

SCHOOL DISTRICT NO. 2 OF SUMTER COUNTY, SOUTH CAROLINA

ANNUAL REPORT SUPPLEMENT

(for the fiscal year ended June 30, 2009)

February 1, 2010

**CUSIP Prefix 866570
CUSIP Prefix 866613**

SCHOOL DISTRICT NO. 2 OF SUMTER COUNTY, SOUTH CAROLINA (THE “SCHOOL DISTRICT”) HAS FILED PREVIOUSLY WITH THE MUNICIPAL SECURITIES RULEMAKING BOARD (THE “MSRB”) ITS FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2009 (THE “FY 2009 AUDIT”). THE FY 2009 AUDIT, TOGETHER WITH THIS ANNUAL REPORT SUPPLEMENT, COMPRISE THE SCHOOL DISTRICT’S “ANNUAL REPORT” FOR THE FISCAL YEAR ENDED JUNE 30, 2009, IN COMPLIANCE WITH ITS DISCLOSURE DISSEMINATION AGENT AGREEMENT DATED OCTOBER 29, 2002, AS SUPPLEMENTED

TABLE OF CONTENTS

INTRODUCTION	1
FINANCIAL AND TAX INFORMATION	1
General Purpose Financial Statements	1
Five Year Summary of General Fund Operations	2
Financial Statements	4
Budget Procedure	4
General Fund Budgets for 2007-08, 2008-09 and 2009-10 Fiscal Years	5
School District Operating Revenues	6
Property Taxation and Assessment	10
Limitation on Annual Tax Levy	11
Homestead Exemptions -- Property Tax Relief	12
Assessed Value of Taxable Property	13
Estimated True Value of All Taxable Property	14
Exempt Manufacturing Property	15
Payments in Lieu of Taxes	15
Millage History	16
Tax Collection Procedure	16
Tax Collections for Last Five Years	16
Ten Largest Taxpayers in the School District	17
Building Aid	18
South Carolina Educational Assistance Endowment Fund	19
DEBT STRUCTURE	20
Legal Debt Limit of the School District	20
Outstanding General Obligation Debt	20
Composite Debt Service	21
INFORMATION	22

INTRODUCTION

This Annual Report Supplement of School District No. 2 of Sumter County, South Carolina (the “School District”) is submitted in compliance with the provisions of a Disclosure Dissemination Agent Agreement (the “Original Disclosure Agreement”) between the School District and Digital Assurance Certification, L.L.C. (“DAC”) executed on October 29, 2002, in connection with the School District’s \$4,000,000 General Obligation Bonds, Series 2002. In connection with subsequent issues of general obligation bonds subject to SEC Rule 15c2-12 (the “Rule”), the School District and DAC have executed supplements to the Original Disclosure Agreement.

The following bond issues are still outstanding and subject to the Rule and to the Original Disclosure Agreement:

(a) the School District’s \$19,075,000 General Obligation Refunding Bonds, Series 2003 (the “2003 Bonds”), pursuant to which a First Supplement to Disclosure Dissemination Agent Agreement dated June 26, 2003 (the “First Supplement”) was executed;

(b) the School District’s \$4,500,000 General Obligation Bonds, Series 2006 (the “2006 Bonds”), pursuant to which a Fourth Supplement to Disclosure Dissemination Agent Agreement dated April 26, 2006 (the “Fourth Supplement”) was executed; and

(c) Sumter Two School Facilities Inc.’s \$65,000,000 Installment Purchase Revenue Refunding Bonds (School District No. 2 of Sumter County, South Carolina, Project), Series 2007 (the “2007 IPR Bonds” and, together with the 2003 Bonds and the 2006 Bonds, the “Bonds”), pursuant to which a Sixth Supplement to Disclosure Dissemination Agent Agreement dated February 5, 2007 (the “Sixth Supplement” and, together with the Original Disclosure Agreement, the First Supplement and the Fourth Supplement, the “Disclosure Agreement”), was executed.

Pursuant to these continuing disclosure undertakings, the School District has covenanted for the benefit of the bondholders of the Bonds to provide certain financial information and operating data relating to the School District (collectively, such information is referred to as the “Annual Report”) by not later than February 1 after the end of each fiscal year; and to provide notices of the occurrences of certain enumerated events, if deemed by the School District to be material. These covenants were made in order to assist the underwriters of the Bonds in complying with the Rule.

Pursuant to the Disclosure Agreement, the School District has filed (through DAC) in a timely fashion with each of the then designated nationally recognized municipal securities information repositories (“NRMSIRs”), as well as posting on DAC’s website, either a separate Annual Report or an official statement containing that information set forth in its Annual Report, as well as the School District’s General Purpose Financial Statements.

This Annual Report Supplement will be filed by the School District (through DAC) with the Municipal Securities Rulemaking Board (the “MSRB”) and posted on DAC’s website; future Annual Reports and notice of material events will be filed with the MSRB and also posted on the DAC website.

FINANCIAL AND TAX INFORMATION

General Purpose Financial Statements

The School District’s General Purpose Financial Statements for the 2008-09 Fiscal Year have been filed separately from this Annual Report.

Five Year Summary of General Fund Operations

The following table sets forth a summary of the School District's General Fund operations for the fiscal years ended June 30, 2005 through 2009. The summary should be reviewed together with the School District's complete audited financial statements for the years ended June 30, 2005 through 2009, including, but not limited to, the reports of the School District's independent certified public accountants and the notes to such financial statements.

[Remainder of Page Left Intentionally Blank]

**School District No. 2 of Sumter County
Summary of Revenues, Expenditures and Changes
in Fund Balances - General Fund**

Years Ended June 30, 2005 Through June 30, 2009

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>Revenues:</u>					
Local Sources	\$13,845,657	\$ 13,679,391	\$ 14,116,710	\$11,880,759	\$12,560,214
Intergovernmental	16,830	17,148	14,966	15,982	120,095
State Sources	28,242,858	32,973,862	33,732,504	38,715,406	36,631,501
Federal Sources ⁽¹⁾	<u>1,164,513</u>	<u>966,050</u>	<u>815,482</u>	<u>630,998</u>	<u>544,628</u>
Total Revenues	\$43,269,858	\$47,636,451	\$48,679,662	\$51,243,145	\$49,856,438
<u>Expenditures:</u>					
Instructional	\$23,903,917	\$26,667,533	\$27,979,750	\$28,594,541	\$31,064,529
Support Services	18,285,127	20,583,938	21,661,268	22,720,577	22,983,146
Community Services	21,243	19,950	18,867	22,259	21,036
Intergov'tal Expenditures	<u>169,329</u>	<u>65,000</u>	<u>3,963</u>	<u>193,237</u>	<u>52,000</u>
Total Expenditures	\$42,379,616	\$47,436,421	\$49,663,848	\$51,530,614	\$54,120,711
Excess (Deficiency) of Revenues over Expenditures	\$ 890,242	\$ 200,030	\$ (941,186)	\$ (287,469)	\$ (4,264,273)
<u>Other Financing Sources (Uses)</u>					
Sale of Assets	\$ 4,472	\$ 2,012	\$ 3,199	\$ 8,030	\$ 3,797
Transfers In	3,894,818	2,063,701	1,893,041	1,631,859	2,380,801
Transfers Out	<u>(3,036,748)</u>	<u>(1,345,689)</u>	<u>(1,768,155)</u>	<u>(921,078)</u>	<u>(901,143)</u>
Total Other Financing Sources	\$ 862,542	\$ 719,024	\$ 128,055	\$ 718,811	\$ 1,483,455
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditure	\$1,752,784	\$ 919,954	\$ (856,101)	\$ 431,342	\$(2,780,818)
Fund Balance at Beginning of Year	\$3,733,500	\$5,486,284	\$ 6,405,338	\$5,549,237	\$ 5,980,579
Fund Balance at End of Year	<u>\$5,486,284</u>	<u>\$6,405,338</u>	<u>\$5,549,237</u>	<u>\$ 5,980,579</u>	<u>\$ 3,199,761</u>

⁽¹⁾ The School District receives certain amounts in Federal Impact Aid Funds due to the location of Shaw Air Force Base in the School District.

Source: Years ended June 30, 2005 through 2009, audited financial statements.

Financial Statements

The financial statements of the School District for the years ended June 30, 2005 through 2009 have been audited by William A. Boyle, III, Certified Public Accountant. A copy of the financial statements of the School District for the year ended June 30, 2009, has been filed separately by the School District (through DAC) with the MSRB and is posted on DAC's website. Copies of complete financial statements for the year ended June 30, 2009, and prior years are also available for inspection at the School District offices.

Budget Procedure

The State Constitution provides that each school district shall prepare and maintain annual budgets which provide for sufficient income to meet its estimated expenses for each year. Whenever ordinary expenses of a school district for any year shall exceed the income, the governing body of the school district is required to provide for levying a tax in the ensuing year sufficient, with all other sources of income, to pay the deficiency in the preceding year, together with the estimated expenses for the ensuing year.

State law provides that the fiscal year for school districts begins on July 1 of each year and ends on June 30 of the following year. The Board of Trustees is required to adopt annually, prior to the beginning of each fiscal year, operating and capital budgets for the operation of the School District. The budgets must identify the sources of anticipated revenue including taxes necessary to meet the financial requirements of the budgets adopted. The Superintendent submits a proposed operating budget to the Board of Trustees by the May regular meeting each year for approval. After approval by the Board of Trustees, Sumter County Council is presented with a request for an operational millage increase over the previous year's budget, if necessary. After County Council decides how much operational millage to provide the School District, the operational budget is adjusted and approved again by the Board of Trustees, usually by June 30.

Upon adoption of the School District budget by the Board of Trustees, the County Auditor is notified by the County Council of the millage required for operation of the schools for the ensuing school year. The School District may make budget revisions for supplemental appropriations which shall specify the source of funds for such appropriations. A supplemental appropriation is defined as an appropriation of additional funds which have become available during the fiscal year and which have not been previously obligated by the current operating or capital budget.

During its 1997 session, the General Assembly of the State of South Carolina adopted legislation which, among other things, restricts the ability of school districts to increase the millage rates imposed for general operating purposes for a fiscal year above the rate imposed for the prior fiscal year, as increased by the increase in the consumer price index during that period. This millage rate increase limitation, however, may be suspended and the millage rate increased (1) in response to a disaster declared by the Governor, (2) to offset a prior year's deficit or (3) to meet the minimum required local EFA inflation factor (as projected by the State Budget and Control Board) and the EIA per pupil maintenance effort. In addition, this millage rate increase limitation can be overridden by a positive majority vote of a taxing entity at a specially-called meeting held, after public notice, solely for the purpose of taking a vote to increase the millage rate.

This legislation expressly states that it does not affect millage levied to pay bonded indebtedness, such as the Bonds. It also does not amend any caps or limitations on operational millage rates in special existing laws.

General Fund Budgets for 2007-08, 2008-09 and 2009-10 Fiscal Years

The following is a summary of the General Fund Budgets of the School District for the 2007-08, 2008-09 and 2009-10 Fiscal Years. The Board adopted the 2009-10 Fiscal Year Budget on June 2, 2009.

	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>2009-10</u>
<i>Revenues</i>			
Local	\$15,671,935	\$13,195,191	\$13,123,300
State	34,706,207	39,375,515	34,550,801
Federal	850,000	400,000	400,000
Use of Fund Balance/Transfers In	<u>1,584,225</u>	<u>1,925,599</u>	<u>1,372,421</u>
TOTAL	\$52,812,367	\$54,896,805	\$49,446,550
<i>Expenditures</i>			
Instruction	\$29,315,685	\$30,531,266	\$26,939,957
Support Services	21,940,110	22,762,088	21,980,986
Transfers Out	<u>1,556,572</u>	<u>1,602,951</u>	<u>525,579</u>
TOTAL	\$52,812,367	\$54,896,305	\$49,446,522

Source: School District FY 2007-08, FY 2008-09 and FY 2009-10 General Fund Budgets

The 2009-10 Fiscal Year General Fund Budget is approximately \$5.4 million dollars less than the 2008-09 Fiscal Year General Fund Budget due to expected reduction in revenue. To fund the revenue shortfall, the State included stimulus funds in the revenue projections of \$2.7 million which are budgeted in a separate special revenue fund.

Adjustment Made Due to State Budget Cuts. Appropriations made by the State are monitored against income throughout the fiscal year by the State Budget and Control Board. If State revenues are below budget estimates, the Budget and Control Board has the authority to reduce appropriations by amounts sufficient to maintain a balanced budget for the State. The School District's budget for the 2009-10 Fiscal Year is based on a projected base student cost of \$2,034, resulting in an aggregate budgeted amount of \$18,425,255 in projected appropriated Education Financing Act funding for the School District. In addition, since the 2003-04 Fiscal Year, all school districts have been authorized to transfer up to twenty percent of State-allocated funds, such as EIA funds (as discussed in **"School District Operating Revenues -- Revenues from the State"**), between instructional programs with the same funding source. School districts also may carry forward unexpended State-allocated funds from the prior fiscal year into the current fiscal year, provided that they are used for the same purpose. The School District has budgeted such transfers in the past and may continue to do so in future years.

During the 2008-09 Fiscal Year, the State instituted a 3% budget cut for all State agencies, including school districts. On October 22, 2008, the General Assembly of the State of South Carolina enacted Act No. 414, which amended the General Appropriations Act for the 2008-09 Fiscal Year to enact targeted reductions in general fund appropriations. While there were no further reductions in EFA, employer contributions, retiree insurance and certain other items, instructional materials and bus driver salaries were among the areas where allocations and services were reduced. While Act No. 414 did not address the EIA, EIA funding was reduced by 10%. These cuts reduced the School District's EIA funding by approximately \$739,532. The School District made adjustments to respond to the budget cut by limiting travel and careful review of all other discretionary budgets.

During previous years, the School District has undertaken a variety of measures to deal with State funding cuts, including increasing class size, reducing days worked for non-teaching positions, not filling vacant positions, and cutting instructional and support staff positions. In addition to restrictions in travel and supply cuts, the School District has eliminated the use of substitutes for all positions for the remainder of the current fiscal year.

School District Operating Revenues

For the 2009-10 Fiscal Year, it is currently estimated that 29% of general fund revenues will come from local sources and 70% of general fund revenues will come from the State. This share of general fund revenues coming from the State has increased during the most recent fiscal years as a result of Act 388 of the General Assembly of the State of South Carolina for 2006 and Act 57 of the General Assembly of the State of South Carolina for 2007 (collectively, “Act 388”). Act 388 eliminated *ad valorem* taxes on owner-occupied residential property for school operating purposes effective for tax years beginning after 2006 (i.e., the 2006-07 Fiscal Year). Under Act 388, the State is obligated to make payments to school districts to offset the loss of revenues from *ad valorem* taxes. For the 2007-08 Fiscal Year, the School District, like most other school districts in the State, received an amount from the State that was equal to the amount estimated to be collected or reimbursed in that fiscal year by the School District from school operating taxes imposed on owner-occupied residential property therein. Beginning in the 2008-09 Fiscal Year, these reimbursements were adjusted in accordance with factors described below in “—Limitation on Annual Tax Levy.”

Revenues from the State.

The largest source of operating revenues for the School District is the State of South Carolina. These revenues come in the form of general fund revenues, which are available for general operating expenses of the School District, and special revenues, which are available for use only in connection with specific programs. In the past, the School District also received school building funds from the State, which are discussed below under the heading “Building Aid.” Listed below are the amounts the School District received or expects to receive as general fund and special revenues from the State for the fiscal years shown.

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Special Revenue</u>	<u>Totals</u>
2004-05	\$28,242,858	\$10,350,454	\$38,593,312
2005-06	32,973,862	8,618,181	41,592,043
2006-07	33,732,504	8,848,009	42,580,513
2007-08	38,715,406	9,057,376	47,772,782
2008-09	36,631,501	8,715,258	45,346,759
2009-10*	32,250,000	8,296,483	40,546,483

* Projection

General fund revenues are derived from several sources: (i) the Education Finance Act, (ii) the Homestead Exemption Fund created under Act 388, (iii) restricted funds for miscellaneous expenses (e.g., school bus drivers’ salaries and certain fringe benefits) and (iv) revenues in lieu of taxes (e.g., funds to replace merchants’ inventory taxes, manufacturer’s depreciation).

Education Finance Act. Almost all of the general fund revenues received from the State are paid to the School District under the Education Finance Act of 1977 (the “EFA”). The EFA was enacted in order to implement a basic education program, known as the Foundation Program. The State funds an average of 70% of the cost of the Foundation Program on a statewide basis, using an “index of taxpaying ability” to adjust the required local contribution and State contribution toward the cost of the Foundation Program. EFA funding for the School District exceeds the statewide ratio. During the 2009-10 Fiscal Year, the State share of the Foundation Program for the School District is currently estimated to be \$16,082,618 or 87% of the total cost, and the School District share is expected to be \$2,471,348 or 13%.

Listed below are the State contributions to the Foundation Program for the fiscal years shown.

State Contributions to EFA Foundation Program

<u>Fiscal Year</u>	<u>Amount</u>
2004-05	\$17,628,286
2005-06	21,377,057
2006-07	21,883,826
2007-08	22,827,586
2008-09	20,405,817
2009-10*	16,082,618

* Projection

The School District's share of EFA funding for the 2008-09 Fiscal Year was \$20,405,817; the School District had budgeted \$24,086,718.

Education Improvement Act. Almost all of the special revenues received from the State are paid to the School District under the Education Improvement Act of 1984 (the "EIA"). The EIA was enacted in order to improve the quality of public education in the State through special programs and incentives and is funded by a special fund created under the EIA through a 1¢ increase (per dollar of taxable sales) in the general sales tax. Amounts received by the School District under the EIA are restricted to the programs authorized or mandated by the EIA. Listed below are amounts received or expected to be received by the School District under the EIA for the Fiscal Years shown.

EIA Funding Amounts

<u>Fiscal Year</u>	<u>Amount</u>
2004-05	\$6,851,072
2005-06	6,944,131
2006-07	7,571,554
2007-08	6,938,516
2008-09	6,587,934
2009-10*	5,892,417

* Projection

Homestead Exemption Fund and Act 388 Reimbursements. Act 388 created the Homestead Exemption Fund to be funded primarily from revenues derived from a one-cent increase in the State's sales tax. Money received from the sales tax is deposited in the Homestead Exemption Fund. The State also deposits into the Homestead Exemption Fund amounts that formerly were deposited in the Trust Fund for Property Tax Relief, and were used to fund certain distributions relating to the homestead exemption for the elderly, disabled and blind and a property tax relief provision for owner-occupied residential property that was superseded by the exemption provided in Act 388.

Act 388 created three tiers of distribution to school districts from this sales tax increase. Tier one distributions are equal to the amounts that were received by school districts for the 2006-07 Fiscal Year, relating to an earlier property tax relief provision for owner-occupied residential property. In the case of the School District, that amount is \$1,808,552. Tier two distributions are equal to the amounts that were received by school districts for the school operating portion of the homestead exemption for the elderly, disabled and blind. In the case of the School District, that amount is \$692,682. *Tier one and tier two distributions are fixed amounts and will not change.*

Tier three distributions are State-funded payments to school districts to replace operating revenues formerly derived from taxation by school districts of owner-occupied residential property. For the 2007-08 Fiscal Year, those distributions were expected to equal, dollar for dollar, the revenue that would have been collected by the school

districts from property tax for school operating purposes imposed by the school districts on owner-occupied residential property for that fiscal year as if no reimbursed exemptions applied. Beginning with the 2008-09 Fiscal Year, the tier three distributions are the sum of (a) the amount of the tier three distribution for the 2007-08 Fiscal Year, plus (b) the tier three reimbursement increases, which are based on the school district's weighted pupil units as a percentage of statewide weighted pupil units (with an additional add-on weighting for students in poverty), as determined annually pursuant to the EFA, with an adjustment for certain poverty factors to provide programs for the affected students. Reimbursements from the Homestead Exemption Fund are to be increased annually by an inflation factor equal to the percentage increase in the previous year of the Consumer Price Index, Southeast Region, plus the percentage increase in the previous year of the population of South Carolina. There are provisions in the tier three reimbursement that could, in any given year, result in a minimum increase of four percent to the extent funds are available in the Homestead Exemption Fund. There are also provisions that require the total three tier reimbursements to the school districts in a county to be not less than \$2,500,000. To the extent revenues in the Homestead Exemption Fund are insufficient to pay all required reimbursements to a school district, the difference must be paid from the State's general fund.

Distributions of payments from the Homestead Exemption Fund are as follows: Ninety percent of the tier one distributions are required to be paid by December 1 of each year and the balance must be paid by the last quarter of the fiscal year ending on the following June 30. Tier two distributions are payable as a one-time disbursement, generally in the second half of the fiscal year. Tier three distributions are to be paid in ten installments. The first nine installments are in the amount of one-tenth of the estimate of the amount due to the School District for that fiscal year beginning not later than October fifteenth of each fiscal year. The final installment, being the actual balance due, is to be paid before the closing of the State's books for the year.

Restricted State Funding. The State provides funding for part of the expenses incurred by the School District for various parts of the general fund budget. School bus driver's salaries are partially reimbursed by the State; for the 2008-09 Fiscal Year, that amount was \$652,025. The State also reimburses a portion of the fringe benefits payable to employees, including teachers; for the 2008-09 Fiscal Year, that amount was \$7,360,534. The remaining major item in this category is for retiree insurance; that amount for the 2008-09 Fiscal Year was \$945,419.

State Revenue in Lieu of Taxes. The State has eliminated or exempted property from various taxes for which it has undertaken to hold political subdivisions harmless by reimbursing them for the foregone revenues. Two of these items, the original property tax relief homestead exemption and the homestead exemption for the elderly, disabled and blind, will be shown in future years as reimbursements from the Homestead Exemption Fund. Other amounts for the 2008-09 Fiscal Year include the reimbursement for merchant's inventory taxes, which was \$125,906 and for manufacturers depreciation, which was \$334,090.

Set forth below are the amounts received by the School District from the State under each of the categories for the fiscal years shown, except in the case of the Homestead Exemption Fund, which is only for the fiscal years starting with the fiscal year ended June 20, 2008.

Fiscal Year	EFA	EIA	Restricted Funding	Payments in Lieu of Taxes	Homestead Exemption Fund	Total
2004-05	\$17,628,286	\$6,851,072	\$7,149,824	\$2,794,466	\$ - 0-	\$34,423,648
2005-06	21,377,057	6,944,131	8,458,184	3,138,621	-0-	39,917,993
2006-07	21,883,826	7,571,554	8,633,067	3,215,611	-0-	41,304,058
2007-08	22,827,586	6,938,516	9,087,140	656,624	6,144,056	45,653,922
2008-09	20,405,817	6,587,934	9,064,862	698,397	6,462,425	43,219,435
2009-10*	16,082,618	5,892,417	8,807,244	525,000	6,793,302	38,100,581

* Projection

Revenues from Ad Valorem Taxes.

The second largest source of School District operating revenues comes from ad valorem taxes paid by taxpayers within the School District. A discussion of general tax information, tax rates and millage levied upon taxpayers of the School District for School District purposes is presented below. All the revenues from ad valorem taxes are either general fund revenues and may therefore be used by the School District on an unrestricted basis or are collected for the purposes of paying debt service on general obligation bonds of the School District. Listed below are the amounts the School District received or expects to receive as general fund revenues from ad valorem taxes for the fiscal years shown.

<u>Fiscal Year</u>	<u>General Fund Revenues</u>
2004-05	\$13,075,998
2005-06	12,930,327
2006-07	13,333,043
2007-08	11,087,184
2008-09	12,200,918
2009-10*	12,863,300

* Projection

The amounts shown exclude payments received from the State to reimburse the School District for tax revenues that would have been available from property afforded a Homestead Exemption, as more fully described in **“Homestead Exemptions -- Property Tax Relief.”**

Revenues from Federal Sources.

The School District receives a portion of its special revenues from the Federal Government, including Federal grants which are tied to specific uses, such as the school lunch program and aid for handicapped, vocational education and adult education, and Title I of the Elementary and Secondary Education Block Grant program (PL 103-382), which funds are used to pay operational costs (including teachers' salaries). These revenues are restricted and must be used for specific programs. The School District also receives Federal Impact Aid Funds due to the location of Shaw Air Force Base in the School District.

The School District has received the following amounts as special and general revenues from federal sources for the fiscal years shown.

<u>Fiscal Year</u>	<u>General Revenues</u>	<u>Special Revenues</u>
2004-05	\$1,164,513	\$10,616,150
2005-06	966,050	10,984,953
2006-07	815,482	11,209,536
2007-08	630,998	10,906,000
2008-09	544,628	10,900,786
2009-10*	700,000	12,593,600

* Projection

Property Taxation and Assessment

Article X, Section 1 of the Constitution requires equal and uniform assessments of property throughout the State for the following classes of property and at the following ratios of fair market value of such property:

(1) Real and personal property owned by or leased to manufacturers, utilities and mining operations and used in the conduct of such business - 10.5% of fair market value;

(2) Real and personal property owned by or leased to companies primarily engaged in transportation for hire of persons or property and used in the conduct of such business - 9.5% of fair market value;

(3) Legal residence and not more than five contiguous acres - 4% of fair market value (if the property owner makes proper application and qualifies);

(4) Agricultural real property used for such purposes owned by individuals and certain corporations - 4% of use value (if the property owner makes proper application and qualifies);

(5) Agricultural property and timberlands belonging to corporations having more than 10 shareholders - 6% of use value (if property owner makes proper application and qualifies);

(6) All other real property - 6% of fair market value;

(7) Business inventories - 6% of fair market value (as of 1988, an exemption from taxation of property in this category is available, hence this item is no longer significant, except that the assessed value of business inventory as of tax year 1987 is taken into account in determining total assessed value for purposes of the bonded debt limit); and

(8) (A) Except as set forth in (B) below, all other personal property - 10.5% of fair market value;

(B) Personal motor vehicles which must be titled by a state or federal agency, limited to passenger motor vehicles and pickup trucks, as defined by law – 6% of fair market value; and

(C) Aircraft – 4% of fair market value.

The South Carolina Department of Revenue (“DOR”) has been charged with the responsibility of taking steps necessary to ensure equalization of assessments statewide in order that all property is assessed uniformly and equitably throughout the State, and may require reassessment of any part or all of the property within the County. Under law enacted by the South Carolina General Assembly in 1995, every fourth year the County and the State are required by law to effect an appraisal of all property within the County and to implement that appraisal as a new assessment in the following year. The County completed and implemented a reassessment program for the 2006 tax year (which corresponds to the School District’s 2006-07 Fiscal Year), and the next reassessment program is scheduled to take place in the 2011 tax year. Regulations adopted by the DOR, prior to the 1995 law and which are still in place also require that a reappraisal program must be instituted by a county if the median appraisal for all property in such county (as a whole or for any class of property) is higher than 105% or lower than 80% of fair market value.

A constitutional amendment to implement the reassessment provisions of Act 388 was adopted by the South Carolina General Assembly on June 1, 2006, and approved by State-wide referendum held on November 7, 2006. This amendment changes the way real property is assessed for ad valorem tax purposes by limiting to 15% the amount by which the assessed value of any parcel of real property may be increased within a five year period, except to the extent the parcel is improved or the parcel is sold or made subject to another “assessable transfer of interest.” Act 388 provides that for property tax years beginning after 2006 the fair market value of real property for ad valorem tax purposes must be determined at the later of: (1) property tax year 2007, (2) the date an assessable transfer of interest occurs, (3) the time of a county-wide reassessment, which is required to occur every five years, provided that increases in the fair market value of real property attributable to a periodic county-wide reassessment cannot exceed fifteen percent within a five-year period (subject to the exceptions described in the preceding sentence), or (4) the time of an appeal that results in a redetermination of fair market value. The assessment method of Act 388 will add to the fair market value of real property as determined above, the fair market value of subsequent improvements and additions to the real property.

Legislation adopted by the General Assembly in its 1996 session limits the level of millage which may be imposed by a political subdivision or school district in the year reassessment is implemented to what is referred to as the “rollback” millage. The intended effect of rollback millage is to limit the millage rate to that millage rate which, following a reassessment, will produce the same revenues as were produced in the year preceding reassessment. The rollback millage may be increased by the percentage increase in the consumer price index for the year immediately preceding the year of reassessment. **The rollback millage limitation is inapplicable to millage necessary to pay general obligation debt.** Act 388 prohibits political subdivisions and school districts from overriding the rollback millage limitation except to meet certain specified conditions.

Political subdivisions and school districts are also limited to the amount by which millage may be increased in a year in which reassessment is not being imposed. See “- **Limitation on Annual Tax Levy**” herein.

The County Assessor appraises and assesses all the real property and mobile homes located within such county and certifies the results to the County Auditor. The County Auditor appraises and assesses all motor vehicles, marine equipment, business personal property and airplanes. The DOR furnishes guides for use by the counties in the assessment of automobiles, automotive equipment, and certain other classes of property and directly assesses the real and personal property of public utilities and manufacturers and also of business equipment.

Each year the DOR certifies its assessments to the County Auditor, who prepares assessment summaries from the respective certifications, determines the appropriate millage levies, prepares tax bills and then in September charges the County Treasurer with the collection. South Carolina has no statewide property tax.

Limitation on Annual Tax Levy

Act 388 restricts the ability of school districts to increase the millage rates imposed for general operating purposes for a fiscal year to the rate imposed for such purposes for the preceding tax year plus the following additions. Millage may be increased to the extent of the increase in the average of the twelve monthly consumer price indexes for the most recent twelve-month period consisting of January through December of the preceding calendar year. If the average of the twelve monthly consumer price indexes for the most recent twelve-month is a negative percentage, the average is deemed to be zero. Beginning in 2007, millage may also be increased by the

percentage increase in the previous year in the population of the entity as determined by the Office of Research and Statistics of the State Budget and Control Board. If an entity experiences a reduction of population, the percentage change in population is deemed to be zero. In addition, in the year of reassessment, the limits in place for “rollback” millage (as discussed in **“FINANCIAL AND TAX INFORMATION – Property Taxation and Assessment”** herein) continue to apply.

These limitations on millage rate increases, however, may be suspended and the millage rate increased for the purpose of (1) meeting any deficiency of the preceding year; (2) providing for any catastrophic event outside the control of the governing body such as a natural disaster, severe weather event, act of God, or act of terrorism, fire, war, or riot; (3) complying with a court order or decree; (4) offsetting the result of a taxpayer closure due to circumstances outside the control of the governing body that decreases by ten percent or more the amount of revenue payable to the taxing jurisdiction in the preceding year; or (5) complying with a regulation promulgated or statute enacted by the federal or state government after the ratification date of Act 388 for which an appropriation or a method for obtaining an appropriation is not provided by the federal or state government. To suspend the limit, the governing body of the school district must have favorable vote by two-thirds of the membership. **The limits do not affect millage levied to pay bonded indebtedness and do not amend any caps or limitations on operational millage rates in special laws pertaining to a school district.** The budget of the School District for the fiscal year beginning July 1, 2008, reflects the impact of Act 388.

Act 388 removes the authority of the governing bodies of school districts to increase operating millage in any year to “meet the minimum required local Education Finance Act inflation factor as projected by the State Budget and Control Board, Division of Research and Statistics, and the per pupil maintenance of effort requirement of Section 59-21-1030, if applicable” as presently provided in Section 6-1-320 of the South Carolina Code. Act 388 does not, however, explicitly repeal the requirement found in Section 59-21-1030 of the South Carolina Code that county auditors “establish a millage rate (for school districts) so that the level of financial effort per pupil for noncapital programs adjusted for an inflation factor estimated by the Division of Research and Statistical Services is maintained as a minimum effort.” Whether Act 388 acts as an implied repeal of Section 59-21-1030 is unclear, and may require judicial or further legislative clarification. However, Act 388 neither limits the General Assembly’s ability to set or restrict a school district’s operating millage, nor amends any millage-rate caps on school millage provided by current law or any statute or limitation on the fiscal autonomy of a school district under existing law.

Homestead Exemptions—Property Tax Relief

South Carolina provides a general exemption from all ad valorem property taxes that applies to the first \$50,000 of the fair market value of the dwelling place of persons who are over 65 years of age, totally and permanently disabled or legally blind (the “*Homestead Exemption*”). The School District received \$692,682 in the 2008-09 Fiscal Year attributable to taxes imposed for operational purposes, which amount will not materially change in succeeding fiscal years. The School District also received \$-0- in the 2008-09 fiscal year for general obligation bond payments, which amount will vary based on the fair market value of properties entitled to the Homestead Exemption. The State pays each taxing entity the amount to which it is entitled for the payment of general obligation Bonds by April 15 of each year from the amounts credited to the Trust Fund for Tax Relief. The fixed payment for operating tax reimbursements is paid as a tier one distribution from the Homestead Exemption Fund.

Act 388 created a new exemption equal to one hundred percent of the fair market value of owner-occupied residential property from all property taxes imposed for school operating purposes. This exemption replaced a prior homestead exemption, referred to as the “Property Tax Relief Exemption,” and is now covered by a tier one distribution. This exemption does not apply to taxes levied for the payment of general obligation debt.

The below table shows the amounts received by the School District from the State pursuant to the Homestead Exemption and the former Property Tax Relief, now known as the new Act 388 Exemption:

<u>Fiscal Year</u>	<u>Homestead Amount</u>	<u>New Act 388 Amount</u>
2004-05	\$660,569	\$1,808,552
2005-06	701,889	1,808,552
2006-07	698,450	1,808,552
2007-08	692,684	1,808,552
2008-09	692,682	1,808,552
2009-10*	692,682	1,808,552

* Projection

Assessed Value of Taxable Property

The assessed value of all real and personal property (non-manufacturing property) and the assessed value of all real and personal manufacturing property in the School District located in the School District, not including Merchants Inventory of \$1,361,770, for each of the last five Tax Years is set forth below:

<u>Tax Year</u>	<u>Non-manufacturing</u>		<u>Manufacturing</u>		<u>Total</u>
	<u>Real</u>	<u>Personal</u>	<u>Real</u>	<u>Personal</u>	
2004	\$58,722,640	\$30,345,960	\$8,351,810	\$14,774,160	\$112,194,570
2005	62,540,280	30,987,960	7,692,140	14,049,560	115,269,920
2006*	72,569,400	32,092,930	7,904,390	11,600,650	124,167,370
2007	72,247,620	37,662,210	5,890,320	12,178,860	127,979,010
2008	78,795,820	36,544,580	3,665,520	16,415,860	135,421,780

* Reassessment

Source: County Auditor

Estimated True Value of All Taxable Property

The estimated 2006 Tax Year true value of all taxable property (including merchants inventory) located within the School District is set forth below.

<u>Classification of Property</u>	<u>Assessed Value</u>	<u>Estimated True Value</u>
1. Real Property (Non-manufacturing)	\$72,569,400	\$1,547,041,100
2. Motor Vehicles	19,801,420	293,354,370
3. Manufacturing Property (Real)	7,904,390	75,279,900
4. Manufacturing Property (Personal)	11,600,650	110,482,380
5. Marine Equipment/Boats	825,100	7,858,090
6. Merchants' Inventory*	1,361,770	12,969,240
7. Airplanes	75,220	716,380
8. Furniture/Fixtures	4,946,110	47,105,810
9. Railroads	839,770	8,839,680
10. Utilities (Personal)	5,598,470	53,318,760
11. Farm Machinery	3,600	34,280
12. Other	<u>3,240</u>	<u>30,860</u>
TOTAL	\$125,529,140	\$2,157,030,850

* Merchants' Inventory is tax-exempt and is not included in the calculation of assessed value for millage purposes. The School District is reimbursed by the State based on a 1987 assessed value of \$1,361,770.

Source: County Auditor

The estimated 2007 Tax Year true value of all taxable property (including merchants inventory) located within the School District is set forth below.

<u>Classification of Property</u>	<u>Assessed Value</u>	<u>Estimated True Value</u>
1. Real Property (Non-manufacturing)	\$78,863,320	\$1,677,650,160
2. Motor Vehicles	18,331,190	305,519,830
3. Manufacturing Property (Real)	5,890,320	56,098,290
4. Manufacturing Property (Personal)	12,178,860	115,989,150
5. Marine Equipment/Boats	968,180	9,220,760
6. Merchants' Inventory*	1,361,770	12,969,240
7. Airplanes	12,990	123,719
8. Furniture/Fixtures	4,673,350	44,508,090
9. Railroads	953,120	10,032,840
10. Utilities (Personal)	6,102,340	58,117,520
11. Farm Machinery	1,170	11,140
12. Other	<u>4,170</u>	<u>39,710</u>
TOTAL	\$129,340,780	\$2,290,280,440

* Merchants' Inventory is tax-exempt and is not included in the calculation of assessed value for millage purposes. The School District is reimbursed by the State based on a 1987 assessed value of \$1,361,770.

Source: County Auditor

The estimated 2008 Tax Year true value of all taxable property (including merchants inventory) located within the School District is set forth below.

<u>Classification of Property</u>	<u>Assessed Value</u>	<u>Estimated True Value</u>
1. Real Property (Non-manufacturing)	\$85,479,850	\$1,821,227,930
2. Motor Vehicles	18,406,660	306,777,670
3. Manufacturing Property (Real)	3,665,520	35,715,140
4. Manufacturing Property (Personal)	16,415,860	156,341,520
5. Marine Equipment/Boats	1,013,680	9,654,090
6. Merchants' Inventory*	1,361,770	12,969,240
7. Airplanes	24,030	600,750
8. Furniture/Fixtures	3,356,910	31,970,570
9. Railroads	1,017,880	10,714,530
10. Utilities (Personal)	6,031,410	57,442,000
11. Farm Machinery	1,160	11,050
12. Other	8,820	84,000
TOTAL	\$136,783,560	\$2,443,508,490

* Merchants' Inventory is tax-exempt and is not included in the calculation of assessed value for millage purposes. The School District is reimbursed by the State based on a 1987 assessed value of \$1,361,770.

Source: County Auditor

Exempt Manufacturing Property

Article X, Section 3 of the Constitution provides that all new manufacturing establishments located in any county after July 1, 1977, and all additions (in excess of \$50,000) to existing manufacturing establishments are exempt from ad valorem taxation for five years for county taxes and, if a municipality so chooses, municipal taxes. No exemption is granted from school taxes.

Payments in Lieu of Taxes

The State of South Carolina has adopted an array of property tax inducements and incentives to promote investment in the State. Qualifying investments of \$2.5 million (\$1 million in some counties and for certain "brownfield" sites) or more may be negotiated for payments in lieu of taxes for a period of 20 years based on assessment ratios of as little as 6% and using millage rates that are either fixed for 20 years or adjusted every fifth year. In some cases, owners of projects may also design a payment schedule so long as the present value of the payments under the schedule are equal to the present value of the payments that would have been made without the schedule. The State also provides a more generous inducement for projects creating at least 125 new jobs and providing new invested capital of not less than \$150 million. For these projects payments may be negotiated based on assessment ratios of as low as 4% and for a term of 30 years.

The State provides alternative provisions respecting the distribution of payments in lieu of taxes to entities having taxing jurisdiction at the location of the investment: (i) revenues received in respect of property that is not included in a multicounty park are allocated in proportion to the amounts that would have been received by the taxing entities if the payments were taxes; (ii) revenues received from property that is in a multicounty park, however, is distributed in accordance with the agreement creating the park; the amount of the distribution to each taxing entity is, for all practical purposes, controlled by the County. Property may be included in a multicounty park under terms of agreements between two or more counties with individual sites being determined primarily by the county in which they are located. Payments in lieu of taxes may be diverted from taxing entities in the sole discretion of the County to fund projects which support economic development activities, including projects that are used solely by a single enterprise, and such other uses as directed by the County.

Several of the taxpayers in the County pay a "fee-in-lieu" of taxes with respect to new manufacturing projects. Metal Leve is the only taxpayer located in the School District which paid a fee-in-lieu of tax for the 2008

Tax Year. See “**FINANCIAL AND TAX INFORMATION – Ten Largest Taxpayers in the School District.**” Each year new fee-in-lieu arrangements are made with other new manufacturing investments.

The effect is that, notwithstanding the fixed payments by the industry, the School District’s share of these payments will vary in each year in accordance with the ratio its millage rates for that year bear to the total millage that would otherwise apply to the property. Projects on which these payments in lieu of taxes are made are considered taxable property at the level of the negotiated payment for purposes of calculating bonded indebtedness limits, and for purposes of computing the index of taxpaying ability pursuant to the EFA. If the property is situated in a multicounty industrial park (“MCIP”), the calculation of assessed value for debt limit purposes is based upon the relative share of payments received by all taxing entities which overlap the MCIP. Accordingly, a recipient of payments from a MCIP is able to include only a fraction of the assessed value of property therein in calculating its debt limit.

From the date of execution of the agreement, the industry has not more than five years in which to meet the required minimum investment level required. If this requirement is not timely met, all property financed reverts retroactively to the tax treatment otherwise applicable to such property.

Millage History

The millage assessed for School District operations and debt service in each of the last five Fiscal Years and the current Fiscal Year is set forth below:

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07*</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Operations	144.2	146.8	134.8	142.4	146.5	153.5
Debt Service	<u>42.0</u>	<u>47.0</u>	<u>36.0</u>	<u>54.0</u>	<u>58.0</u>	<u>51.0</u>
Total	186.2	193.8	170.8	196.4	204.5	204.5

* Reassessment

Source: County Auditor; School District

Tax Collection Procedure

In the School District, taxes are collected for county and school purposes as a single tax bill which must be paid in full by the individual taxpayer. Real and personal property taxes in the County (with the exception of taxes on motor vehicles) are mailed each September 1 and are payable without penalty on or before January 15 of each year. All personal property taxes on motor vehicles are due on or before the last day of the month in which the license tag for motor vehicles expires. If property taxes, other than taxes on motor vehicles, are not paid on or before January 15, a penalty of 3% is added thereon; if not paid on or before February 15, an additional penalty of 7% is added; if not paid on or before March 17, an additional penalty of 5% is added and the taxes go into execution. The County Treasurer is the delinquent tax collector, and is responsible for the collection of delinquent taxes and is empowered to sell so much of the defaulting taxpayer’s estate - real, personal or both - as may be sufficient to satisfy the taxes.

Tax Collections for Last Five Years

The following table shows the aggregate amount of School District operational and debt service taxes levied in the School District, taxes collected as of June 30 of the year following the year in which such levy was made, percentage of taxes collected and the amount of delinquent taxes collected (as of June 30 of the following year) in the County for the last five tax years:

<u>Tax Year</u>	<u>Taxes Levied</u>	<u>Current Taxes Collected</u>	<u>Percentage of Current Taxes Collected</u>	<u>Delinquent Taxes*</u>	<u>Percentage of Current and Delinquent Taxes Collected**</u>
2004	\$21,907,621	\$21,054,273	96%	\$816,640	100%
2005	21,767,813	21,133,659	97	724,282	100
2006***	21,263,847	20,315,384	96	871,907	100
2007	19,250,198	17,634,048	92	687,101	95
2008	20,551,325	19,611,969	95	1,093,428	100

* Delinquent taxes include delinquent taxes collected from current year as well as previous years.

** Percentage includes delinquent taxes collected from years other than the current year.

*** Reassessment

Source: County Treasurer

Ten Largest Taxpayers in the School District

The ten largest taxpayers to the School District and the total amount of the 2006-07 Fiscal Year School District operational and debt service taxes paid by each are shown below:

	<u>Name</u>	<u>Assessment</u>	<u>Taxes Paid*</u>	<u>Percentage of School Taxes Levied**</u>
1.	Pilgrim's Pride/Gold Kist	\$3,424,480	\$795,964	4%
2.	Becton&Dickinson	3,309,350	681,204	3
3.	EMS American Grilon	2,739,020	602,213	3
4.	Kaydon Corporation	1,459,910	343,809	2
5.	International Paper Co.	1,382,780	328,017	2
6.	Cutler Hammer	1,007,170	230,858	1
7.	Interlake Material	934,840	225,845	1
8.	Cooper Industries	775,730	209,035	1
9.	Caterpillar, Inc.	844,110	144,174	1
10.	Bosch Braking System	529,620	138,305	1

* Estimate based on assessed values and millage rates

** Estimate based on an estimate for 2006 Tax Year taxes levied of \$21,263,847

Source: County Treasurer

The ten largest taxpayers to the School District and the total amount of the 2007-08 Fiscal Year School District operational and debt service taxes paid by each are shown below:

	<u>Name</u>	<u>Assessment</u>	<u>Taxes Paid</u> *	Percentage of School Taxes <u>Levied</u> **
1.	Pilgrim's Pride/Gold Kist	\$3,496,800	\$912,453	5%
2.	Becton&Dickinson	3,495,910	795,917	4
3.	EMS American Grilon	2,620,540	648,040	3
4.	Kaydon Corporation	1,626,290	417,249	2
5.	International Paper Co.	1,388,230	368,560	2
6.	Cutler Hammer	988,190	258,195	1
7.	Interlake Material	921,340	249,361	1
8.	Cooper Industries	791,420	238,544	1
9.	Caterpillar, Inc.	1,200,780	232,951	1
10.	Bosch Braking System	468,300	143,557	1

* Estimate based on assessed values and millage rates

** Estimate based on an estimate for 2007 Tax Year taxes levied of \$19,250,198

Source: County Treasurer

The ten largest taxpayers to the School District and the total amount of the 2008-09 Fiscal Year School District operational and debt service taxes paid by each are shown below:

	<u>Name</u>	<u>Assessment</u>	<u>Taxes Paid</u> *	Percentage of School Taxes <u>Levied</u> **
1.	Pilgrim's Pride/Gold Kist	\$3,202,000	\$1,002,225	5%
2.	Becton&Dickinson	3,544,590	838,161	4
3.	EMS American Grilon	2,497,120	638,469	3
4.	Kaydon Corporation	1,433,710	391,043	2
5.	International Paper Co.	1,399,550	390,322	2
6.	Caterpillar, Inc.	1,518,350	310,503	2
7.	Cutler Hammer	1,020,200	275,752	1
8.	Interlake Material	931,510	265,422	1
9.	Cooper Industries	769,200	237,161	1
10.	Bosch Braking System	468,300	148,841	1

* Estimate based on assessed values and millage rates

** Estimate based on an estimate for 2008 Tax Year taxes levied of \$20,551,325

Source: County Treasurer

Building Aid

The State also historically has provided a portion of the cost of constructing new buildings, making capital repairs and renovations to existing buildings and other improvements. Annually the State allocated to each School District the sum of \$30 per pupil for grades 1-12 and \$15 per kindergarten pupil. That amount was set aside in a trust fund for each school district to be used on projects approved by the State Department of Education. No moneys have been allocated to this program by the General Assembly since the 2001-02 Fiscal Year. The School District has used all funds so set aside to date and expects to use any moneys that become available in the future, if any, as soon as possible to fund its capital needs.

As part of the program adopted with the EIA, the State further provided that revenues resulting from the increased sales tax may be used to fund a School Building Aid Program. The amount so designated is set aside and allocated to each school district on a per pupil basis. These amounts are required to be used (either spent or contracted for) or forfeited by each district within 48 months of the date when appropriated. The School District has used and expects to use any funds available to it in the future as soon as possible to fund its capital needs.

South Carolina Educational Assistance Endowment Fund

During the legislative session ended in mid-June of 1995, the South Carolina General Assembly enacted provisions to establish an Educational Assistance Endowment Fund to be funded initially from revenues derived from the extension of operations of a low-level nuclear waste disposal facility located in Barnwell, South Carolina. Seventy percent of the funds deposited to the Endowment are required to be used for Public School Facilities Improvement with the balance being applied to Higher Education Scholarship Grants. The Endowment is to be managed so that its programs will be permanently funded from the amounts deposited therein.

Although the 1995 legislation established the Endowment and specifies the percentage of the fund to be used for Public School Facilities Improvement, it did not provide a means of distributing those funds to local districts. Accordingly, in the legislative session ended in mid-June of 1996, the South Carolina General Assembly enacted provisions establishing the procedure for using and allocating these funds:

Use of Funds. Funds must be used for permanent school instructional facilities and fixed equipment, but school districts may use their Fiscal Year 1996-97 allocations for payment of debt service related to school facility financings, and may in subsequent years use their allocations for debt service related to school facility financings once all construction and renovation needs identified in a school district's facility improvement plan have been met. Annual allocations may be accumulated for up to seventy-two months.

Allocation of Funds. The amount made available to school districts for facilities needs is to be divided and allocated on four factors: (1) Thirty-five percent is to be allocated according to population, using weighted per pupil units; (2) thirty-five percent is to be allocated according to the preceding year's EFA formula; (3) fifteen percent is to be allocated based on a standardized assessment of needs based on a uniform estimate of costs; and (4) fifteen percent is to be allocated based on the efforts of school districts to meet their facilities needs, measured by their prior five-years' performance. A school district's allocation is the sum of these four amounts.

The establishment of the Endowment and its operations were expected to have a significant impact on the funding of school building construction in South Carolina, as was the degree of reliance on local property taxes as a means of funding those improvements. The School District received \$308,573.53 in the 2004 calendar year, \$173,112 in the 2005 calendar year, \$134,700 in the 2006 calendar year, \$207,365 in the 2007 calendar year, and \$26,790 in the 2008 calendar year. It is unknown what will be allocated to the School District in the future.

During its 2003 session, the South Carolina General Assembly enacted legislation to allow school districts the flexibility to use those Endowment Funds which are earmarked to be used for capital facilities programs for any instructional program. The School District chose to use a portion of its available balance of \$352,915.47 during the 2003-04 school year to partially offset cuts in instructional program state funding, but the School District used its allocations during the 2004-05 and 2005-06 school years for ongoing school renovation projects. The School District again used \$207,365 and \$26,790 during the 2007-08 and 2008-09 school years, respectively, to offset cuts in instructional program state funding.

DEBT STRUCTURE

Legal Debt Limit of the School District

The School District is authorized by law to incur general obligation indebtedness and, subject to the limitations set forth in opinions of the South Carolina Supreme Court, may also contract for the acquisition of capital assets through lease-purchase agreements subject to annual appropriation termination clauses. The School District has issued general obligation bonded indebtedness as described below, and, in addition, currently has outstanding a \$2,850,000 lease agreement with Wachovia Bank, N.A. (the "Lease Agreement"), which is payable in semi-annual payments of \$206,608.20 due each April 1 and October 1, ending April 1, 2010. The School District currently has transferred moneys sufficient to make payments on the Lease Agreement through the end of the lease to its debt service fund.

The School District has a limit on the amount of general obligation debt it may incur from and after November 30, 1982, equal to 8% of the assessed valuation of property within its jurisdiction. Any indebtedness outstanding on November 30, 1982, any indebtedness approved in a referendum or any refunding thereof is excluded from the limit. Existing judicial interpretations of the Constitution provide that debt issued to refund general obligation debt legitimately incurred are excluded from computations of "bonded indebtedness" for purposes of such refunding.

The School District debt limitation is computed as follows:

Assessed Value – December 31, 2008	\$135,421,780
Merchant's Inventory	<u>1,361,770</u>
	\$136,783,550
Constitutional Debt Limit	<u>x 8%</u>
Legal Debt Limit without a Referendum	\$ 10,942,684
Outstanding Debt	<u>5,000,000</u>
Additional Debt Capacity	\$5,942,684

Outstanding General Obligation Debt

The School District had outstanding three issues of general obligation indebtedness as of January 1, 2010, as set forth below:

General Obligation <u>Bonds</u>	Original <u>Amount Issued</u>	Final <u>Maturity</u>	Balance as of <u>January 1, 2010</u>
Series 2003*	\$19,075,000	4/1/14	\$10,175,000
Series 2006	4,500,000	4/1/10	2,000,000
Series 2009	3,000,000	3/1/10	<u>3,000,000</u>
TOTAL			\$15,175,000

* The 2003 Bonds refunded the 1994B Bonds maturing February 1, 2005 through 2014, inclusive and the 1995B Bonds, both of which were issued pursuant to a referendum, and thus are not included in the calculation of bonded indebtedness applicable to the School District's 8% debt limit.

Composite Debt Service

The following table sets forth the principal and interest requirements as of July 1, 2009 (and accordingly includes interest payments made in the first half of this fiscal year), of the School District on its presently outstanding general obligation debt. Numbers have been rounded up to the nearest dollar (\$1.00).

FY Ending <u>June 30</u>	OUTSTANDING BONDS		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$6,925,000	\$427,933	\$7,352,933
2011	1,980,000	229,913	2,209,913
2012	2,030,000	180,413	2,210,413
2013	2,090,000	124,588	2,214,588
2014	<u>2,150,000</u>	<u>64,500</u>	<u>2,214,500</u>
Total	\$15,175,000	\$1,027,347	\$16,202,347

In 2007, Sumter Two School Facilities, Inc. Corporation issued the 2007 IPR Bonds, pursuant to which the School District has agreed, subject to non-appropriation rights which may be exercised annually, to pay semiannual installment payments of the purchase price for educational facilities improved or constructed with proceeds of the 2007 IPR Bonds in amounts calculated to be sufficient to pay the principal and interest on the 2007 IPR Bonds.

Including the payments made on December 1, 2009, the remaining debt service on the IPR Bonds is shown below:

Fiscal Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	Total Debt Service <u>Requirements</u>
2010	\$ ---	\$ 3,068,250.00	\$ 3,068,250.00
2011	535,000	3,057,550.00	3,592,550.00
2012	710,000	3,032,650.00	3,742,650.00
2013	890,000	3,000,650.00	3,890,650.00
2014	1,085,000	2,961,150.00	4,046,150.00
2015	2,020,000	2,899,050.00	4,919,050.00
2016	2,115,000	2,805,775.00	4,920,775.00
2017	2,220,000	2,697,400.00	4,917,400.00
2018	2,335,000	2,583,525.00	4,918,525.00
2019	2,455,000	2,463,775.00	4,918,775.00
2020	2,580,000	2,337,900.00	4,917,900.00
2021	2,715,000	2,205,525.00	4,920,525.00
2022	2,855,000	2,066,275.00	4,921,275.00
2023	3,000,000	1,919,900.00	4,919,900.00
2024	3,150,000	1,766,150.00	4,916,150.00
2025	3,315,000	1,604,525.00	4,919,525.00
2026	3,485,000	1,434,525.00	4,919,525.00
2027	3,665,000	1,255,775.00	4,920,775.00
2028	3,840,000	1,077,750.00	4,917,750.00
2029	4,020,000	900,900.00	4,920,900.00
2030	4,205,000	715,837.50	4,920,837.50
2031	4,395,000	522,337.50	4,917,337.50
2032	4,600,000	319,950.00	4,919,950.00
2033	<u>4,810,000</u>	<u>108,225.00</u>	<u>4,918,225.00</u>
Total	\$65,000,000	\$46,805,350.00	\$111,805,350.00

INFORMATION

Further inquiries and requests for additional copies of this Annual Report Supplement should be addressed to Phillip H. Smith, Jr., Director of Finance, School District No. 2 of Sumter County, South Carolina, 1345 Wilson Hall Road, Sumter, South Carolina 29150, (803) 469-6900.