

May 28, 2008

Honorable Mayor,
Members of City Council, and
Citizens of North Augusta
North Augusta, South Carolina 29841

Ladies and Gentlemen:

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, 2007. The report contains a comprehensive analysis of the City's financial position and activities for the fiscal year ended December 31, 2007 and other 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 management of 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. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

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, 2007, 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 2007 population was estimated to be 19,455 and is projected to grow to 20,080 in 2010. 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 2007. 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, estimated to cost \$2,800,000, includes West Avenue and several side streets and was initiated in 2007. Construction of a new Municipal Center, costing approximately \$20,000,000 and located in the lower downtown area, commenced in May 2007 with completion scheduled for early 2009. 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 was completed in mid 2007 and is now fully occupied.

The City's efforts to redevelop vacant property on the Savannah River made considerable progress in 2007. 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 multi-year period to develop a traditional neighborhood development 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. Approximately 50 homes and four commercial buildings have been constructed to date.

Building activity in other approved developments continues. Subdivision infrastructure and single-family construction in Walnut Grove, Butler's Mill, Andrew's Branch, Arbor Place, the Summit and Bergen Place are essentially complete. Construction in Bergen West, Wando Woodlands, Woodstone, Whatley Place, Brighton Place and Knollwood continues at a stable rate.

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 900,000 square feet and 181 acres of residential development, including 815 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 Asauga 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 2008. Additionally, SRP Federal Credit Union will construct a 130,000 square foot headquarters facility and branch office on US 25 at Walnut Lane in 2008. Completion of the improvements to the interchange at Interstate 20 and US 25 and the realignment of Walnut Lane will facilitate these developments.

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 Asauga 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 the Horse Creek Valley Regional Sewage Treatment Facility. Construction on the Mims Branch / Little Horse Creek trunk line was initiated in 2007 and is planned to be complete in 2008. 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 initial funding for the completion of the Palmetto Parkway, the South Carolina portion of the I-520 Interstate loop around the Augusta Metropolitan area. Construction of Phase 1, 2½ miles from Sand Bar Ferry Road in Augusta, Georgia, to US 1 in North Augusta, was completed in June 2004. Phase 2 will extend another 5½ miles to the north, from US 1 to Interstate 20 at US 25. Construction on Phase 2 began in late 2006 and is expected to be completed by the end of 2008. The total cost of the Palmetto Parkway, including the Georgia DOT share of the Savannah River Bridge, will exceed \$244 million.

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 item 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) Greenway/bikeway extensions, (2) regional/district/community recreational parks, (3) aquatic/senior adult facility, (4) conference center, (5) public safety fire sub-stations and appropriate fire apparatus, (6) transportation improvements, (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, 2007 was invested in the South Carolina Local Government Investment Pool, collateralized deposits, and repurchase agreements. The average yield on investments during 2007 was 4.54%. This compares favorably to the rates from the previous year, however, a significant decline in interest rates is anticipated for 2008. 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, 2007, the City of North Augusta has two active Revenue Bonds Issues, dated 1998 and 2002, and one General Obligation Bond issue, dated 2006. The City of North Augusta has also entered into several long-term lease agreements for machinery and equipment, furniture and fixtures, and vehicles. Additionally, in December 2007, the City entered into a \$6,350,000 lease for financing a portion of the new Municipal Center. The revenue stream for this lease is the City's local hospitality and accommodations tax. 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, 2006. This was the twenty-fifth 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, 2006

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

Finance Dept. Org. Chart

Principal Officials