, detect and correct potential misstatements in the financial statements and/or notes.

The District's financial personnel do not prepare the financial statements. The District's independent auditors may assist in the preparation of accurate financial statements and disclosures but are not considered a part of the District's internal control process under audit standards.

**Status:**

The District engaged personnel who can assist in the preparation of the financial assistance. This finding was not repeated in the current year.

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**Federal Award Findings and Questioned Costs**

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None

STARR-IVA WATER AND SEWER DISTRICT  
STARR, SOUTH CAROLINA  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended December 31, 2019

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Total Expenditures
<b><u>U.S. Department of Agriculture</u></b>			Beginnig of Year Outstanding Loan Balances
Water and Waste Disposal Systems for Rural Communities	10.760	91-09	\$ 694,256
Water and Waste Disposal Systems for Rural Communities	10.760	91-10	7,348,284
Water and Waste Disposal Systems for Rural Communities	10.760	91-12	2,921,476
Water and Waste Disposal Systems for Rural Communities	10.760	91-16	299,865
Water and Waste Disposal Systems for Rural Communities	10.760	91-14	513,055
Water and Waste Disposal Systems for Rural Communities	10.760	91-18	2,155,143
			<u>13,932,079</u>
<b>Total U.S. Department of Agriculture</b>			<u>13,932,079</u>
<b>Total Federal Assistance Expended</b>			<u>\$ 13,932,079</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, 2019**

**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, 2019. 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, 2019:

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

	Beginning Balance	Additions	Reductions	Ending Balance
USDA/RD Loan 91-09	\$ 694,256	\$ -	\$ (17,728)	\$ 676,528
USDA/RD Loan 91-10	7,348,284	-	(140,105)	7,208,179
USDA/RD Loan 91-12	2,921,476	-	(51,194)	2,870,282
USDA/RD Loan 91-16	299,865	-	(5,396)	294,469
USDA/RD Loan 91-14	513,055	-	(19,192)	493,863
USDA/RD Loan 91-18	2,155,143	-	(37,103)	2,118,040
Totals	<u>\$ 13,932,079</u>	<u>\$ -</u>	<u>\$ (270,718)</u>	<u>\$ 13,661,361</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.



p 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, 2019. 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, 2019.

**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.

**Repost 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.

**Purpose of this Report**

This report is intended solely for the information and use of the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Martin Smith and Company CPAs PA*

Greenville, South Carolina  
May 12, 2020

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS AND  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON  
AN AUDIT OF BASIC 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, 2019, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 12, 2020. 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**

As part of obtaining reasonable assurance about whether the District's basic 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.

**Other Matters**

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. This response is not subject to the auditing procedures applied in the audit and, accordingly, we express no opinion on the response.

**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  
May 12, 2020