



October 17, 2002

Board of County Commissioners  
Harnett County, North Carolina

We are pleased to present the Comprehensive Annual Financial Report (“CAFR”) of Harnett County (the “County”) for the fiscal year ended June 30, 2002. The financial statements and supplemental schedules contained herein have been audited by the independent, certified public accounting firm of Cherry, Bekaert & Holland, LLP, and that firm’s unqualified opinion is included in the Financial Section of this report. The report itself is presented by the County, which is responsible for the accuracy of the data and for the completeness and fairness of its presentation, including all disclosures. We believe the data as presented is accurate in all material aspects; that it is presented in a manner designed to set forth fairly the financial position and results of operations of the County as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the County’s financial affairs have been included.

This report is divided into four sections: the Introductory, Financial, Statistical, and Compliance Sections. The Introductory Section, which is unaudited, contains this letter of transmittal and information about the County’s organization and principal officials. The Financial Section is composed of the auditors’ report, the general purpose financial statements, and the combining and individual fund and account group financial statements and schedules. The general purpose financial statements are often issued separately for securities offerings or widespread distributions and are frequently referred to as “liftable” general purpose financial statements. The Statistical Section, which is unaudited, contains fiscal and economic data designed to provide a more complete understanding of the County. Many tables in this section present financial data for the past ten years. Finally, the Compliance Section presents reports and schedules required by the federal and state Single Audit Acts.

The County is required to undergo an annual single audit in conformity with the provisions of the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act. Information related to this single audit, including the Schedule of Expenditures of Federal and State Awards, Schedule of Findings and Questioned Costs, Corrective Action Plan, Summary Schedule of Prior Year Audit Findings and independent auditor’s compliance and internal control reports on the general purpose financial statements and major federal and state programs, are presented in the compliance section of this report.

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## DESCRIPTION OF COUNTY

The County, formed in 1855, is located in the south central portion of North Carolina. It lies partially in the Coastal Plain and partially in the Piedmont section. The county seat, the Town of Lillington, has a population of 2,915. The City of Dunn is the largest municipality located in the County with a population of 9,196. These two municipalities comprise approximately 13% of the total County population.

Generally, the eastern two-thirds of the County exhibits topographic features common to the Coastal Plain of North Carolina. It is an area of level to gently rolling terrain with elevations ranging from 100 to 300 feet above sea level. Undeveloped lands are covered by pines and low-growing shrubs. The major underlying geological formation includes sedimentary rocks consisting mostly of unconsolidated sands and clays. Topographic features in the western part of the County resemble the Piedmont region of North Carolina. It is an area of steeper hills with elevations as high as 450 feet above sea level. Undeveloped lands are also covered by pines and low-growing shrubs. The major underlying geological formation includes crystalline rocks, such as granite and slate.

The County contains 384,640 acres or 642 square miles. The Cape Fear River, which flows from the northwest to the southeast part of the County, is the County's main drainage system. The chief tributaries include the Upper Little River system, Lower Little River, and the Black River.

The County is governed by a Board of Commissioners (the "Board"). The Board consists of five members who are elected from districts, on a partisan basis, by a district vote and serve staggered four-year terms. Elections for the Board are held in November of even-numbered years. The Commissioners take office at the first meeting in December following the November election. At that time, the Board elects a Chairman and a Vice Chairman from among its members. Commissioners hold policy-making and legislative authority. They are also responsible for adopting the budget and appointing the County Manager. The manager is responsible for implementing policies, managing daily operations, and appointing department heads.

The County provides its citizens with a wide range of services including: public safety, human services, culture and recreation development, environmental protection, sanitation, and general government services. This report includes the County's activities in maintaining these services. The County also extends financial support to certain boards, agencies, and commissions to assist their efforts in serving citizens. Among these are the Harnett County Board of Education, Central Carolina Community College, the Mid-Carolina Council of Governments, and Lee-Harnett Mental Health.

## **ECONOMIC CONDITIONS and OUTLOOK**

Harnett County is located in the center of North Carolina, on the Cape Fear River. The County's close proximity to the metropolitan Raleigh/Durham and Research Triangle Park area and the Fayetteville and Fort Bragg area enhances the profitability for business and industry. The State of North Carolina is divided into seven metropolitan statistical areas (MSA's) for economic development and Harnett County is located between two of the seven MSA's – Cumberland and Wake County. Harnett County is part of the Research Triangle Regional Partnership, a thirteen-county region, whose primary responsibility is to market the region and attract industry. Easy access to Interstate Highway 95, the eastern seaboard's major north-south route which traverses the eastern side of the County, and east to west access is available by Interstate 40. Close proximity to the deep water ports of Wilmington and Morehead City make Harnett County a viable location for industries to locate. The Raleigh-Durham International Airport is located within 30 miles.

During the past year, travelers spent \$39.87 million in Harnett County which represents a 6.2% decrease over the previous year. The tourist industry generated \$3,390,000 in state and local taxes. The County offers 13 hotels, over 700 rooms and more than 40 restaurants in the Dunn area on the I-95 corridor. The tourism accounts for over 480 jobs with an annual payroll of \$7,570,000.

Campbell University (the "University") is located in Buies Creek and is the second largest private four-year university in North Carolina. The University is known for its high quality education with low student/teacher ratio and offers undergraduate, graduate and doctoral degrees from the College of Arts and Sciences and Schools of Business, Pharmacy, Law and Divinity.

The Harnett County campus of Central Carolina Community College ("Central Carolina") is home to the largest Laser and Electro-Optics Technology program between Boston and Florida and is the only such program in the Southeastern United States. The campus also offers training programs for local industries that are tailored to meet their changing needs for new job skills.

Residential growth in predominantly the southwest and northeast portions of the County continued in 2001-2002. The County's affordable cost of living index continues to contribute to population growth. Residential construction permits were approved during the 2001-2002 year totaling \$66,182,760. Commercial and industrial construction projects totaled \$5,450,907.

Agriculture plays a significant role in the economy of Harnett County. Gross income from all agriculture (farming and urban horticulture) for 2002 was \$117.2 million. Total gross income from farming in 2002 was \$135.1 million. The leading agricultural commodity was broiler and turkey production with a gross income of \$52 million. The second leading agricultural product was tobacco with a gross income of \$28.5 million. Other crops were soybeans, cotton, corn, sweet potatoes, vegetables, fruits, nuts, swine and beef production, dairy production, forestry, milk, wool, honey, horses, hay and fish.

Urban horticulture is another important aspect of agricultural economy in Harnett County. Greenhouses and nurseries occupy 550 acres and generate \$9.1 million in gross income. Seven golf courses occupy 1,750 acres and generate \$2 million in gross income.

Principal taxpayers include a wholesale distributor, four public service companies, a shopping strip, a defense contractor, a custom truck body manufacturer, a book manufacturer, and a mobile home manufacturer. The County is fortunate to have such diversity among these corporate citizens.

An economic development assessment and action plan prepared by the Leak-Goforth Company, a development consultant, was presented to the County in March, 2001. The items recommended in the plan, including the development of strategically located industrial parks to provide options for new and expanding business, serve as the framework of the County's economic development plan.

The County, in conjunction with the Harnett Forward Together Committee, has made significant progress in developing the parks. A 90-acre tract near interstate 95 designated as the Edgerton II Industrial Park was purchased in April 2002, and activities to have the site designated as a certified industrial site by the North Carolina Department of Commerce are in progress. A 255-acre tract located on NC 87 was purchased in June and initial planning to also have this site certified has begun. Discussions have been held with property owners to secure a site for an industrial park on US 401 North of Lillington. A Marketing Analyst position was added to the Economic Development Department to focus on the development of marketing materials for industrial properties, create and maintain an economic development website, and raise the awareness of economic opportunities in Harnett County to businesses both regionally and nationally.

Significant Economic Facts for the 2001 - 2002 fiscal year include the following:

- Tomsed purchased the SIMCO building and created 30 jobs and they also added 15,000 square feet to their facility.
- The Wal-Mart retail complex added over \$10 million to the property tax based and created over 100 jobs.
- Betsy Johnson Regional Hospital announced a \$26 million expansion and 100 new jobs.
- A developer purchased the 1.3 million square foot Swift Denim facility in Erwin and is remodeling the building to accommodate multiple tenants.
- A committee has been established to work with the North Carolina Department of Transportation and Representative Bob Etheridge to four-lane US 401 from Cumberland County to Wake County.
- Each Harnett County municipality adopted a local economic development incentive for projects that locate in their corporate limits.

## **MAJOR INITIATIVES**

In fiscal year 2001-2002 Harnett County continued to prepare for the future through various initiatives that will enhance the services provided by the County well into the new century. Utilizing policy initiatives, as well as infrastructure improvements, the County is making great strides in many areas. The following is an overview of the accomplishments of County Government over the past year as well as its goals for the coming year:

Economic development efforts continue to take center stage in County Government. In an ongoing effort to stop further job loss and to increase our tax base, the County has taken several major steps to strengthen development efforts. These include the development of state certified industrial sites

in four industrial parks throughout the County as well as the establishment of a marketing program for the community. As part of these marketing efforts, a new website and tagline have been developed for the County, which should place Harnett County at the forefront of economic development efforts across the state. It should be noted that this effort requires the involvement of a variety of private and public groups dedicated to its success. The major partner of the County in this regard is the Harnett Forward Together Committee, which serves as the main focus of the overall development program.

As noted in previous years, continuing improvements to infrastructure will determine the County's ability to respond to the tremendous growth we continue to experience. The capital needs of public education continue as the number one priority of the County's overall capital program. During the past year, school construction has continued at a significant pace and will remain a priority in the years to come. Schools currently under construction include Overhills High School and Lillington/Shawtown Elementary. In addition, the Public Utilities Department continues work on several capital projects. These include the regional wastewater facility located in Lillington, sewer service along Highway 87 and the expansion of sewer service in the Anderson Creek community. Also, the County has become a significant regional partner in water and sewer service. This regional approach allows the County to make a profit on services sold outside our borders, which in turn permits lower rates inside the County. An example of this regionalism includes the current project that provides for the construction of a twenty-inch waterline that will permit the County to sell water to Moore County. In addition, it allows the County input in regards to future intakes and discharges along the Cape Fear River.

Over the past few years, the County has made a concentrated effort to improve the quality and efficiency of its facilities. This year, efforts in this area continue. Currently, a new courthouse and an adjoining office building are near completion and should be occupied by November 2002. These facilities will house District and Superior Courtrooms, as well as the Clerk of Court, District Attorney, Tax Office, and Register of Deeds. This project is the latest in a series of projects in an ongoing County capital program that has resulted in the construction of several county facilities over the past six years.

Improvements also continue in a variety of departments and in a variety of service areas. Some of these include Emergency Services, MIS, EMS, Finance and the Library. In particular, this past year saw the implementation of significant emergency communications improvements, which will enhance communications between all service providers and will streamline E-911 operations. Finally, in regards to overall public service, several departments continue efforts to improve customer service. These include areas such as Central Permitting and GIS as well as overall web site access to County services. As always, Harnett County Government continues to strive to better serve its citizens and, at the same time, be mindful of the taxpayer. With both of these factors in mind, we believe we are preparing our County for the future.

## **DEPARTMENTAL ACCOMPLISHMENTS**

The Harnett County Health Department was recognized by The North Carolina Department of Public Health for its outstanding immunization efforts. The Department received a ranking of 90% for its immunization program. This recognition for Harnett County reflects the number of children age-appropriately immunized by 24 months. North Carolina's current ranking for this 2001

immunization rate is 66%. This ranking is due to the collaborative work of public health, health care providers and community partnerships across the county. Through its "Child Health Program", the Health Department ensures that children receive their immunizations in a timely manner by encouraging parents to bring their children in for vaccinations, making home visits, providing in-home immunizations, and reviewing immunization records of children in day care centers in Harnett County to make sure they are in compliance with state guidelines.

The Harnett County Health Department Child Service Coordination program participated in a Community Review for the North Carolina Infant Toddler Program and received a compliance rating of 94.5%. The Community Review is a community based self-survey for the purpose of reviewing implementation of the North Carolina's Infant Toddler program requirements. Through documentation review and policy assessment the group examined aspects of service delivery, including family-centered practices and interagency collaboration. This result reflects the high quality of services being provided in Harnett County for this invaluable population. The North Carolina Infant Toddler Program is federally mandated by the Individuals with Disabilities Education Act (IDEA) and serves children ages birth to three who exhibit developmental delays, emotional and/or behavioral concerns or who are at risk for having these developmental needs. Referrals for services for infants and toddlers may be obtained by a variety of sources. Primary referral sources include hospitals, physicians, child care centers, Department of Social Services and therapists. The Harnett County consortium processes the referrals to the Infant Toddler program. The consortium along with the child's parent or guardian makes decisions regarding evaluations necessary to determine eligibility and service needs.

The Emergency Telephone E911 Department completed an extensive upgrade to the 800 MHz radio system which will provide better coverage for the fire, rescue and police personnel of Harnett County. Prior to this upgrade, Harnett County only had portable radio coverage of about 52% for the entire county and this upgrade will significantly improve the county's indoor portable coverage. The upgrade also included remodeling the E911 Communication Center, purchasing new equipment, purchasing a 354' tower which will be located in the northwest part of the County, purchasing lease space on two additional towers, and upgrading the equipment located at each tower site.

## **FINANCIAL INFORMATION**

The budget is an integral part of a unit's accounting system and daily operations. An annual budget or project ordinance, as adopted by the governing body, creates a legal limit on spending authorizations. For Harnett County, annual budgets are adopted for the General, Special Revenue, and Enterprise Funds. Multi-year project budgets are adopted for Capital Projects and the Emergency Response Planning Special Revenue Fund, which was closed out during the current year into an annually budgeted special revenue fund. Appropriations are made at the line item level.

For internal accounting purposes, budgetary control is maintained on a specific line-item basis by the use of an encumbrance system. As purchase orders are issued, corresponding appropriations are reserved for later payment. If an over-encumbrance of balances would result, purchase orders are not written until additional appropriations are made available. Open encumbrances are reported as reservations of fund balance at June 30, 2002.

In accordance with State law, the County's budget is prepared on the modified accrual basis, and its accounting records are maintained on that basis. Under modified accrual accounting, revenues are recorded when measurable and available. Expenditures are recorded when a fund liability is incurred, except for unmatured principal and interest on long-term debt and certain compensated absences. Governmental Fund Types, such as the County's General Fund, Special Revenue Funds, Capital Project Funds, and Trust and Agency Funds are reported on the modified accrual basis in the financial statements. The County's Enterprise Funds are reported on the full accrual basis in the financial statements, under which revenues are recorded when earned and expenses are recorded when incurred.

County management is responsible for the accounting system and for establishing and maintaining an internal control structure. The internal control structure is designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition, (2) the reliability of financial records for preparing financial statements in conformity with accounting principles generally accepted in the United States of America and maintaining accountability for assets; and (3) compliance with applicable laws and regulations related to federal and state financial assistance programs. 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 evaluation of costs and benefits requires estimates and judgments by management.

The County has 24 schools and a community college (Central Carolina Community College). The County has evaluated its relationship with each of these entities. The school administrative units and the community college are entities independent of the County because county allocations do not constitute a major portion of their revenues, and because the County has no authority to designate their management. These entities are excluded from this report. The notes to the combined financial statements provide a detailed explanation of the County's relationship to each of these entities and the reasons for their exclusion. The reader is referred to the annual financial reports issued by each of these entities.

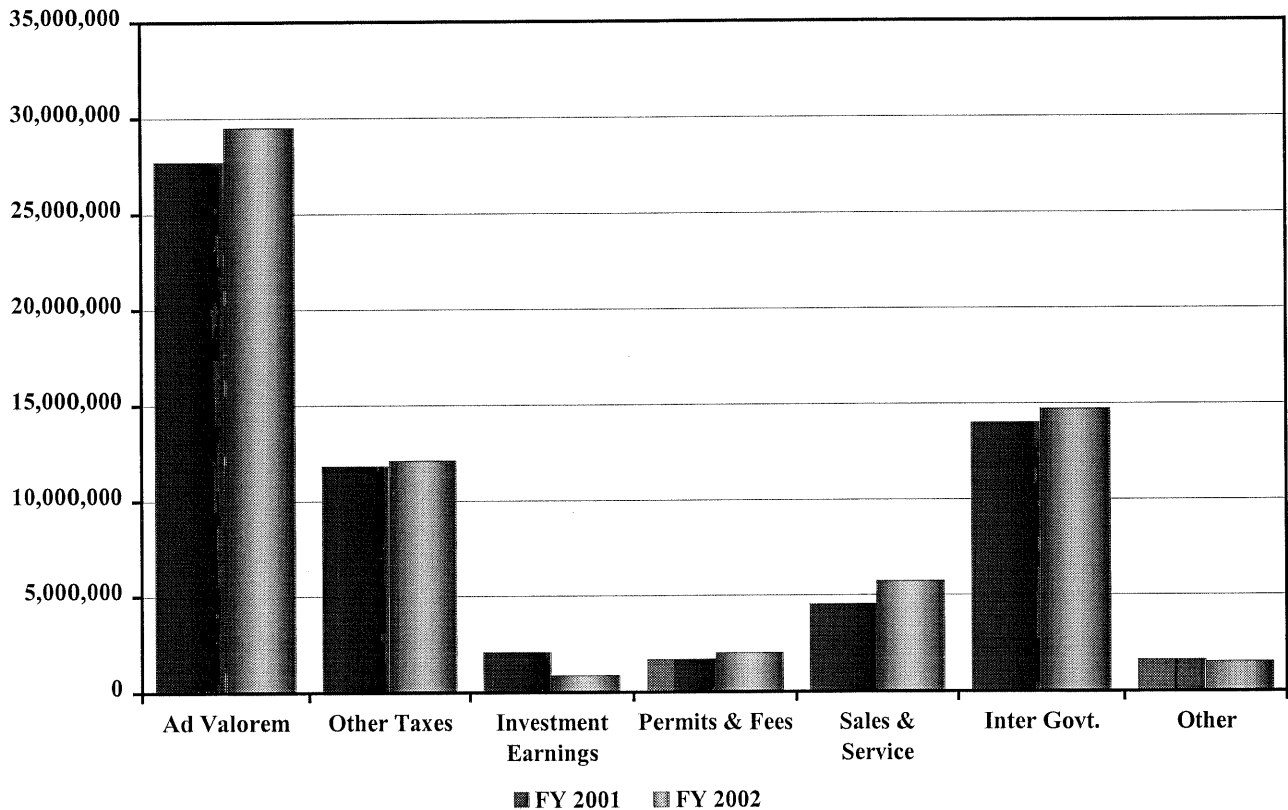
All internal control evaluations occur within the above framework. We believe that the County's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. As a part of the County's single audit (discussed in more detail in a later paragraph), the independent auditor performed a review of the County's internal control structure. This review was not an audit and no opinion was issued on the County's internal control structure.

The following paragraphs analyze the County's major financial activities:

### **General Governmental Fund Types**

General governmental revenues totaled \$65,608,208, an increase of 3.45% from the prior year. Revenues by source for the Governmental Funds (General, Special Revenue, Capital Projects) are as follows:

	<b>2002 Percent of Total</b>	<b>Fiscal Year Ended June 30,</b>		<b>Increase/ (Decrease)</b>	<b>Percent Increase/ (Decrease)</b>
		<b>2002</b>	<b>2001</b>		
Ad valorem taxes	44.96%	\$29,499,446	\$27,691,049	\$ 1,808,397	6.53%
Other taxes and licenses	18.45%	12,107,635	11,827,780	279,855	2.37%
Intergovernmental	21.15%	13,876,389	14,012,400	(136,011)	(0.97%)
Permits & fees	3.07%	2,014,839	1,680,296	334,543	19.91%
Sales and services	8.72%	5,722,287	4,518,842	1,203,445	26.63%
Investment earnings	1.33%	871,257	2,071,810	(1,200,553)	(57.95%)
Other Revenues	2.31%	1,516,355	1,618,733	(102,378)	(6.32%)
<b>Total</b>	<b>100.00%</b>	<b>\$65,608,208</b>	<b>\$63,420,910</b>	<b>\$ 2,187,298</b>	<b>3.45%</b>

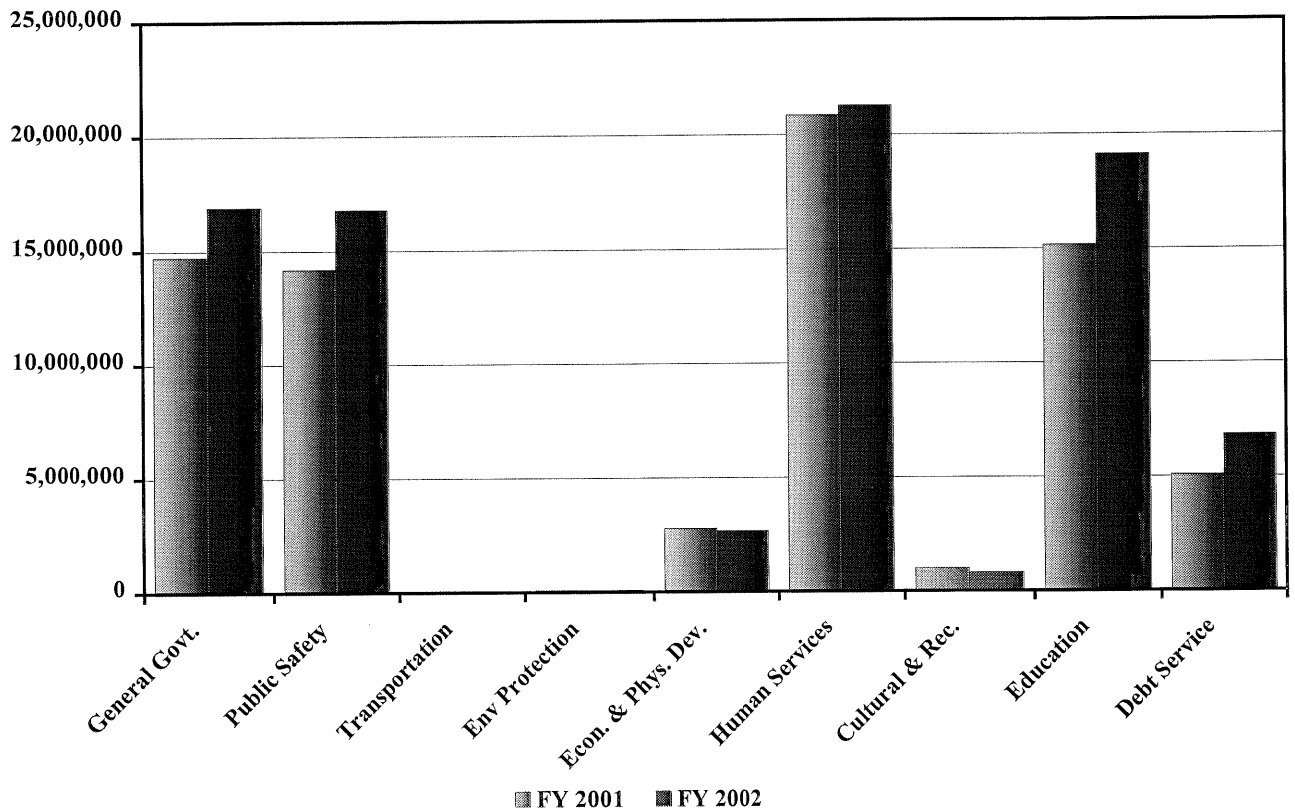


Ad valorem taxes provide the County's primary source of revenue. The revenue of \$29,499,446 for 2001 - 2002 reflects a 6.53% increase over the previous year. Current year collection rates are 91.45%. Investment earnings for 2001 - 2002 decreased 57.95% over the previous year. While the interest rates during the current year continued to decline, the County's earnings were significantly higher for the prior year due to the interest earned for the COPS 2000 proceeds on the courthouse and school projects. As construction on these two projects came to a close during fiscal year 2002, so did the investment earnings. Permits and fees increased 19.91% in 2001 - 2002 and was due to an increase in the permit fees charged by the Planning & Inspections Department. The sales and services category increased by 26.63%. This increase reflects a continued increase in gross ambulance billings. The Intergovernmental category decreased (.97%) slightly.

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General governmental expenditures totaled \$84,495,577, an increase of 14.26% from the prior year. Categorized by character and major function, expenditures for the Governmental Funds (General, Special Revenue, Capital Projects) were as follows:

	2002 Percent of Total	Fiscal Year Ended June 30,		Increase/ (Decrease)	Percent Increase/ (Decrease)
		2002	2001		
General government	19.98%	\$ 16,884,764	\$14,743,012	\$ 2,141,752	14.53%
Public safety	19.86%	16,784,002	14,209,303	2,574,699	18.12%
Transportation	.05%	44,039	38,665	5,374	13.90%
Environmental protection	.10%	88,177	89,927	(1,750)	(1.95%)
Economic and physical dev.	3.25%	2,744,132	2,781,166	(37,034)	(1.33%)
Human services	25.16%	21,261,054	20,848,442	412,612	1.98%
Cultural and recreational	.96%	807,629	1,006,145	(198,516)	(19.73%)
Education	22.55%	19,053,348	15,162,953	3,890,395	25.66%
Debt service	8.08%	6,828,432	5,071,362	1,757,070	34.65%
Total	100.00 %	\$ 84,495,577	\$73,950,975	\$ 10,544,602	14.26%



The expenditures in the education category increased 25.66%. This significant increase was due to the increase in the allocation which the Board of Education receives and the amount of Fines and Forfeitures which pass through the County from the Clerk of Court. The expenditures for Debt Service also increased by 34.65% and was a result of the debt service payments for the 2000 COPS Project which constructed new schools and the courthouse.

The Human Services category continues to be a large area of expenditures. In 2001 - 2002, this category increased 1.98% from the prior year. While the overall expenditures for this category remained constant, the increase in Medicaid was offset by a decrease in Smart Start. The decrease in Smart Start was due largely to a decrease in funding and legislation which prevented the program from carrying forward any unspent funds from the prior year. In 1998, the North Carolina General Assembly increased the income ceiling to 100% of the federal poverty level for the aged, blind and disabled citizens who became eligible for full Medicaid participation on January 1, 1999. Harnett County must comply with these changes.

Fund Balance in the General Fund - The General Fund ended the fiscal year with a total fund balance of \$10,496,265. Over \$5.8 million of this fund balance is unreserved or designated for subsequent year's expenditures, which is equal to 8.67% of the annual expenditures. This fund balance is considered adequate to meet unforeseen events and to avoid cash flow shortfalls during periods of low tax collections.

### **Enterprise Funds**

Operating revenues for the Solid Waste Management Fund totaled \$2,494,182 up 4.17% from the prior year's revenue of \$2,394,576. Total operating expenses for this fund totaled \$2,760,377, an increase of .24% from the prior year. There was an operating loss of \$266,195.

Operating revenues for the Harnett County Public Utilities Fund totaled \$11,721,623, up 20.78% from the prior year's revenue of \$9,704,913. Based upon our records, this increase is due to the increased number of daily average consumption and service connections made. The operating income of \$3,494,149 is a good indication of how well revenues are covering total expenses. Unlike many other government units, Harnett County has avoided subsidizing water and sewer district operations through transfers from the General Fund.

### **Debt Administration**

Harnett County maintained its rating of A3 and A for Certificates of Participation and Aaa and AAA for General Obligations. The County strives to avoid a heavy debt load. Total general obligation bonded debt as of June 30, 2002 amounted to only \$19,454,350 out of a legal debt limit of over \$136 million. Debt service costs for the Water and Sewer Funds total approximately \$1.5 million and is paid solely by the Enterprise Fund revenues. The General Fund recorded expenditures of \$6.49 million for debt service. Debt per capita is \$83.36 and is based upon the County's population of 96,153.

## CASH MANAGEMENT

The County's idle cash during the year was invested in fully insured or collateralized certificates of deposit, and in demand deposits in the state-authorized mutual fund whose portfolio consists of certificates of deposit, prime quality commercial paper, U. S. Government securities and banker's acceptances.

A comparison of the investment portfolio at the close of the last two fiscal years is as follows:

Class	June 30, 2002		June 30, 2001	
	Amount	% of Total	Amount	% of Total
Certificates of deposit	\$ 3,644,188	34.73%	\$ 3,644,188	28.77%
Commercial paper	4,098,545	39.06%	4,098,545	32.37%
North Carolina Cash Management	2,750,675	26.21%	4,920,669	38.86%
Total	<u>\$ 10,493,408</u>	<u>100.00%</u>	<u>\$ 12,663,402</u>	<u>100.00%</u>

## RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County carries commercial coverage for all risks of loss. The County carries commercial coverage for Worker's Compensation with limits of \$1,000,000 for bodily injury by accident for each accident, \$1,000,000 for bodily injury by disease policy limit, and \$1,000,000 bodily injury by disease for each employee. The comprehensive general liability general aggregate limit is \$4 million. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years. A schedule of insurance in force is included in the statistical section of this report.

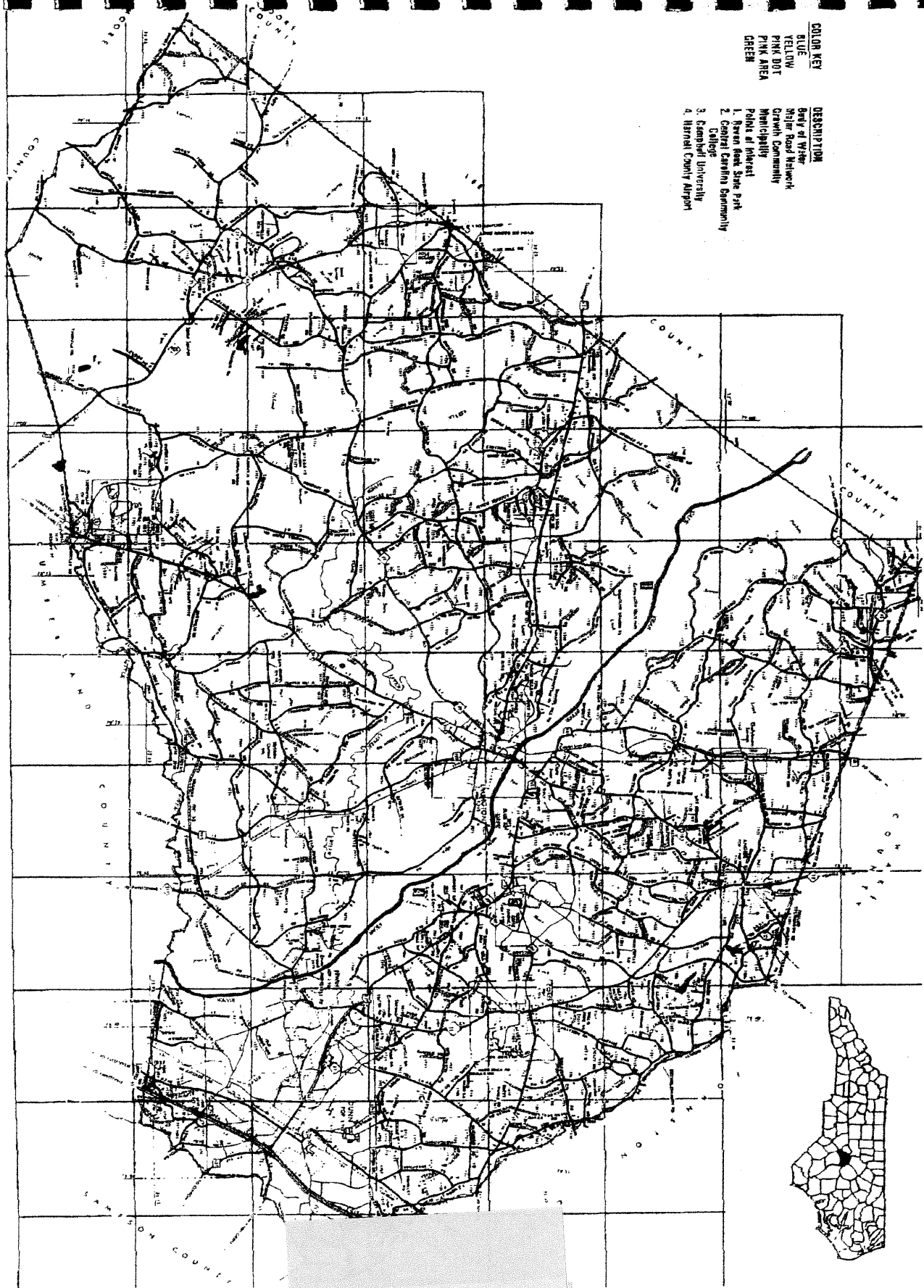
### Other Information

Harnett County intends to submit this report to the Government Finance Officers Association ("GFOA") for its Certificate of Achievement for Excellence in Financial Reporting Program. This program recognizes governmental units that publish easily read and efficiently organized Comprehensive Annual Financial Reports that conform to program standards. A Certificate of Achievement is the highest form of recognition awarded in the field of government financial reporting. The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to Harnett County for its comprehensive annual financial report for the fiscal year ended June 30, 2001. This was the eighth consecutive year that the County has received this prestigious award.

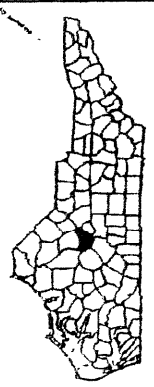
Preparation of this report would not have been possible without the dedicated efforts of the entire staff of the Finance Department. Each member of the Finance Department has my sincere appreciation for their contributions. I would also like to thank the members of the Board of Commissioners and the County Manager for their continued support throughout the past year.

Respectfully submitted,

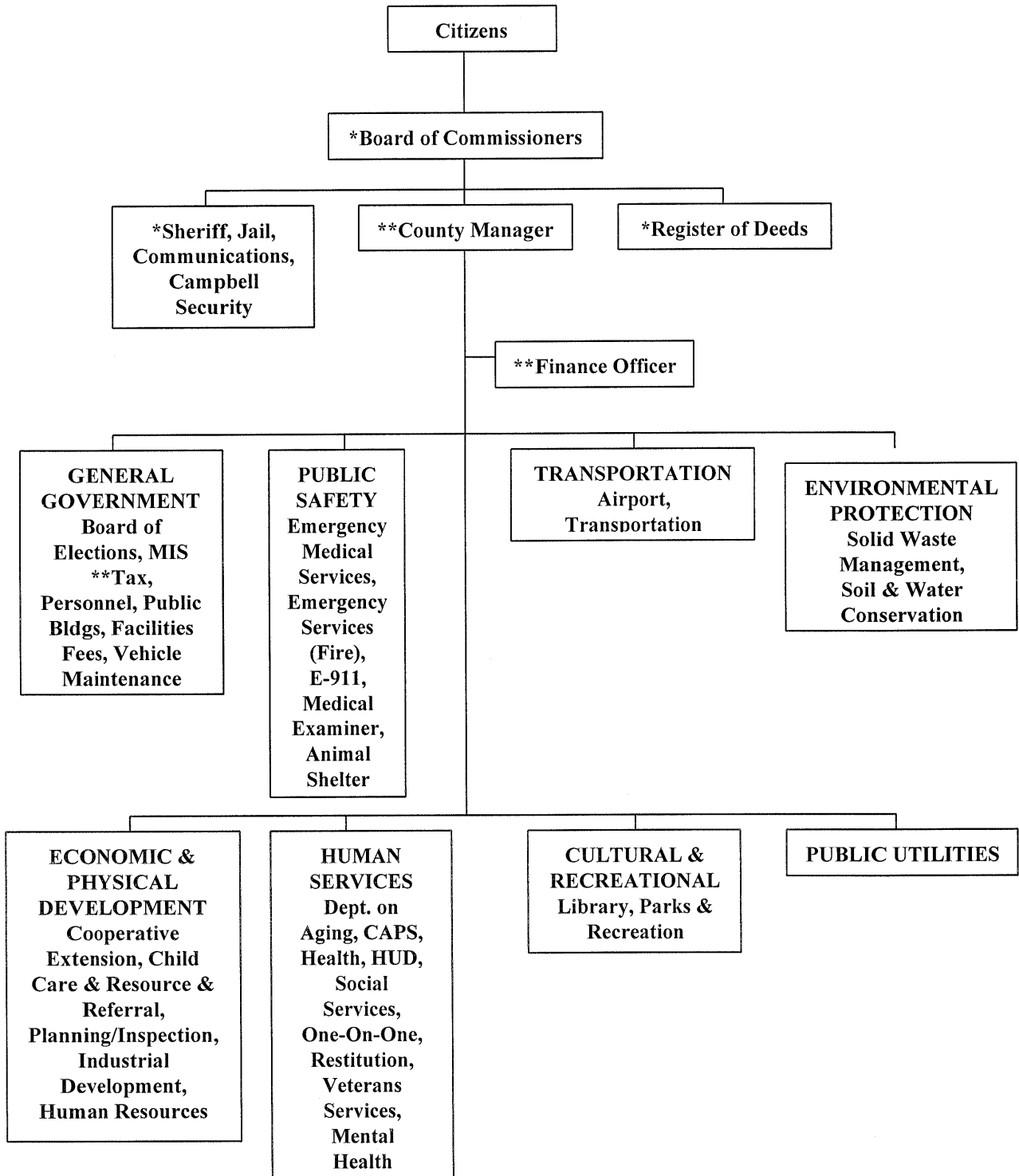
Vanessa W. Young  
Finance Officer



DESCRIPTION	COLOR KEY
Body of Water	BLUE
Major Road Network	YELLOW
County Community	PINK DOT
Municipality	PINK AREA
Point of Interest	GREEN
1. Seven Fork State Park	
2. Central Carolina Community College	
3. Campbell University	
4. Harnett County Airport	



**HARNETT COUNTY  
ORGANIZATION CHART**



\* Elected Positions  
\*\* Appointed Positions.