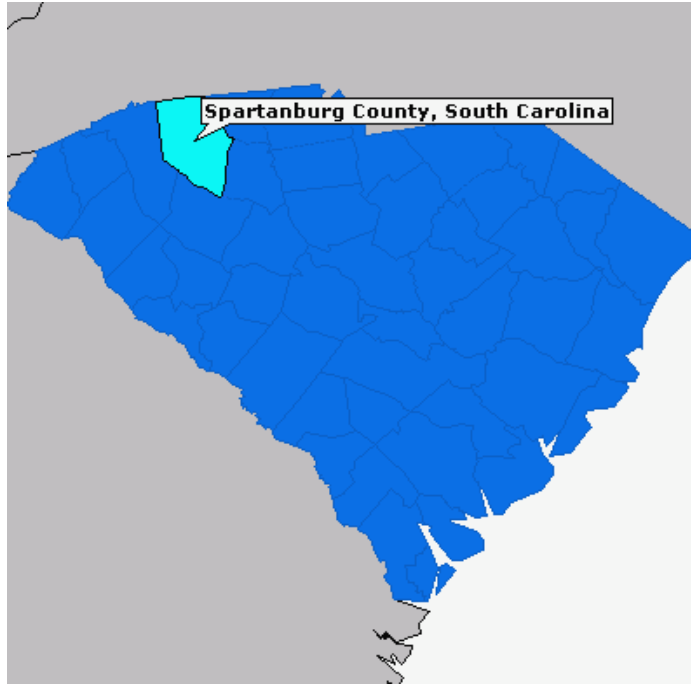


Profile of the Government

Spartanburg County, founded in 1785 and incorporated in 1976 under the South Carolina *Home Rule Act*, is located in the northwest Piedmont section of South Carolina. The County includes the City of Spartanburg, which is the County seat and the sixth largest city in the State. The County is intersected by highways I-85 and I-26 and is located approximately 180 miles northeast of Atlanta, Georgia and approximately 60 miles southwest of Charlotte, North Carolina. The County has a land area of 814 square miles and a population of 269,986. The County is empowered by State law to levy a property tax on both real and personal property within its boundaries.



The County has operated under the council-administrator form of government since 1976. Policymaking and legislative authority are vested in the County Council, which consists of a Council Chairman elected at large and six (6) District Council Members elected to four-year staggered terms. The County Council is responsible for passing ordinances, adopting the budget, appointing committees, and hiring the County Administrator, County Attorney, and Clerk to Council. The County Administrator is responsible for carrying out the policies and ordinances of the County Council, for overseeing the day-to-day operations of the county, and for appointing all non-elected county department heads.

The County and its component units (Alcohol and Drug Abuse Commission; Spartanburg County Public Library; and various volunteer fire districts) provide a full range of services including law enforcement, public health and social services, building inspection, rural fire protection, libraries, road repair, maintenance and construction, recreation, emergency preparedness, judicial, and administrative services. The Spartanburg Regional Medical Center, Spartanburg County School Districts, Spartanburg Memorial Auditorium, and various water and sewer districts do not meet the established criteria for inclusion in the County reporting entity, and accordingly are excluded from this report.

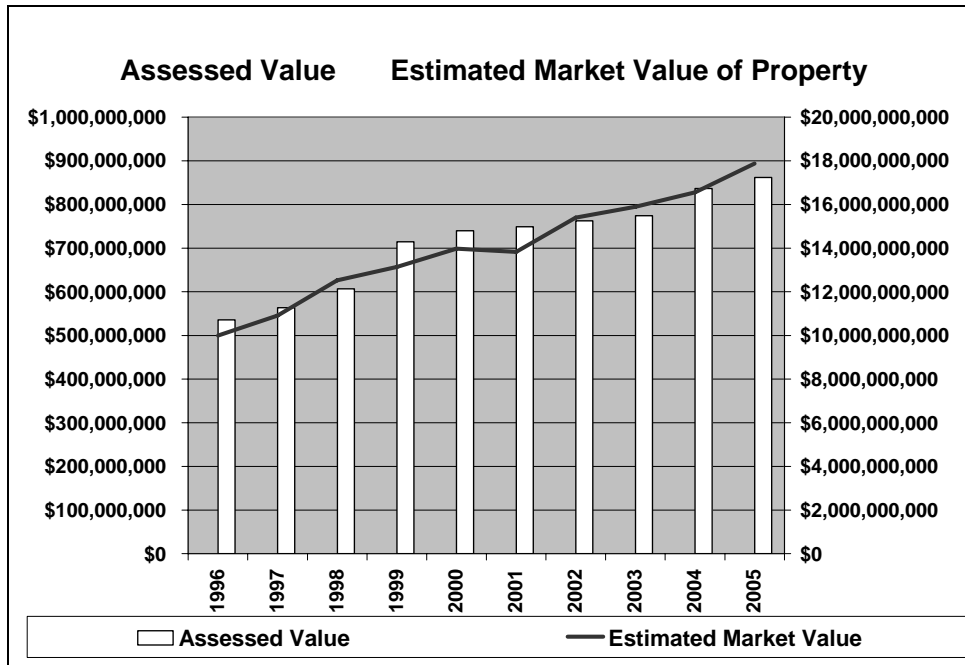
The annual budget serves as the foundation for Spartanburg County's financial planning and control. All departments and agencies of the County are required to submit requests for appropriation to the County Budget Director in January of each year. The Budget Director uses these requests as the starting point for developing a proposed budget that is presented to County Council for review prior to June 30. The council is required to hold a public hearing and adopt a final budget after three readings no later than July 1, the start of the County's fiscal year. The budget is prepared by fund, function (e.g., public safety), and department (e.g., sheriff). Department heads may

transfer appropriations within their department with the approval of the County Administrator. The County Administrator may transfer funds between departments. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an annual budget has been adopted. For the general fund, this comparison is presented on schedule S-35 as part of the basic financial statements for governmental funds. For other funds and component units, this comparison can be found on schedules 79-1 through 79-7. Budgetary control is established at the department level by budget ordinance.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which Spartanburg County operates.

Local economy. Located in northwestern South Carolina, the county is part of the growing corridor along Interstate-85 (I-85) between Charlotte and Atlanta. The county’s population grew nearly 12% in the 1980’s and 12% in the 1990’s according to a 2000 census population of 254,432. The county plays an integral role in the Greenville-Spartanburg region’s manufacturing activity. The growth of the county’s tax base, assessed value and market value of property, is displayed in the following chart.

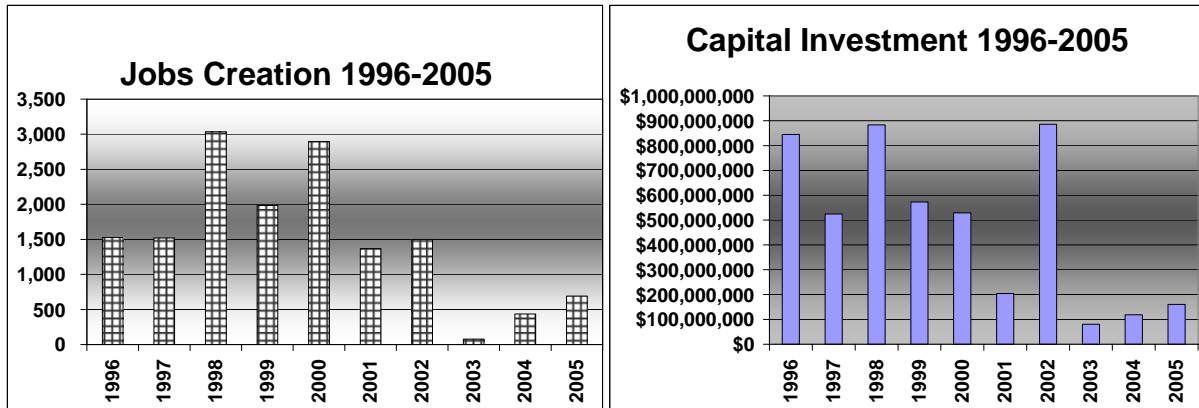


The Greenville-Spartanburg International Airport is located 17 miles west of the City of Spartanburg with access off Interstate 85. Expansion in recent years to the terminal and airfield has exceeded \$100 million. An additional runway expansion (to 11,000 feet), completed June, 1999 enables use by Jumbo jet aircraft serving the BMW manufacturing facility and other cargo and passenger needs of the County.

Spartanburg County is the home of BMW Manufacturing Corporation and more than 100 other international firms, representing 19 countries. Spartanburg has the highest per capita international investment of any area in the country. More than 500 manufacturing firms call Spartanburg County home. While the textile industry is still a major component in the industrial community, Spartanburg County has over the past 30 years diversified its economy to add such clusters as automotive and automotive-related industry, food processing, packaging, metalworking, stamping and a wide array of other industrial segments.

In calendar year 2002, Spartanburg County ranked number one (1) in the state in business capital investment and ranked fifth (5) in jobs created. In 2003 the Department of Commerce (DOC) changed their reporting to only report

projects publicly announced that the DOC was involved in – this change is making the comparison to prior years appear lower than it would be otherwise.



The high concentration of international firms in Spartanburg County has provided national and international exposure to the area. “The history of this region’s economic development is a lesson for business and community leaders seeking to understand what is required to achieve world-class status and bring local residents into the world economy.” writes Harvard Business School Professor Dr. Rosabeh Moss Kanter in her book *World Class: Thriving Locally in the Global Economy*, in which she uses the Spartanburg-Greenville areas as a model of a “world-class” community.

Spartanburg County is part of the largest Metropolitan Statistical Area in South Carolina. The Greenville-Spartanburg-Anderson CSA, which also includes Cherokee and Pickens Counties, has more than 1,172,000 people. Entrepreneur magazine, in the fall of 1995, named the Greenville-Spartanburg-Anderson MSA as the eighth best mid-sized area for small business. “The luring of international firms like BMW and Michelin is a carefully orchestrated strategy to help this Bible Belt (area) diversify from its traditional textile-based economy,” the magazine wrote.

BMW Manufacturing’s investment in their 2.4 million-square-foot Spartanburg County facilities through October 2005 was \$2.203 billion and employment exceeds 4,500. This facility produces the “Z” roadsters and “X” sports activity vehicles for worldwide distribution. Vehicle 1,000,000 rolled off the assembly line 2/28/2006. BMW Manufacturing requires a large supplier network to provide the necessary components to build a vehicle. Over 182 companies make up the extensive network that supports BMW. In order to reduce costs, BMW Manufacturing encourages its suppliers to move closer to the factory and fortunately, many have. Of these suppliers, 48 are in South Carolina of which 17 are in Spartanburg County.

Long-term financial planning. Our budgets for fiscal years 1998 - 2002 appropriated a total of \$4,443,000 to acquire land for recreational purposes in the fastest growing areas of the county and construction of 5 youth soccer fields and a soccer stadium at the University of South Carolina/Spartanburg. More than 434 acres of recreation land have been purchased. An additional 113 acres have been donated to the County.

A total of \$1,300,000 in funding was committed during fiscal year 2002 to develop engineering drawings for regional park development and begin Phase I development of Va-Du-Mar McMillan Memorial Park. During fiscal year 2003, work began on Va-Du-Mar McMillan Memorial Park using the staffs of Roads and Bridges, and Parks and Recreation. Phase I development includes three multi-purpose fields, site parking, a large playground, and a Frisbee golf course. The park was opened to the public in the fall of 2005.

On April 1, 2000, \$4 million in GO bonds were issued to start the implementation of the Recreation Master Plan. The GO bond proceeds were expended with the completion of three lighted basketball courts constructed at the Piedmont Interstate Fairgrounds and the opening of the newly renovated Cleveland Park.

In addition to being a top priority identified in the parks and recreation master plan, The Cleveland Park project represents a significant effort to involve the community in funding such quality of life enhancements. Volunteers successfully raised over \$2 million in private contributions to augment the county's funds available for the magnificent renovation of this historic facility.

In July 2003, the county issued \$4,000,000 of general obligation bonds to cover the county's share of a new freeway entrance to the University of South Carolina campus in Spartanburg. Construction is under way on this project and the estimated completion date is December 2007.

On November 1, 2004, the County executed an agreement with JM Smith Corporation to purchase four acres, which includes an office building and warehouse valued at \$2,447,500. Under the terms of the agreement, the County paid the JM Smith Corporation \$325,000 and the remaining \$2,122,500 was treated as a contribution to the County. The Sheriff's Office moved into this facility in January and is now taking advantage of the much needed extra space it provides them. \$1,645,000 in bonds were issued to provide funds for new furniture and renovation of the facility for the Sheriff's Office. The fiscal year 2007 budget provides \$100,000 of funds to upgrade the HVAC in the vacated space for use by other county offices.

In fiscal year 2005, \$547,000 in federal inmate funds have been set-aside to pay for planning costs to come up with a solution to our jail overcrowding problem. The county executed an agreement with the City of Spartanburg to take back most of the recreation facilities within the city that were transferred to the county several years ago.

Cash management policies and practices. The County follows the practice of pooling cash and investments of all funds with the County Treasurer except for restricted funds generally held by outside custodians and imprest funds. Statutes authorize the County to invest in obligations of the United States and its agencies, general obligations (not revenue obligations) of the State of South Carolina and its subdivisions, savings and loan associations to the extent of federal insurance, certificates of deposit collaterally secured, repurchase agreements secured by the foregoing obligations, and the State Treasurer's Investment Pool.

Risk management. The General fund has accumulated assets to cover risks that the County incurs in its normal operations. Specifically the County itself (rather than an insurance carrier) assumes substantially all risks associated with claims of County employees for unemployment compensation benefits, and claims of covered public employees for dental insurance and Medicare supplemental health insurance. Insurance carriers provide claims administration services. A tort liability insurance policy is maintained by the County with the State Insurance Reserve Fund for losses up to \$1,000,000. In addition, actions are generally subject to statutory limits of \$600,000 actual damages and exclusion of punitive damages. Building, building contents, computer equipment, and most other equipment is also insured for replacement value with the State Insurance Reserve Fund.

Pension and other post employment benefits. The County is a member of the South Carolina Retirement System (SCRS) and the South Carolina Police Officers' Retirement System (PORS) maintained by the Retirement Division of the State Budget and Control Board of South Carolina. The systems provide retirement, death, and disability benefits. These plans are a cost-sharing multiple-employer pension system that benefits employees of public schools, the State, and its political subdivisions. Membership is required as a condition of employment. Both employers and employees must contribute.

Several optional deferred compensation plans are available to the County's employees. Neither the State nor the County has any liability for losses under the plans.

Retired employees are eligible for the same health care benefits as full-time employees at substantially no cost to the individual until age 65. As of year-end, there were 141 employees retired and under the age of 65 that were receiving full premium-coverage benefits. There were 125 employees retired and over the age of 65 who were paying \$75 per month for coverage. This is financed on a pay-as-you go basis.

Additional information on the above plans can be found in the notes to the financial statement.

Major Initiatives

Stormwater/NPDES and Federal mandates: The federal Clean Water Act includes an expensive unfunded mandate. In fiscal year 2005 we began the steps to comply with the National Pollution Discharge Elimination System. Our participation in this mandate is unavoidable. The county created a new fund dedicated to complying with this mandate and addressing storm water related needs. The county imposed a new one-mil levy for this purpose. This funding approach is the least costly option to administer, would provide adequate revenue, and would disperse the cost evenly with minimal impact. Further, by listing this levy separately on the tax bill, taxpayers can be fully aware of the impact of this unfunded federal mandate. The county received \$748,556 from this new levy in fiscal year 2005.

Requirements of the **Federal Clean Air Act** as currently applied designate the Greenville-Spartanburg MSA as an area of non-attainment. Upstate counties are working with representatives of government and industry to achieve attainment status. The use of low sulphur fuels are expected to produce significant benefit for the area's air quality, however, other actions may be necessary. Actions required for attainment may have impact on future budgeted revenues and expenditures.

Spartanburg County's adopted budget for fiscal year 2006 enacts a **\$25 road maintenance fee** for vehicles registered within the County. The purpose of this fee is to insure the long term viability of the transportation infrastructure and to prevent deterioration of the road network. Current estimates indicate the Road Maintenance Fee will generate approximately \$5.6 million in annual revenue to be used exclusively for the repair, maintenance, and upgrade of the County's road system.

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 Spartanburg County for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the twelfth consecutive year that the County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, Spartanburg County had to publish an easily readable and efficiently organized comprehensive annual financial report that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that 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.