

HISTORY OF NORTH AUGUSTA, SOUTH CAROLINA

Incorporated April 11, 1906, the City of North Augusta recently celebrated its 100th anniversary. The year-long celebration included displays of historic artifacts, a trivia contest, a street banner contest, a centennial ball, picnic, parade and street party, and the burial of a time capsule and dedication of a historic marker. North Augusta has a lot to celebrate!

The City of North Augusta, South Carolina is strategically centered in the Augusta-Aiken metropolitan area and conveniently located along the South Carolina banks of the Savannah River. The City of North Augusta is 67 miles west of the South Carolina capital, Columbia, and 145 miles east of the Georgia capital, Atlanta. The City's nearest neighbor is Augusta, Georgia, located just across the Savannah River. North Augusta offers the best of both worlds - an idyllic, small-town lifestyle amid all the benefits of big city living.

North Augusta was preceded by three other towns that were located in the general area of North Augusta. The first, Savannah Town, also known as Fort Moore, was among the earliest white settlements at the head of navigation on the Savannah River. Savannah Town was located on a bluff overlooking the river near the present site of the Fifth Street Bridge. In 1716 it was one of the most important trading centers in South Carolina. It flourished as a trading post until the founding of Augusta in 1735, just across the river on the Georgia side.

Campbell Town, was founded by John Hammond over 200 years ago. It was established as a trading center for furs, tobacco, and other goods. In addition to the Indian and tobacco trade, there were, between Campbell Town and the nearby mouth of Steven's Creek, extensive and profitable shad fisheries which added to the commercial importance of the town. Campbell Town prospered for about 60 years before the lucrative tobacco market started to slip to the Georgia side of the river due to increasing competition between tobacco warehouse owners.

Hamburg, South Carolina was founded by Henry Shultz in the early 1800's when the cotton and tobacco trade was booming. Hamburg soon became the home dock of a thriving steamboat business shipping goods to Charleston. This success led to the development of the Charleston and Hamburg Railroad in 1833, which, at 136 miles, was then the longest railroad in America. Hamburg continued to thrive as the railroad's western terminus until the construction of a trestle bridge over the Savannah River into Augusta in 1853.

In 1890, Augusta native James U. Jackson organized the North Augusta Land Company and purchased more than 5,000 acres of rolling farm and woodland across the Savannah River from Augusta, Georgia. In 1891, a bridge was built from Augusta, followed closely by a trolley line. Then, in 1902, Jackson and his associates built the Hampton Terrace, a world-class, five-story hotel 540 feet above sea level overlooking the Savannah River, Augusta, and the surrounding countryside. The Hampton Terrace raised North Augusta to the rank of one of the leading winter resorts in the country and played gracious host to many of the country's elite including President William Howard Taft, John D. Rockefeller, Harvey Firestone, and Marshal Field. Unfortunately, the hotel was destroyed by fire in 1916.

The Hampton Terrace was never rebuilt and North Augusta remained a small residential town until the 1950s, when the Savannah River Plant was built by the Atomic Energy Commission. The town tripled in size and, over the next half century, grew into today's thriving community of over 17,000.

While breathtaking ante-bellum mansions such as Jackson's Rosemary Hall and her sister icon Lookaway Hall are eloquent reminders of the past, these historic treasures gracefully co-exist with picturesque, well-manicured homes in friendly, affordable neighborhoods. North Augusta offers a variety of housing options from the typical subdivision home to patio and townhomes and, more recently, the traditional neighborhood development. Housing types, styles, sizes and prices vary greatly but quality design and construction, public and private maintenance, and a strong sense of community enhance the value of property and make North Augusta an attractive place to call home. Large residential projects currently in development promise to add several thousand new housing units in the coming decade.

Business is also booming in North Augusta. A recently completed streetscape project along Georgia Avenue has revitalized the downtown and led to the development of many new shops and offices. A second phase of downtown streetscape along West Avenue is currently in the works. Anchoring the downtown area will be the City's new 70,000 square foot Municipal Center. The Municipal Center, to be completed in 2008, will be the new home for the City's administrative offices as well as the heritage and cultural arts councils.

North Augusta is well-known for outstanding recreational facilities. North Augusta's Greenway is an award winning paved multi-purpose trail created out of an abandoned railroad right of way. The trail meanders for approximately ten miles through natural terrain, neighborhoods and, more recently, along the Savannah riverfront. Once completed, North Augusta's Greenway will extend almost sixteen miles. Riverview Park, located on the south side of the City, is a 149-acre recreational wonderland with athletic fields, tennis courts, a disc-golf course, playgrounds, and trails. The park is anchored by a 90,000 square foot, state-of-the-art indoor facility known as Riverview Park Activities Center. Riverview Park Activities Center houses four gymnasiums, two racquetball courts, a suspended indoor track, fitness rooms and administrative offices for the Department of Parks, Recreation and Leisure Services. During 2006, the City purchased 152 acres just north of the City limits to construct a second major outdoor recreation facility.

Community involvement is an important component of life in North Augusta. The City is home to a thriving cultural arts program, heritage council, chamber of commerce, and many other agencies and organizations designed to enhance the community for its residents and visitors now and in the future. In 2000, a group of community and civic-minded citizens founded North Augusta 2000, a non-profit foundation to promote community improvement in North Augusta in the areas of economic development, education, quality of life, and parks and recreation. This group implemented numerous successful initiatives in its first five years and is actively working to meet its goals for the next five years.

A century of excellence, superb location, progressive government, quality growth, quaint neighborhoods, friendly, involved residents, and a growing business environment make North Augusta a great place to live, play, work and do business.

PROFILE OF THE CITY

Description of the City

The City of North Augusta is located in Aiken County in the southwestern portion of South Carolina. The Savannah River forms the State line between South Carolina and Georgia. The City of North Augusta is 67 miles west of the South Carolina capitol, Columbia, and 145 miles east of the Georgia capital, Atlanta. The City's nearest neighbor is Augusta, Georgia, located just across the Savannah River.

The City of North Augusta was incorporated in 1906. In 1950, the United States Atomic Energy Commission built the Savannah River Plant in Aiken County, 15 miles from the City of North Augusta. The billion-dollar plant and its allied industries brought tremendous growth to the area.

The citizens of North Augusta are justly proud of its quality residential character and its aesthetically pleasing natural environment with variety in its terrain and an abundance of wooded, undeveloped areas.

North Augusta enjoys many of the advantages of big city living while maintaining a strong sense of history, tradition, family, and community. The best part of the past remains in North Augusta today, blended with a modern outlook to create a unique community that has pride in its commitment to be independent and self-reliant with a deep sense of togetherness and achievement.

Demographic Characteristics

The United States Census Bureau has recorded the population of the City of North Augusta and Aiken County in the decennial years 1950 through 2000 as follows. The population for 2001, 2002, 2003, 2004, 2005, and 2006 are estimates of the City of North Augusta Economic and Community Development Department.

<u>Year</u>	<u>City of North Augusta</u>	<u>Aiken County</u>
1950	3,659	53,137
1960	10,348	81,038
1970	12,883	91,023
1980	13,593	105,625
1990	15,684	121,893
2000	17,574	142,552
2001	17,955	144,076
2002	18,336	145,601
2003	18,717	147,124
2004	19,098	148,648
2005	19,479	150,172
2006	19,861	151,699

Government Structure

The City of North Augusta has a Mayor-Council form of government. The City Council is composed of seven members elected at large on a partisan basis. The Mayor is elected to a four-year term, and the six Council members are elected every two years to serve four-year staggered terms.

The City Council is the legally constituted law-making and policy-making body for the City of North Augusta. The major duties of the City Council include: adoption of an annual budget; establishing the annual property tax rate; enactment of policies concerning the operation of the City; enacting local ordinances; and the appointment of the City Administrator and members of the various boards. The City Council also has the authority to call bond referendums in the City and enter into contracts.

The City Administrator is the chief executive of the City, appointed by the Mayor as authorized by the City Council for an indefinite term. The major duties of the City Administrator include: supervising and coordinating the activities of the City departments; attending Council meetings and making recommendations on appropriate matters of business; ascertaining that all orders and policies of the City Council are implemented; recommending the annual budget; keeping the City Council advised on the financial condition of the City; and representing the City in business with other agencies.

Public Service Enterprises

The City of North Augusta furnishes water, sanitary sewer, stormwater management and garbage collection to residents of the City. The City also provides water, sanitary sewer, garbage collection, and fire protection to some customers located outside the City limits but within the City's service area. The City has also entered into agreements with the Valley Public Service Authority and the Edgefield County Water and Sewer Authority to provide water and/or sewer service to certain customers within their service areas. The City Council sets rates and service charges for these services. See Table XXI on page 133 for current rates.

Electricity and gas services are provided by South Carolina Electric and Gas Company, a utility regulated by the South Carolina Public Service Commission, and Aiken Electric Cooperative, Inc., a utility regulated by the Rural Electrification Administration, an agency of the United States Department of Agriculture.

Basic telephone service is provided by BellSouth Telephone and Telegraph. Telephone service rates are regulated by the South Carolina Public Service Commission. There are over 300 long distance/cell phone companies licensed to conduct business in North Augusta.

Cable service is provided by Comcast Communications. Some of the cable rates are regulated by the Federal Communications Commission.

Water Supply and Distribution

At the time of the town charter in 1906, the waterworks system was owned and operated by a private company that continued this service until 1918. In that year, the town issued bonds in the amount of \$50,000 with which to make extensions and repairs, and a waterworks committee was appointed to handle the affairs of the department. The original water system which served a population of 1,500 in 1918 utilized springs as the source of water supply.

By the early 1950's with the coming of the Savannah River Plant, the City Council recognized the inadequacy of this spring supply of only 235 gallons per minute and authorized the construction of a 2,000,000 gallons per day filtration plant with attendant improvements of the distribution and storage system. However, due to funding problems, the plant was reduced to a filtration capacity of one MGD (million gallons per day) but incorporated most of the two MGD design.

The new facilities completed in early 1954 consisted of the filtration plant, a raw water intake and pumping station, extensive water main additions, a 250,000 gallon elevated storage tank, and a pumping station to serve the upper level system. The plant, located adjacent to the Savannah River approximately 1 1/2 miles upstream from the Thirteenth Street Bridge (Georgia Avenue), receives raw water pumped from the Savannah River through a combination intake and pumping station located about 1,500 feet upstream from the plant. The initial capacity of this typical rapid sand filtration plant soon proved to be inadequate for the fast-growing city such that an addition was required in 1959 to increase the capacity to two MGD. The system demands continued with the City's growth and required another plant addition in 1969 which doubled the production capability to four MGD. During this same construction, the pumping capacity at the raw water station was increased accordingly. The raw water from the unlimited supply from the Savannah River is treated with chemicals to induce coagulation and settling in basins prior to filtration. Chlorine is added for disinfecting purposes, and fluoride is added to the finished water to reduce dental decay.

In February, 1982, the City purchased from Water Distributors, Incorporated, a South Carolina corporation, a water system serving an unincorporated area of Aiken County adjacent to the City limits. This water system, originally known as the "ground water system" because its water supply was four deep wells, consisted of a 125,000 gallon elevated tank, a 300,000 gallon ground reservoir, and accompanying distribution lines. The wells are no longer in service, and the two systems are completely integrated with all water supplied from the North Augusta water treatment plant.

In 1988, the water treatment plant was again expanded from four MGD capacity to eight MGD. This expansion consisted of increasing the filtration rate, installing two additional pumps, and upgrading the chemical feed system.

In 1998, the City contracted for the design of a six MGD expansion to the water treatment plant and major distribution improvements primarily in the northeastern portion of the City's water system. Construction of these improvements began in July, 1999, and was completed in April, 2001.

Because of the varying terrain in and around North Augusta, the distribution system is divided into two service levels to control pressure. The lower level, which serves the older portion of town as well as the developed area outside the eastern boundary, has a storage capacity of 1,250,000 gallons for water pumped directly from the existing 150,000 gallon clearwell and the newly constructed 500,000 clearwell located at the filter plant. A 1,000,000 gallon underground storage tank is centrally located on Hampton Avenue. A 250,000 gallon elevated storage tank located on State Route 125 provides storage for the water main on that same highway which serves the industrial park located near the intersection of SR125 and U. S. Highway 1.

The upper level system receives its supply from a pumping station located adjacent to the 1,000,000 gallon underground tank on the lower level system and the older pumping station on Butler Avenue. The 1,000,000 gallon storage for the upper level system consists of a 500,000 gallon elevated storage tank located at Interstate 20 and Five Notch Road, and two 250,000 gallon elevated storage tanks, one centrally located on Sidereal Avenue and the other located in the northern section in the Smithfield Subdivision on Wells Road.

Wastewater System

The City of North Augusta provides for the collection of wastewater to all areas within the City limits and some areas outside the City limits. Wastewater treatment for the City of North Augusta is provided by the Horse Creek Wastewater Treatment Facility owned by Aiken County, of which the City of North Augusta is a major customer. The Horse Creek Wastewater Treatment Facility has major interceptor lines to which the City's collection system discharges. Charges to the City are based on the actual flow delivered to the regional facility.

Collection System: The main collection system of the City consists of more than 220 miles of sewer pipe varying in size from 6 inches to 36 inches, and 18 pumping stations. Pumping stations have been constructed in parts of the City which are beyond the limits of the gravity system.

Major collection system expansions were constructed in the 1960's, 1970's and 1980's with continuing improvements made in intervening years. The City has no combined sanitary and storm sewers in its sewer system. The sewage collection system is maintained by the Public Utilities Department and is presently in good condition. Due to its age the system does experience moderate infiltration and inflow during periods of high rainfall.

Horse Creek Wastewater Treatment Facility: The City of North Augusta, together with the City of Aiken, South Carolina, Graniteville Manufacturing Company, and United Merchants and Manufacturing Company contracted with the Aiken County Public Service Authority (the "Authority"), an agency of Aiken County, to construct and operate the wastewater treatment facility known as the Horse Creek Wastewater Treatment Facility. The Horse Creek Facility is a 20 MGD regional wastewater treatment facility located at the confluence of Horse Creek and the Savannah River. The primary purpose of the facility is to provide wastewater treatment for the Horse Creek Basin in Aiken County. In June of 1976 and February of 1977, the City sold revenue bonds for water and sewer improvements which included the City's proportionate share of the Authority's wastewater treatment plant. The Horse Creek Wastewater Treatment Facility was placed into full operation in 1979.

The Horse Creek Wastewater Treatment Facility provides wastewater treatment for its customers on a wholesale basis only; it has no retail customers. The Authority collects and treats wastewater discharged by its customers as per the terms of the respective service contracts between each customer and the Authority. Each customer pays its pro rata share of the operation and maintenance costs based on volume of flow. Currently the City of North Augusta's present allocation of capacity is 4.902 MGD. The Horse Creek Wastewater Treatment Facility has adequate reserve and expansion capacity.

The City of North Augusta pays for the use, maintenance and depreciation of the regional facility based on the total cost of the facility's operational and debt retirement divided among all users on the basis of total gallons contributed. As the table indicates, the City of North Augusta has ample reserve capacity at the present time. If future needs dictate, the City of North Augusta may draw on the unallocated reserve as needed. The sewer trunk lines of the Authority are sized to accommodate anticipated wastewater flows from the service area in the year 2025. Additionally, the treatment facility is designed so that it can be expanded to a 40 MGD facility.

Horse Creek Valley 20.0 MGD Facility - Capacities by User
As of June 30, 2006

	Present Allocation	Present Use
City of North Augusta	4.902 MGD	3.69097 MGD
City of Aiken	4.413 MGD	3.89823 MGD
Avondale Mills, Inc.	5.320 MGD	3.51495 MGD
Surface Specialties	.900 MGD	0.05011 MGD
Bath	.070 MGD	0.03476 MGD
Breezy Hill	.067 MGD	0.21394 MGD
Clearwater	.000 MGD	0.02811 MGD
Graniteville Village	.000 MGD	0.10033 MGD
Langley	.060 MGD	0.04596 MGD
VPSA / Warrenville	.092 MGD	0.05434 MGD
Unallocated	4.176 MGD	0.00000 MGD
TOTAL	20.000 MGD	11.63170 MGD

Stormwater Management

On July 1, 2002 the City of North Augusta initiated a Stormwater Management Utility. The monthly fee is based on the Equivalent Residential Unit (ERU), which is comprised of one, one-third acre lot containing a single family residential dwelling structure with a runoff coefficient of 0.35. The Stormwater Management Utility fee billed monthly for residential customers located in the City limits is \$4.00 per ERU. Every single family residential customer is billed one ERU. All other developed properties are classified as non-residential developed and billed according to its number of ERU's which is derived from its primary use classification and parcel size.

The stormwater utility fee is used only for activities relating to stormwater management. The benefits of the stormwater management program include improved water quality, better maintenance of drainage facilities resulting in less yard waste and street flooding, reduction in soil erosion and higher property values.

Education

The State of South Carolina provides a basic minimal education program for each county within the State. The School District of Aiken County is the administrative unit serving the County of Aiken and the City of North Augusta. The School District of Aiken County is governed by the Aiken County Board of Education, which is composed of nine members elected to four-year terms. State regulations and policies must be followed by the County School Board.

The City of North Augusta is served by four elementary schools, two middle schools, and one high school. North Augusta High School, North Augusta Middle School, and Paul Knox Middle School are members of and accredited by the Southern Association of Secondary Schools and Colleges.

The City of North Augusta has no financial responsibility for any part of the school district. The funding for the school district consists of State of South Carolina, federal government, and Aiken County funds.

Private schooling is available at Our Lady of Peace School, Victory Baptist School, and Walden Hall Christian Montessori School in North Augusta, and at Augusta Preparatory School, Augusta Christian Day School, Episcopal Day School, and Aquinas High School in Augusta, Georgia.

Higher education facilities are provided in the area by the Aiken Technical Education Center, the Aiken Regional Campus of the University of South Carolina, 20 miles away, and by Augusta State University, Paine College, and the Medical College of Georgia, located in Augusta, Georgia.

Transportation

The City is served by four federal highways and six state highways with Interstate 20 passing through the City limits. The widening of the Thirteenth Street bridge, completed in the fall of 1991, provides four-lane access from North Augusta on Georgia Avenue from Buena Vista Avenue to downtown Augusta, Georgia. In addition, the South Carolina portion of the proposed Bobby Jones Expressway to be known as “Palmetto Parkway,” beginning at the Savannah River south of the North Augusta Industrial Park, running approximately 7.0 miles, and ending at the intersection of U. S. 25 and Interstate 20, will provide perimeter access to the entire central Savannah River area. Construction of Phase 1 of the South Carolina portion of this federal highway, known as Palmetto Parkway, was completed in June 2004. Phase 1 extends 2½ miles from Sand Bar Ferry Road in Augusta, Georgia, to US 1 in North Augusta. Including the Georgia Department of Transportation portion of the cost, Phase 1 of the project totaled approximately \$43,000,000. Phase 2 will extend another 5½ miles to the north, from US 1 to Interstate 20 at US 25. The design of Phase 2 was initiated by the South Carolina Department of

Transportation (SCDOT) in 2002. Right-of-way acquisition commenced in 2004. The US Congress appropriated \$4 million in FY 2004 and \$1 million in 2005 to supplement available state funds for Phase 2. The 2005 Federal Highway Reauthorization legislation, SAFE TEA-LU, included an \$11.6 million earmark for the Palmetto Parkway. The South Carolina Transportation Infrastructure Bank (SCTIB) awarded supplemental funding in the amounts of \$95 million in 2005 and \$30 million in 2006 for the completion of the Palmetto Parkway. Construction on Phase 2 began in late 2006 and is expected to be completed in 2008.

Air service is provided at two airports located in Augusta, Georgia. Augusta Regional Airport at Bush Field is serviced by USAirways Express and Delta Connection Carrier, Atlantic Southeast Airlines. The airport contains a modern terminal. In 2006, 276,716 passengers were served on jet and turbo-prop aircraft. Located on 1,410 acres, the airport is equipped with all FAA navigational facilities, including one 8,000-foot runway and one 6,000-foot runway, with supporting taxiways and aprons.

Daniel Field is a general aviation type airport located in West Augusta. It contains two 4,000 foot runways providing for complete fixed base operations including charter, student training, sales, service, and UNICOM, available during daylight hours.

Rail freight service is provided by Southern Railway, Seaboard Coastline, and the Georgia Railroad in adjacent Augusta, Georgia.

Bus line service to and from the area is provided by Greyhound Lines, Inc., and Southeastern Stages, Inc. Local bus transportation is provided by the Best Friend Express, a transportation system owned and operated by Aiken County.

Industrial Profile

There are approximately seventy manufacturing firms in Aiken County of which three are located in North Augusta. Principal manufactured products include materials for nuclear power, glass fibers, cotton and yarn goods, concrete products, fabricated steel pipes and tanks, tissue products, disposable diapers, automobile parts, wood fixtures, printing and publishing products, electrical wiring devices, clothing products, specialty and industrial chemicals. Details of the major employers are in Table XVII on page 129.

May 14, 2007

To the Honorable Mayor, Members of City Council, and Citizens of North Augusta:

We are pleased to submit the Comprehensive Annual Financial Report of the City of North Augusta, South Carolina for the fiscal year ended December 31, 2006. The report contains a comprehensive analysis of the City's financial position and activities for the period. The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes a description of the History of the City, a Profile of the City, this transmittal letter, the City's organizational chart, the Finance Department's organizational chart, and a list of principal officials. The financial section includes the independent auditor's report, management's discussion and analysis, basic financial statements and notes to the financial statements, detailed combining and individual financial statements and schedules. The statistical section includes pertinent financial and demographic information, generally presented on a multi-year basis.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City of North Augusta. 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 various funds and account groups of the City in accordance with generally accepted accounting principles (GAAP); and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. Management has established and maintains a system of internal controls to provide for this assurance.

In accordance with Section 5-13-30 of the South Carolina Code of Laws, an annual audit was performed by Serotta Maddocks Evans & Company, CPA's, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurances the Financial Statements are free of material misstatement. The independent auditor has rendered an unqualified opinion that the City of North Augusta's financial statements for the fiscal year ended December 31, 2006, are fairly presented in accordance with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement MD&A and should be read in conjunction with it. The City of North Augusta's MD&A can be found immediately following the report of the independent auditors.

In accordance with GASB Statement 14, The Financial Reporting Entity, the reporting entity of the City of North Augusta includes all the funds relevant to the operations of the City. The City is also required to include in its financial statements those separately administered organizations (component units) with which the City has significant operation or financial relationships. The criteria for including such organizations as component units within the City's reporting entity include whether the organization is legally separate and whether the City holds the corporate powers, whether the City appoints a majority of the organization's board and is able to impose its will, and the ability of the organization to impose a financial benefit or burden on the City. Based on the foregoing criteria, the City of North Augusta has no component units.

The Aiken County School District, the Aiken County Government, to include the Aiken County Public Service Authority, the Valley Public Service Authority, and the Edgefield County Water and Sewer Authority, are independent entities and are not included in this report. Financial statements can be obtained from the respective entities.

The City of North Augusta provides a full range of municipal services which include:

Finance and Information Services:

- Budgetary and General Accounting
- Information Technology
- Treasury Services
- Human Resources and Payroll
- Cash Collections
- Purchasing
- Utility, Tax and Business License Billing

Recreation, Parks and Leisure Services:

- Recreation Programs
- Park Maintenance
- Beautification and Property Maintenance
- Concessions
- Special Events Planning
- Athletics
- Cultural Arts

Public Safety:

- Administrative and Support Services
- Police Services
- Fire Suppression Services
- Investigations and Special Operations
- School Resource
- Safety Management

Economic and Community Development:

- Comprehensive Planning Services
- Development Regulations
- Development Review
- Zoning Administration
- Codes Enforcement
- Subdivision Services

Public Works:

- Engineering Services
- Sanitation and Recycling Services
- Animal Control
- Stormwater Management
- Building Standards
- Equipment Maintenance

Public Utilities:

- Utilities Administration
- Water Production
- Utility Operations
- Utility Construction
- Wastewater Collection
- Meter Reading

ECONOMIC CONDITION AND OUTLOOK

The economic outlook for the City of North Augusta offers a great deal of promise for the coming years. The overall economy of the greater North Augusta area is strong and getting stronger. The 2000 Decennial Census showed that North Augusta had grown to a population of 17,574 from 15,684 in 1990, an increase of more than 12%. The 2006 population is estimated to be 19,861. The employment level at the Savannah River Site is expected to continue to decline with some periodic fluctuations. However, the continued development of Aiken County's Sage Mill Industrial Park will create additional jobs with anticipated future announcements for industries locating within the park.

The Local Hospitality and Accommodations taxes levied by the City initially in 1998 continued as an excellent revenue stream in 2006. In the November 2000 election, Aiken County voters approved a One-Cent Capital Projects Sales Tax. The tax went into effect May 1, 2001. On the same day the City reduced the Local Hospitality Tax from two-cents to one-cent. The reduction in the Local Hospitality Tax revenues was more than offset by the \$7,523,000 the City received from the One-Cent Capital Projects Sales Tax. The City's share of the One-Cent Capital Projects Sales Tax was earmarked for a variety of public works projects, including street and drainage improvements, sidewalk construction, park improvements and the riverfront Greenway extension. A vote on the continuation of the Aiken County One-Cent Capital Projects Sales Tax beyond 2006 was held in the November 2004 general election and passed by a significant margin. The City will receive \$19,350,000 over the seven year life of Phase II of the sales tax.

The North Augusta Riverfront and Downtown redevelopment efforts are moving forward. Phase I of the Downtown Streetscape Project, Georgia Avenue, was completed in July 2001 at a cost of approximately \$1,600,000. The project included significant sidewalk, roadway, landscaping and lighting improvements on Georgia Avenue. Phase II, West Avenue and several side streets, will be initiated in 2007. The Phase II construction cost estimate is \$2,800,000. Construction of a new Municipal Center located in the lower downtown area is scheduled to begin in May 2007 with completion scheduled for late 2008. Eight small commercial and professional office buildings have been developed on West Avenue and a 32,000 square foot infill office and retail project on Georgia Avenue will be completed in mid 2007.

The City's efforts to redevelop vacant property on the Savannah River made considerable progress in 2006. In 2002 the City successfully assembled 200 acres upstream of the Georgia Avenue Bridge. In 2003 the City and the North Augusta Riverfront Company executed an agreement to purchase the majority of the land and a development agreement that specifies the scope and schedule of the development and the details of the public-private partnership. The developer will purchase a majority of the land from the City over a five-year period to develop a traditional neighborhood project on the riverfront. Once completed, the project will include 1,000 to 1,200 new homes, 50,000 square feet of office and retail space, passive parks, and a Greenway extension along the Savannah River. Site preparation and home construction commenced in 2005. The first homes in the project were completed and occupied in 2006.

Building activity in other approved developments continues. Subdivision infrastructure and single-family construction in Walnut Grove, Butler's Mill, Andrew's Branch, Arbor Place,

Bergen Place, Bergen West, Wando Woodlands, Woodstone, the Summit, and Knollwood continues at a stable rate. Development of Hamrick Farms, a mixed use developments totaling 179 acres, will commence in 2007.

The City has also approved two large planned developments on the north side. Sweetwater Junction is a 277.5± acre planned development located on the east side of US 25 approximately one mile north of Interstate 20. The development plan includes 96 acres of commercial development totaling approximately 300,000 square feet and 181 acres of residential development, including 516 multi-family, townhouse and single-family units. The Springs is a 1,513.8± acre planned development located east of US 25 and south of Ascauga Lake Road. The development plan consists of approximately 50 acres of commercial and civic development, a 307-acre golf course, and 1,200 acres of mixed residential development totaling more than 3,500 units. Other areas will consist of public lands, parks and buffers. Development of those projects will begin in 2007 and 2008.

In 2002, the City completed construction of a 24-inch waterline from the North Augusta Industrial Park at US 1 northward to Clearwater Road and across Blanchard Park to Ascauga Lake Road. Plans for the further extension of that line across Interstate 20 to the Sweetwater Junction development are being developed. An intergovernmental agreement between the City, the Edgefield County Water and Sewer Authority, and the Aiken County Public Service Authority was executed to design and build the Mims Branch / Little Horse Creek sanitary sewer trunk line from US 25 north of Interstate 20, across the Blanchard Park property to Little Horse Creek and eventually into the Horse Creek Valley Regional Sewage Treatment Facility. The industrial, commercial and residential uses in Sweetwater Junction, Blanchard Park, and other developments will be served by these utility line extensions.

In 2001, the South Carolina Transportation Infrastructure Bank Board (SCTIB) approved funding in the amount of \$165,000,000 for the completion of the I-520 Interstate loop around the Augusta Metropolitan area. Construction of Phase 1 of the South Carolina portion of the Palmetto Parkway was completed in June 2004. Phase 1 extends 2½ miles from Sand Bar Ferry Road in Augusta, Georgia, to US 1 in North Augusta. Including the Georgia Department of Transportation portion of the cost, Phase 1 of the project totaled approximately \$43,000,000. Phase 2 will extend another 5½ miles to the north, from US 1 to Interstate 20 at US 25. The design of Phase 2 was initiated by SCDOT in 2002. Right-of-way acquisition commenced in 2004. The US Congress appropriated \$4 million in FY 2004 and \$1 million in 2005 to supplement available state funds for Phase 2. The 2005 Federal Highway Reauthorization legislation, SAFE TEA-LU, included an \$11.6 million earmark for the Palmetto Parkway. The SCTIB awarded supplemental funding in the amounts of \$95 million in 2005 and \$30 million in 2006 for the completion of the Palmetto Parkway. Construction on Phase 2 began in late 2006 and is expected to be completed in 2008.

The economic impact of these projects will ensure continued growth of the City North Augusta for years to come.

FINANCIAL INFORMATION

Management of the City of North Augusta is responsible for establishing and maintaining an internal control structure designed to insure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity of generally accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting and Budgeting Controls. The annual budget serves as the foundation for the City of North Augusta's financial planning and control. All Department Directors of the City are required to submit requests for appropriation to the City Administrator the first week of September each year. The City Administrator uses these requests as the starting point for developing a proposed budget. The City Administrator then presents this proposed balanced budget to City Council for review the first week of October. Following review of the proposed budget, City Council holds a public hearing and as soon thereafter as possible, adopts the budget and passes a budget ordinance, tax levy ordinance and other such ordinances as may be required to make the budget effective. The appropriated budget is adopted by total expenditures or expenses. Detail is provided for accounting and budgetary control.

Formal budgetary integration is employed as a management control device. A budget is legally adopted annually for the General Fund on a basis consistent with generally accepted accounting principles. Budgets for Special Revenue Funds or Capital Projects Fund are adopted on a project or activity basis instead of an annual operating cycle basis. Budgets for the enterprise funds are adopted annually on a basis consistent with generally accepted accounting principles except that depreciation is not a budgeted item. The transfer of budgeted amounts between functional areas must be approved by City Council; however, the City Administrator can amend the budget at the line item or department level, within a functional area, not to exceed \$5,000. Management can also over-expend appropriations, with the City Administrator's approval, at the line and department level, as long as the total expenditures or expenses do not exceed appropriations of the functional area.

Long-Term Financial Planning. Each spring the City Council and staff meet in an intense planning environment lasting two complete days. The major focus of this Council/staff seminar, known as North Augusta Forward, is to identify the best possible future for North Augusta and to chart a course to make that future a reality. The success of this seminar can be easily measured by the many changes that have taken place in North Augusta, many of which were in the planning stages for several years. Future projects requiring significant financial planning and resources have been identified as follows: (1) new municipal center including a cultural arts and historical display area, (2) Greenway/bikeway extensions, (3) regional/district/community recreational parks, (4) aquatic/senior adult facility, (5) conference center, (6) public safety fire sub-station, (7) road and intersection improvements, and (8) sidewalk additions. These facilities, estimated to cost in excess of \$75,000,000 in today's dollars, are excellent candidates for future rounds of sales tax funding.

Cash Management Policies and Practices. The Department of Finance has undertaken an active cash management program to ensure the most efficient and profitable use of the City's cash resources. The City of North Augusta takes full advantage of investment opportunities of all temporarily idle funds. The cash available for investment as of December 31, 2006 was invested in the South Carolina Local Government Investment Pool, collateralized deposits, and repurchase agreements. The average yield on investments during 2006 was 4.85%. This represents a significant increase in rates from previous years due to the improvement in the economy and the investment market. Additional information concerning cash and investments can be found in Note 2 in the notes to the financial statements.

Risk Management. The City provides a comprehensive risk management program. This program has two main objectives. The first of these objectives is to ensure a safe environment for City employees and for members of the public who utilize the services and programs provided by the City. The second objective is to develop an effective safety or accident prevention program, thereby reducing the costs of both accidents and insurance. The City has an active Safety Committee whose top priority is to reduce and hopefully eliminate all accidents and incidents involving the City's workforce. Insurance coverage is provided through the South Carolina Municipal Association in the form of a public entity risk pool that operates as a common risk management and insurance program. Additional information concerning the risk pools and coverage amounts can be found in Note 10 in the notes to the financial statements.

Pension Plans. All City employees, excluding public safety officers, are members of the South Carolina Retirement System (SCRS), a cost-sharing, multiple-employer PERS. Public safety officers are members of the South Carolina Police Officers' Retirement System (SCPORS), a cost-sharing, multiple-employer PERS. The City has no responsibility to either of the retirement systems other than to make the periodic payments required by state statute. The administration of each of these retirement systems is vested in the South Carolina Budget and Control Board. Data is not kept by individual municipalities or units; therefore, all necessary disclosures that relate to the City of North Augusta cannot be made. Note 8 in the notes to the financial statements provide additional information regarding employee and employer contribution rates and employer contributions for the last three fiscal years.

Debt Administration. As of December 31, 2006, the City of North Augusta has three Revenue Bonds Issues and one General Obligation Bond issue. Additionally, the City of North Augusta has entered into several long-term lease agreements for machinery and equipment, furniture and fixtures, and vehicles. For more information on the outstanding debt of the City, please see Notes 5 and 6 in the notes to the financial statements.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of North Augusta, South Carolina for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2005. This was the twenty-fourth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City

published an easily readable and efficiently organized CAFR, whose contents conform to program standards. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of the CAFR on a timely basis could not be accomplished without the dedicated endeavors of the Finance and Administrative Departments. We would like to express our appreciation to each employee who assisted and contributed to its preparation. Credit also must be given to the Mayor and City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of North Augusta's finances.

While we recognize that the contents of the financial statements contained herein are the City's, it would be inappropriate not to mention the assistance of our independent auditors in the preparation of these statements.

Respectfully submitted,

C. Samuel Bennett, II
City Administrator

Respectfully submitted,

John P. Potter, Jr.
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of North Augusta
South Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

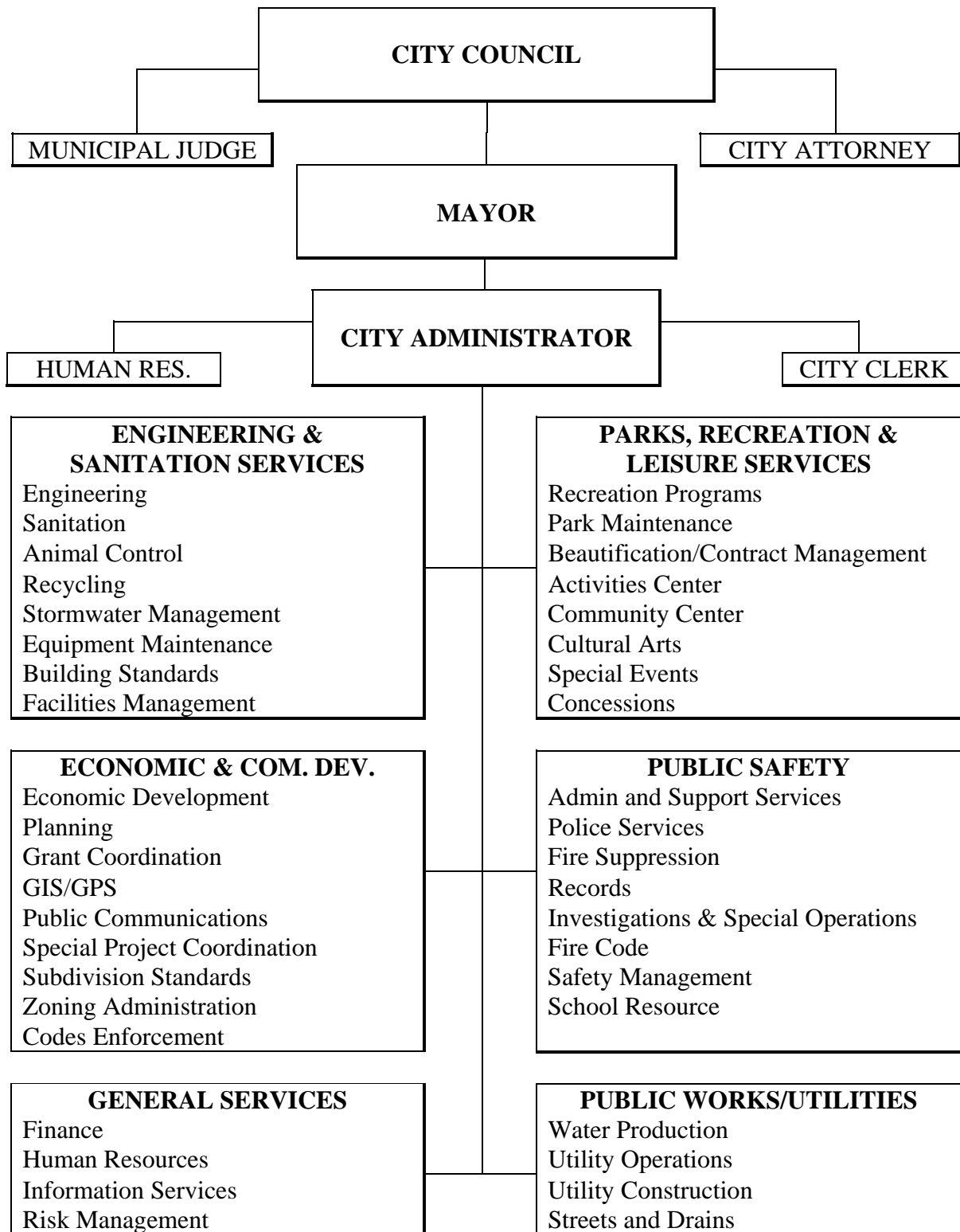
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



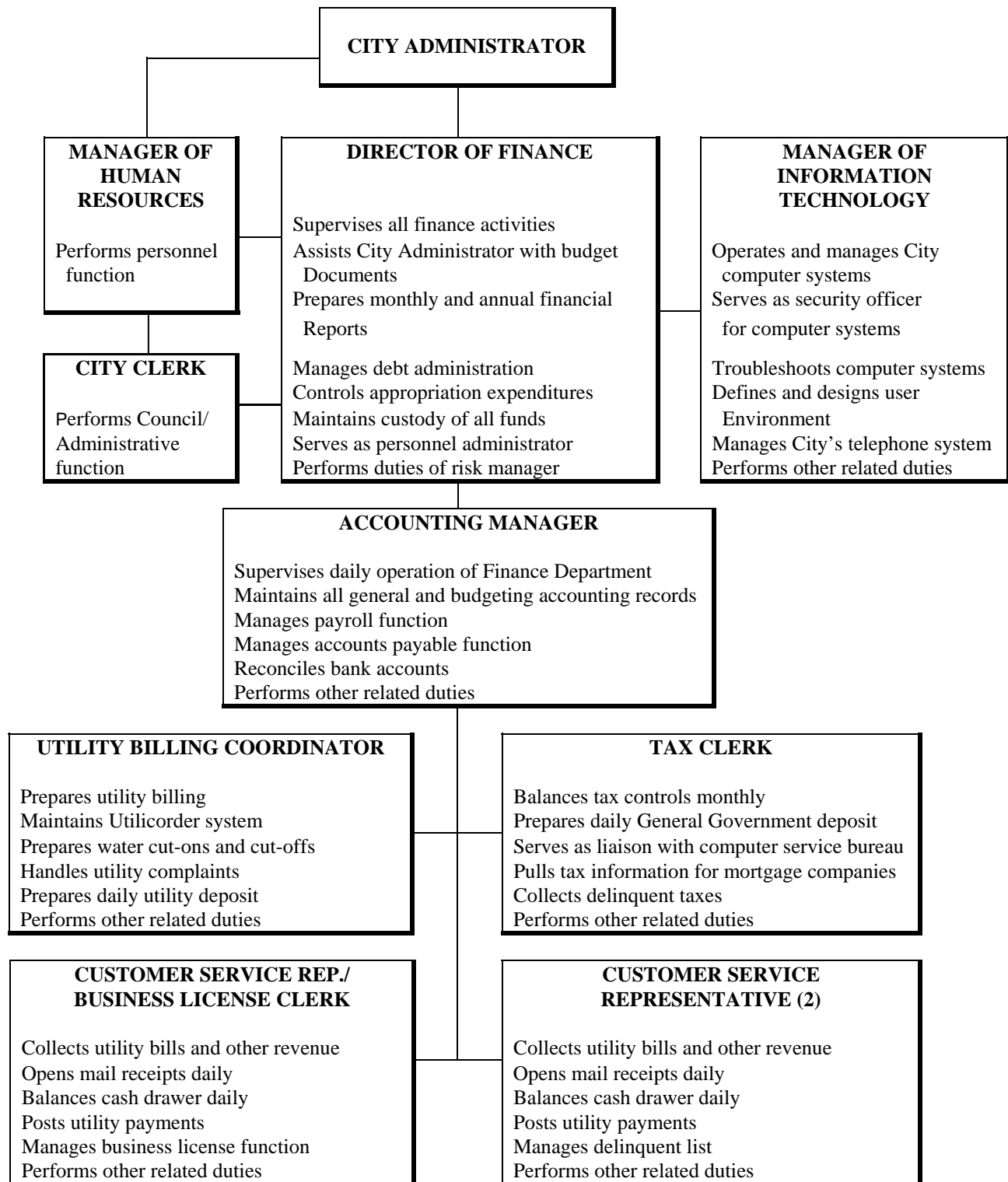
President

Executive Director

**CITY OF NORTH AUGUSTA, SOUTH CAROLINA
ORGANIZATIONAL CHART – 2006**



FINANCE DEPARTMENT ORGANIZATIONAL CHART - 2006



CITY OF NORTH AUGUSTA, SOUTH CAROLINA

PRINCIPAL OFFICIALS

CITY COUNCIL

Lark W. Jones, Mayor
(5-97 to 5-09)

Carolyn C. Baggott, Councilwoman
(5-91 to 5-07)

Pat C. Carpenter, Councilwoman
(5-93 to 5-09)

Kenneth J. McDowell, Councilman
(11-98 to 5-07)

Jason M. Whinghter, Councilman
(05-05 to 5-09)

Arthur H. Shealy, Councilman
(11-00 to 5-09)

James M. Adams, Jr., Councilman
(11-02 to 5-07)

CITY ADMINISTRATOR

C. Samuel Bennett, II

CITY CLERK

Donna B. Young

DEPARTMENT DIRECTORS

J. Robert Brooks, Director of Parks, Recreation & Leisure Services
George M. 'Skip' Grkovic, Director of Economic & Community Development
John P. Potter, Jr., Director of Finance
T. Lee Wetherington, Director of Public Safety
Thomas C. Zeaser, Director of Engineering & Public Works

