



October 22, 2003

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, 2003. 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, Management’s Discussion and Analysis, the basic financial statements, the notes to the financial statements and more detailed combining and individual fund financial statements and schedules and other supplementary financial data. 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 basic financial statements and major federal and state programs, are presented in the compliance section of this report. Accounting principles generally accepted in the United State of America (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. Harnett County’s MD&A can be found immediately following the report of the independent auditors.

## 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 13.3% 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 \$43.48 million in Harnett County which represents an 8.4% increase over the previous year. The tourist industry generated \$3.59 million 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 500 jobs with an annual payroll of \$7.87 million.

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 2002 – 2003. The County's affordable cost of living index continues to contribute to population growth. Residential construction permits were approved during the 2002 – 2003 year totaling \$55,235,722. Commercial and industrial construction projects totaled \$11,333,144.

Agriculture plays a significant role in the economy of Harnett County. Gross income from all agriculture (farming and urban horticulture) for the 2003 calendar year is estimated to be \$121 million. Total gross income from farming during the 2003 calendar year is estimated to be \$137 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 \$27 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 \$6 million in gross income. Seven golf courses occupy 1,750 acres and generate \$2 million in gross income. Currently, over 83,460 acres of forest are managed in Harnett County. The management of forestry in Harnett County accounted for \$2.1 million in 2003. Approximately 4,200 acres of timber generated \$10.4 million due to harvest in 2003.

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.

- Edgerton Industrial Park Phase I, a 47 acre site located near I-95 in Dunn, was certified by the North Carolina Department of Commerce in December, 2002. This site includes 12 tracts, of which four are now occupied, and a 35,000 square foot shell available for sale.

- Edgerton Industrial Park Phase II, a 90.86 acre site located near I-95 in Dunn, was certified by the North Carolina Department of Commerce in May, 2003.
- Western Harnett Industrial Park, a 250 acre site located on NC 87, was certified by the North Carolina Department of Commerce in May, 2003.
- Edgerton Industrial Park, Phase II and Western Harnett Industrial Park were the eighth and ninth certified sites located in the 13-county Research Triangle Region, and 39th and 40th certified sites in the state of North Carolina.
- Good Hope Hospital announced intentions to build a 112,945 square foot facility along US Highway 421 between Buies Creek and Lillington. The new facility will be a \$33 million investments that will preserve 200 jobs and create 64 new jobs.
- Betsy Johnson Regional Hospital announced a \$26 million expansion that will create 100 new jobs.
- Lowe's Home Improvement Warehouse began construction on a new facility in Erwin.
- Central Carolina Community College's Harnett County campus announced an expansion of their cosmetology department that will include a new \$2 million facility.

### **MAJOR INITIATIVES**

In fiscal year 2002-2003 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. The County has continued with an aggressive program designed to attract new investment and jobs to the area. These efforts have resulted in the state certification of two industrial parks as well as the implementation of a marketing program designed to attract specific industries to the community. In addition, efforts are underway to develop a biotechnology park in conjunction with Campbell University and Central Carolina Community College (CCCC). Finally, and most importantly, assistance is currently being provided to several existing businesses and industries as they grow and expand in our County. This overall all program has placed Harnett County in the forefront of economic development efforts in North Carolina. 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. Currently, Overhills High School is under construction, while plans are being developed for an addition at Lafayette Elementary School. In regards to other educational needs, the County has acquired Shawtown School for use by CCCC as well as Henley Roberts Head Start. 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. Examples of this regionalism include current discussions with Fort Bragg and the Town of Spring Lake regarding the provision of services to these entities.

As in the past, the County continues to improve the quality and efficiency of its facilities. This year, efforts in this area continue with the completion of a new courthouse and an adjoining office building. These facilities house District and Superior Courtrooms, as well as the Clerk of Court, District Attorney, Tax Office, and Register of Deeds. While the completion of this facility was a significant step in the County's capital program, future investments will continue in an attempt to provide new space for Cooperative Extension as well as the Finance Office.

Improvements also continue in a variety of departments and in a variety of service areas. Some of these include Emergency Services and Planning. In particular, several ordinances and planning policies have been revised and strengthened in an attempt to deal with ongoing development issues and challenges. Finally, in regards to overall public service, departments continue efforts to improve customer service. 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**

During the year, the Harnett County Health Department, in response to the events of September 11, 2001, established a Bioterrorism Response Team, which is a division of the Epidemiological (EPI) team. Working as part of a team consisting of Law Enforcement and Emergency Management personnel, the group responds to threats of bioterrorism. More specifically, the group responds to any situation in which a suspicious white powder is involved and works to identify, contain and forward the suspicious substance for testing. The response team has been trained by the Regional Response Team from Fayetteville in techniques of investigation, Botulism and Anthrax surveillance and Respiratory Training. The group learned to identify the symptoms of botulism, follow the individual through the progression of the disease, to trace the disease to its origin and identify the source. The group also trains to handle emergency situations involving anthrax by periodically conducting mock drills. Since the County created its team, the State has established seven regional Bioterrorism Response Teams throughout the state. The State continues to assist the efforts of local government in meeting the threat of bioterrorism by allocating grant funds to support training efforts and provide emergency response materials.

The Harnett County Department on Aging assumed management of the Nutrition Program for the Elderly from the Area Agency on Aging. In past years the nutrition program for Harnett County, as well as two other counties, was managed by the Mid Carolina Council of Governments. Due to the volume of citizens served, adequate staff was not available to ensure that program guidelines were being followed. By assuming management of its own program, Harnett County was able to properly administer program guidelines and greatly improve the quality of service to its citizens. By doing so, the benefits of this transition continue to grow. Currently, an average of 325 meals are served each day, five days a week and are delivered by volunteers. The program is now more community-based and the citizens are known on a personal basis, providing more specialized needs and individuals are able to enroll in the program more quickly. In addition to providing meals at the centers or delivering them to home-bound individuals, the program takes the second step by providing nutrition training and awareness and promotes the overall well-being of the individual which includes mental and social well-being. Individuals who visit the

centers for their meals often participate in various classes which are offered or go on field trips. The Elderly Nutrition Program also expanded its services by offering frozen meals to those who are not within the volunteer delivery routes, enabling the program to serve the homebound elderly who had been unable to receive meals in the past.

## **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. 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, 2003.

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.

As a recipient of federal and state financial assistance, the County also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management. As part of the County's single audit, tests are made to determine the adequacy of the internal control structure including that portion related to federal and state financial assistance programs, as well as to determine that the County has complied with applicable laws and regulations.

### 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 and U. S. Government securities.

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

Class	June 30, 2003		June 30, 2002	
	Amount	% of Total	Amount	% of Total
Certificates of deposit	\$ 2,880,164	24.50%	\$ 3,644,188	34.73%
Commercial paper	4,098,551	34.89%	4,098,545	39.06%
North Carolina Cash Management	4,771,349	40.61%	2,750,675	26.21%
Total	<u>\$ 11,750,064</u>	<u>100.00%</u>	<u>\$ 10,493,408</u>	<u>100.00%</u>

### DEBT ADMINISTRATION

At June 30, 2003, the County's general obligation bond debt totaled \$18,922,000, capital lease obligations totaled \$1,028,424, certificates of participation totaled \$89,129,863, and State bond loans totaled \$7,761,387.

The County's bond rating for certificates of participation were A3 and A, while the County's rating for general obligation bonds was Aaa and AAA.

Under current statutes, the County's debt limit is subject to a legal limitation of 8% of the total assessed value of real and personal property. As of June 30, 2003, the debt was \$137,919,674, which was significantly less than the legal limit of \$164,203,420.

### 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 participates in three self-funded risk-financing pools administered by the North Carolina Association of County Commissioners. Through these pools, the County obtains property coverage equal to replacement cost values of owned property subject to a limit of \$125.5 million for any one occurrence, general, auto, professional, and employment practices liability coverage of \$2 million per occurrence, auto physical damage coverage for owned autos at actual cash value, crime coverage of \$250,000 per occurrence, workers' compensation coverage up to the statutory limits, and health and dental insurance for county employees. The pools are audited annually by certified public accountants, and the audited financial statements are available to the County upon request. Two of the pools are reinsured through a multi-state public entity captive for single occurrence losses in excess of \$500,000 up to a \$2 million limit for liability coverage, \$600,000 of aggregate annual losses in excess of \$50,000 per occurrence for property, auto physical damage, and crime coverage, and single occurrence losses of \$350,000 for workers' compensation. For health and dental insurance, the county is reinsured through the Pool for individual losses in excess of \$50,000 and aggregate annual losses in excess of 115% of expected claims. The pool is reinsured through commercial carrier for individual losses in excess of \$100,000.

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 \$2 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.

#### **OTHER INFORMATION**

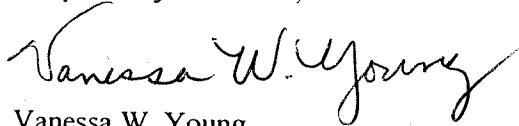
North Carolina General Statute 159-34 requires an annual audit by independent certified public accountants. The accounting firm of Cherry, Bekaert and Holland, L.L.P., was selected by the Board of Commissioners. In addition to meeting the requirements set for in the State Statute, the audit was also designed to meet the requirements of the Single Audit Act of 1996 and the related OMB Circular A-133. The auditor's unqualified report on the basic financial statements is included in the Financial Section of the Comprehensive Annual Financial Report. The auditors' reports related specifically to the single audit are presented in the compliance section.

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, 2002. This was the ninth 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,

A handwritten signature in cursive script that reads "Vanessa W. Young". The signature is written in black ink and is positioned above the printed name and title.

Vanessa W. Young  
Finance Officer