

COMPREHENSIVE
ANNUAL FINANCIAL REPORT
OF
RICHLAND SCHOOL DISTRICT TWO
COLUMBIA, SOUTH CAROLINA

FOR THE
FISCAL YEAR ENDED
JUNE 30, 2007

PREPARED BY:
Office of Financial Services

Dr. Stephen W. Hefner
Superintendent

Robert E. Davis
Chief Financial Officer

Steven M. Mann, CPA
Controller

INTRODUCTION SECTION

RICHLAND SCHOOL DISTRICT TWO
 Comprehensive Annual Financial Report
 For the fiscal year ended June 30, 2007

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page No.</u>
<u>INTRODUCTION SECTION</u>		
Table of Contents		1 - 3
Principal Officers		4
Organizational Chart		5
Letter of Transmittal		6 - 11
Government Finance Officers Association		
Certificate of Achievement for Excellence in Financial Reporting		12
Association of School Business Officials		
International Certificate of Excellence in Financial Reporting		13
<u>FINANCIAL SECTION</u>		
Report of Independent Certified Public Accountants		14 - 15
Management's Discussion and Analysis		16 - 23
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	Exhibit 1	24
Statement of Activities	Exhibit 2	25
Fund Financial Statements:		
Balance Sheet - Governmental Funds	Exhibit 3	26
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	Exhibit 4	27
Reconciliation of Statement of Revenues, Expenditures And Changes in Fund Balances of Governmental Funds to the Statement of Activities	Exhibit 4 (cont.)	28
Statement of Net Assets - Proprietary Fund	Exhibit 5	29
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	Exhibit 6	30
Statement of Cash Flows - Proprietary Fund	Exhibit 7	31
Statement of Fiduciary Assets and Liabilities - Agency Fund	Exhibit 8	32
Notes to Basic Financial Statements		33 - 50
Required Supplementary Information		
Budgetary Comparison Schedule:		
General Fund	Schedule 1	51

RICHLAND SCHOOL DISTRICT TWO
 Comprehensive Annual Financial Report
 For the fiscal year ended June 30, 2007

TABLE OF CONTENTS, Continued

<u>FINANCIAL SECTION, Continued</u>	<u>Reference</u>	<u>Page No.</u>
Other Supplementary Schedules		
Combining Statements, Individual Fund		
Financial Statements and Schedules:		
Governmental Funds		
General Fund:		
Budgetary Comparison Schedule - Account Detail	Schedule A-1	52 - 62
Special Projects Fund:		
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance - Special Projects Fund	Schedule B-1	63 - 72
Summary Schedule of Designated State Restricted Grants	Schedule B-2	73
Education Improvement Act Fund:		
Combined Schedule of Revenues, Expenditures and Changes in Fund Balance - All Programs	Schedule B-3	74 - 79
Summary Schedule by Program	Schedule B-4	80
Debt Service Fund:		
Schedule of Revenues, Expenditures and Changes in Fund Balance	Schedule C-1	81
Capital Projects Fund:		
Schedule of Revenues, Expenditures and Changes in Fund Balance	Schedule D-1	82 - 83
Proprietary Fund		
Enterprise Fund:		
Schedule of Revenues, Expenses and Changes in Net Assets - Food Service	Schedule E-1	84 - 85
Fiduciary Fund		
Fiduciary Fund Type:		
Agency Fund - Pupil Activities - Statement of Changes in Fiduciary Assets and Liabilities	Schedule F-1	86
Agency Fund - Pupil Activities - Schedule of Receipts, Disbursements and Changes in Due to Pupil Activities	Schedule F-2	87
Detailed Schedule of Due to State Department of Education/ Federal Government	Schedule G-1	88

RICHLAND SCHOOL DISTRICT TWO
 Comprehensive Annual Financial Report
 For the fiscal year ended June 30, 2007

TABLE OF CONTENTS, Continued

<u>STATISTICAL SECTION (Unaudited)</u>	<u>Table No.</u>	<u>Page No.</u>
Net Assets by Component	1	89
Expenses, Program Revenues and Net (Expense) Revenue	2	90
General Revenues and Total Change in Net Assets	3	91
Fund Balances of Governmental Funds	4	92
Governmental Funds Revenues	5	93
Governmental Funds, Expenditures and Debt Service Ratio	6	94
Other Financing Sources and Uses and Net Change in Fund Balances, Governmental Funds	7	95
Assessed Value and Actual Value of Taxable Property	8	96
Direct and Overlapping Property Tax Rates	9	97
Principal Property Tax Payers	10	98
Property Tax Levies and Collections	11	99
Outstanding Debt by Type	12	100
Direct and Overlapping Governmental Activities Debt	13	101
Legal Debt Margin	14	102
Pledged Revenue Coverage	15	103
Demographic and Economic Statistics	16	104
Principal Employers	17	105
School Building Information	18	106 - 109
Teacher Base Salaries	19	110
 <u>SINGLE AUDIT SECTION</u>		
Schedule of Expenditures of Federal Awards		111
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		112 - 113
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133		114 - 115
Schedule of Findings and Questioned Costs		116

RICHLAND SCHOOL DISTRICT TWO
PRINCIPAL OFFICERS

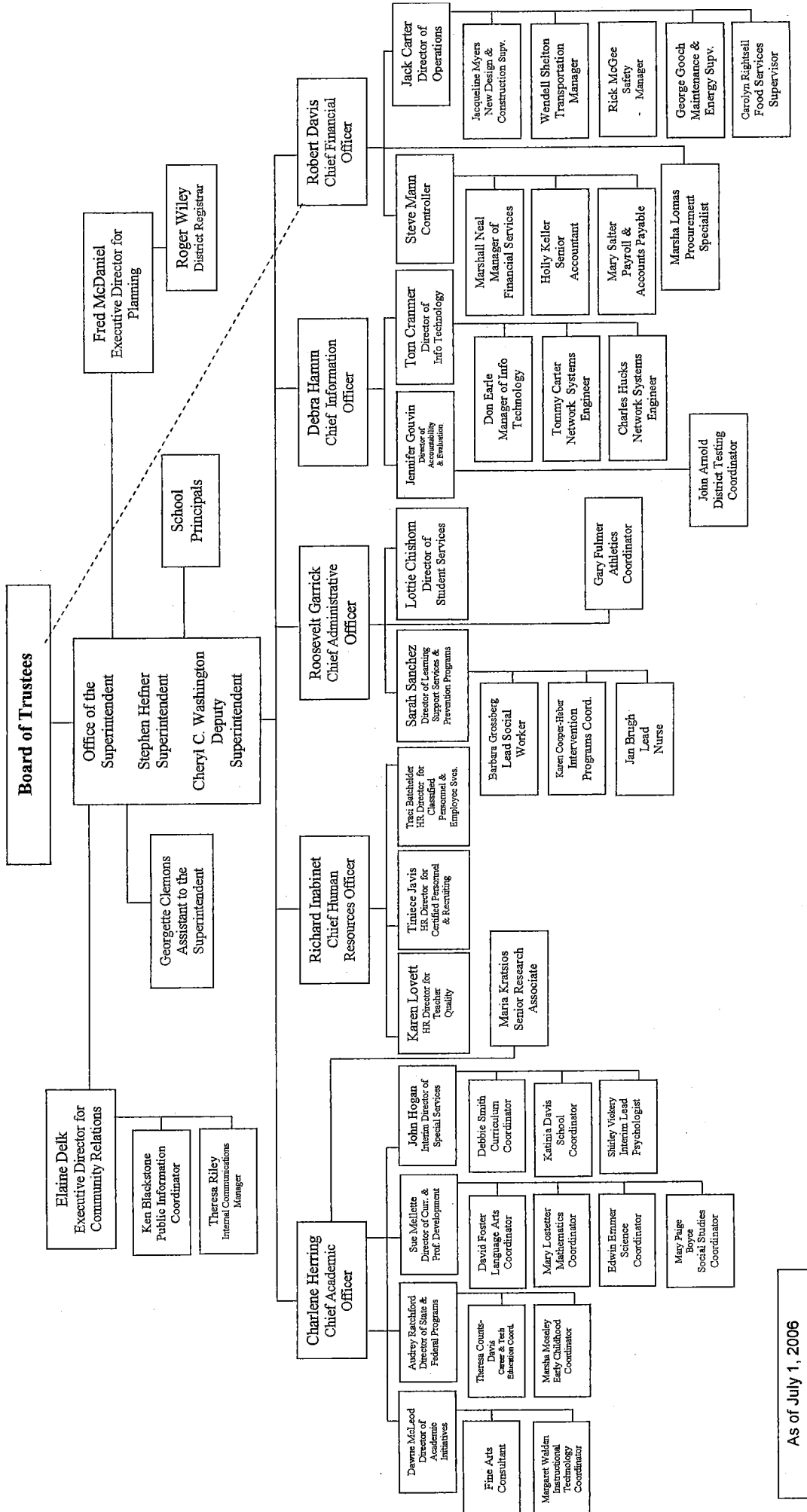
BOARD OF TRUSTEES

The Honorable Melinda S. Anderson	Chairman
The Honorable Barbara R. Specter	Vice-Chairman
The Honorable Stephanie E. Burgess, Ph.D.	Secretary
The Honorable Susan A. Brill	Member
The Honorable Regina L. Corley	Member
The Honorable William Flemming, Jr., DMD	Member
The Honorable Stephen J. Shellenberg	Member

ADMINISTRATIVE STAFF

Stephen W. Hefner, Ed.D.	Superintendent
Robert E. Davis	Chief Financial Officer

RICHLAND SCHOOL DISTRICT TWO 2006-2007 ORGANIZATIONAL CHART



As of July 1, 2006



ADMINISTRATIVE OFFICES

November 14, 2007

To the Citizens of Richland School District Two
Columbia, South Carolina

The Comprehensive Annual Financial Report of Richland School District Two for the fiscal year ended June 30, 2007, is hereby submitted. Responsibility for both the accuracy of the data and the completeness of the information, including all disclosures, rests with the school district. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the school district.

This report consists of management's representations concerning the finances of the District. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of Richland School District Two has established a comprehensive internal control process that is designed both to protect the District's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with generally accepted accounting principles. Because the cost of internal controls should not outweigh their benefits, the school district's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The independent audit of the financial statements of Richland School District Two was a part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements involving the administration of federal awards. These reports are available in the compliance section of this comprehensive annual financial report.

As part of the District's single audit, tests are made to determine the adequacy of the internal control structure, including the portion related to federal financial assistance programs, as well as

to determine that the District has complied with applicable laws and regulations. The results of the Single Audit provided no instances of material weakness in the internal control structure or significant violations of laws, regulations, contracts, or grants.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion & Analysis. This letter of transmittal is designed to complement MD&A and should be read in conjunction with the MD&A, which can be found immediately following the report of the independent auditors.

Profile of the School District

The School District is a political subdivision of the State of South Carolina. The School District is located in the northeastern section of Richland County and is bordered on the west by Richland School District One of Richland County, on the east and on the south by Kershaw County, and on the north by Fairfield County. The City of Columbia, the state capitol of South Carolina, is also the business and financial center of the state. The Columbia Metropolitan Statistical Area (MSA) has a 2006 estimated population of 588,386.

The School District operates one early childhood development center, fifteen elementary schools, five middle schools, four high schools, two elementary magnet schools, two alternative schools and one adult education center. The School District opened the sixth middle school in August 2007, and anticipates opening elementary #16, to be named Bridge Creek Elementary, in August 2008.

Richland School District Two is governed by a seven member Board of Trustees elected at large by the voters of the District. Board members are elected to four year terms. The District teaches 22,248 students from pre-school through grade 12. The District continues to be one of the fastest growing Districts in the state as it has been over the past decade.

Economic Condition

State and federal payrolls are major sources of employment and income for residents of the County. The State of South Carolina employs about 29,000 persons in the County. The County has experienced considerable expansion of Federal, State, and County facilities. The headquarters of Blue Cross/Blue Shield of South Carolina is located in the School District where the company employs approximately 6,900 people. The corporate headquarters of SCANA Corporation, a \$5 billion enterprise, parent company of South Carolina Electric & Gas, is located in Columbia, SC. There are significant industrial enterprises within the School District including Bose and Siemens Diesel Systems.

Fort Jackson, the United States Army's largest training installation, is located within the School District and is a major contributor to the economy of the School District. Fort Jackson employs approximately 5,200 civilian employees and provides services to 115,000 retired military personnel and their dependents living in the Columbia MSA. The Fort instructs an average of 45,000 soldiers in basic training and advanced individual training each year.

The County ranked fifth among the 46 counties in the State in per capita personal income in 2004 (the latest year in which data is available). Richland County's per capita income was \$30,190 for that year compared to an average of \$27,185 for the State of South Carolina. The estimated unemployment rate for Richland County was 5.8% compared to the state unemployment rate of 6.5 % for 2006 year. Based on current projections, economic growth is expected to continue at a very fast pace in Richland School District Two and throughout Richland County.

Long-term financial planning

As previously noted, Richland School District Two has been one of the fastest growing school districts in South Carolina over the past decade. To address this growth, the Board annually updates a 10-Year Facility Plan. As part of that plan, in November 2000, voters approved by a 67% yes vote a \$98.3 million referendum which funded seven major projects, each of which was completed on time and within budget. Again, in November 2004, voters approved by a 69% yes vote a \$175.5 million bond referendum which will, or already has, covered the cost for the following projects:

1. Construction of three new Elementary Schools –Sandlapper and Polo Road Elementary Schools opened in August 2006. Bridge Creek Elementary School will open in August of 2008.
2. The District's sixth Middle School, Longleaf Middle, opened in August 2007.
3. Dent Middle School was completed in July of 2007. The facility was one of the oldest in the school district; therefore, the school was completely reconstructed at its existing site, with the exception of an administrative and classroom wing which was built in 1998.
4. A new three story classroom building is being constructed on the Spring Valley High School campus. The gymnasium, fine arts center, and the existing science building, which will be converted into a wrestling arena/field house, will be retained. The revised project cost is \$51,080,000.
5. The Center for Inquiry and the Center for Knowledge are elementary magnet programs currently housed in portable facilities. Permanent classroom space is being added for both. Enrollment for each will double from 132 to 264 students.
6. Renovations have been completed at Conder, Forest Lake, Keels, Nelson, and Windsor Elementary Schools.
7. Four classroom additions at Blythewood Middle School have been completed.
8. A 15 classroom addition at North Springs Elementary is in progress.

The School Board adopted and approved a new ten year facility plan on June 26, 2007. The plan calls for the following:

- Six new Elementary Schools, two new Middle Schools, and two new High Schools. The plan also calls for four new Magnet Centers, along with renovations at several schools.

The projected growth in student enrollment is between 1,005-1,575 per year which will put student enrollment at 36,000 in the year 2017-2018. The projected cost of the new ten year facility plan is estimated at \$555,884,000 which will require a referendum and more likely two referendums over the next ten year period. Discussions on the structure of the debt, millage impact, and size of the referendum have begun, but no conclusions have been reached. The ten year facility plan will be updated in early 2008. The next voter referendum will likely be in November 2008, but the administration has not taken a formal recommendation to the Board at this time.

Budgetary Control

Richland School District Two exercises budgetary controls. The objective of these budgetary controls is to ensure compliance with the provisions set forth in the annual appropriations adopted by the Board of Trustees. The Board of Trustees annually adopts and approves the General Fund budget by June 30th. The School District maintains the modified accrual system for all governmental funds, and uses encumbrance accounting to accomplish budgetary controls at the function level. The Chief Financial Officer has authority approve line item transfers within a fund. The legal level of control is at the fund level. Board approval is needed for supplemental appropriations that are additions to the budget. Encumbrances are utilized to assist in budgetary control, and encumbrances lapse at fiscal year-end. The Board of Trustees is given a budget status report on a monthly basis, and is reviewed by the members of the Board.

Special revenue fund budgets are controlled in conformance with the specific requirements of that fund, and budgets are not legally adopted. Budgets are not adopted for the Capital Projects Fund or the Debt Service Fund. Debt Service expenditures are set in accordance to the bond issue requirements, with revenues needed to pay the debt service requirements levied by the County Auditor.

Cash Management

The District actively manages its investments by soliciting competition when looking to place funds with any financial institution or with the South Carolina Local Government Investment Pool. The District has recently participated in a Government Finance Officers Association (GFOA) sponsored auction which is a tool used to increase competition amongst regional banks.

With interest rates rising this past year, the District was able to place most of its idle cash into a secured money market investment that paid interest above the Federal Funds rate. Remaining funds were invested in either the South Carolina Local Government Investment Pool or with two other banks that offered competitive rates. The District earned \$770,589 in General Fund Interest, and \$1,998,585 in Building Fund Interest.

Risk Management

The District was not exposed to any excess risk nor did the district have any unsettled claims for 2006-2007. Surry Insurance, of Dobson, North Carolina, provides the District coverage for building and property, casualty and liability, and workers' compensation.

Awards and Acknowledgements for 2006-2007

1. Killian Elementary was recognized as a national exemplary learning center for its efforts in enhancing students' reading skills through its H.O.S.T.S. program.
2. A total of 55 district teachers earned certification from the National Board for Professional Teaching Standards, putting the district as the leader in the State. A total of 397 district teachers have earned this achievement.
3. The National School Boards Association selected Richland Two as one of three "Salute Districts" nationally in recognition of its focus on technology to promote student achievement.
4. Four elementary and two high schools received the State Department of Education's Palmetto Gold and Silver Awards. Bookman Road Elementary, Lake Carolina Elementary, Ridge View High and Spring Valley High schools received Gold Awards worth a combined \$86,000. Bethel-Hanberry and Rice Creek Elementary schools, together received Silver Awards totaling \$15,000.
5. Government Finance Officers Association awarded a Certificate (GFOA) of Achievement for Excellence in Financial Reporting to Richland School District Two for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2006. This was the twentieth consecutive year that the District has received this prestigious award.
6. The District also received the Association of School Business Officials (ASBO) Certificate of Excellence in Financial Reporting for the year ended June 30, 2006. This was also the twentieth consecutive year that the District has received this prestigious award.

A Certificate of Achievement and a Certificate of Excellence in Financial Reporting are valid for one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement and Certificate of Excellence in Financial Reporting requirements. We are submitting it to the GFOA and ASBO for review and consideration.

Acknowledgements

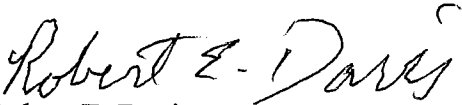
The preparation of the comprehensive annual financial report on a timely basis was made possible by the dedicated efforts of the entire Financial Services office staff. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

In closing, without the leadership and support of the Richland School District Two Board of Trustees, preparation of this report would not have been possible.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "S.W. Hefner". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Stephen W. Hefner, Ed.D.
Superintendent

A handwritten signature in black ink, appearing to read "Robert E. Davis". The signature is cursive and somewhat stylized.

Robert E. Davis
Chief Financial Officer