

September 30, 2006

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, 2006. 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. This section is intended to introduce the reader to the report and to the County of Harnett and should be read in conjunction with the Management's Discussion and Analysis contained in the Financial Section.

The **Financial Section** is composed of the independent auditors' report, Management's Discussion and Analysis, the Basic Financial Statements, notes to the basic financial statements, and the required supplementary pension information. The Basic Financial Statements provide an overview for users who require less detailed information about the County's finances than is contained in the balance of this report. The Basic Financial Statements include both entity-wide statements and fund financial statements. A full explanation of the basis of accounting for these two sections is included in the notes to the basic 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.

The **Compliance Section** presents schedules of federal and state financial assistance. 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.

North Carolina General Statutes Chapter 15, the Local Government Budget and Fiscal Control Act, requires that units of local governments have an audit of their accounts including a complete set of financial statements presented in conformity with generally accepted accounting principle in the United States (GAAP) as soon as possible after the close of each fiscal year by a certified public accountant. The audited financial report is submitted to the Local Government Commissioner (LGC), which is established by statute to oversee local government financial affairs. The Commission is authorized to issue rules and regulations regarding such audits. The LGC approves all audit contracts for audits of units of local government. LGC policy requires audited financial reports to be submitted within four months of the end of the fiscal year. If the audited financial report is submitted later than five months after the end of the fiscal year the audit contract must be amended and that amendment approved by the LGC before final payment is made to the auditor.

GAAP requires 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 the MD&A and should be read in conjunction with it. The Harnett County MD&A can be found immediately following the report of the independent auditors.

## **HARNETT COUNTY GOVERNMENT PROFILE**

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. Harnett County is the 24<sup>th</sup> largest county in the State based on the County's population estimate at July 2006 of 103,884. The county seat, the Town of Lillington, has a population of 3,162 while the City of Dunn, the largest municipality located in the County, has a population of 9,889. These two municipalities comprise approximately 12.82% of the total County population.

The County contains 594.93 square miles of land. 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. 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

pinetrees and low-growing shrubs. The major underlying geological formation includes crystalline rocks, such as granite and slate.

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. 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 Sandhills Mental Health. This report includes the County's activities in maintaining these services.

As required by accounting principles generally accepted in the United States of America, these financial statements present the County and its component units, legally separate entities for which the County is financially accountable. The County has one component unit, the Harnett County Industrial Facility and Pollution control Financing Authority, which has no financial transactions or account balances; therefore, it does not appear in the basic financial statements. The Harnett Water and Sewer Districts (the "Districts") are blended component units of the County, although they are legally separate entities, are in substance, part of the County's operations. The Districts exist to provide and maintain a water system for the county residents within the districts. Under State law G.S. 162A-89J, the County's board of commissioners also serves as the governing board for the Districts; therefore, the Districts are reported as enterprise funds in the County's financial statements and do not issue separate financial statements. The County entered into an agreement during the fiscal year 1998, with each existing District that transferred all assets, liabilities (excluding bond indebtedness, loans, and installment notes, along with accrued interest payable), operational rights, and responsibilities to the County. The County agreed to pay the Districts an amount equal to debt service costs for the respective Districts for the duration of the respective bonds, loans, and notes. The County maintains the Districts' assets, provides water and sewer operations and makes payments on outstanding debts on behalf of the respective Districts. Therefore, the County's financial statements reflect the assets and debts in the Harnett County Public Utilities Fund.

The County has 26 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.

## **LOCAL ECONOMY**

Harnett County is located in the center of North Carolina, on the Cape Fear River. The County's close proximity to the metropolitan areas of Raleigh, Durham, Chapel Hill and Research Triangle Park, as well as Fayetteville and Fort Bragg, enhances the profitability for business and industry. The State of North Carolina is divided into seven metropolitan statistical areas (MSA's) and Harnett County is located between two of the seven – 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. Interstate 95, located in eastern Harnett County, provides easy north-south access. Interstate 40, located seven miles north of the Harnett County line, provides equally important east-west access. Harnett County is located within three hours of the deep water ports of Wilmington and Morehead City, and the Raleigh-Durham International Airport is located within 45 miles. Thirteen universities, including Duke University in Durham, the University of North Carolina at Chapel Hill and North Carolina State University in Raleigh, are within an hour's drive. These attributes, plus an excellent workforce, make Harnett County an attractive location for industries who are seeking a site for expansion.

Tourism continues to be a key part of Harnett County's economy. During 2005, travelers spent \$51.58 million in Harnett County, which represents a 7% increase over the previous year. The tourism industry generated \$4.15 million in state and local taxes. This represents a \$41 tax savings to each county resident. The County offers 13 hotels, over 700 hotel rooms and more than 40 restaurants. Most of these are located in the Dunn area, along the I-95 corridor. Tourism accounts for more than 510 jobs with an annual payroll of \$8.44 million.

Campbell University (the "University"), located in Buies Creek, is the second largest private four-year university in North Carolina and is composed of more than 7,000 students representing all 50 states and more than 40 countries. The University is known for its high quality education with low student/teacher ratio and offers professional degrees in law, pharmacology, business, education and divinity as well as a wide variety of undergraduate degrees. The University's Norman A. Wiggins School of Law Class of 2006 scored a 97% passage rate on the July North Carolina Bar Exam, topping all other law schools in the state.

Through its Harnett County campus, Central Carolina Community College ("Central Carolina") provides courses and programs that directly benefit local industries and businesses and offers customized training to area businesses and industries in a variety of technical and professional areas. These programs are designed to train workers with the essential, specific skills needed for local industry. The growing campus also offers a

variety of high tech, public service, health, industrial and engineering programs as well as university transfer. The Harnett County campus 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 Central Carolina Small Business Center was named the best in the state at the State Board of Community Colleges during May, 2006. Central Carolina, which won the statewide award for the third time, operates three centers in Chatham, Harnett and Lee counties. The centers are divergent in geographic location and service niche and respond to business needs by providing counseling and other valuable services to budding entrepreneurs. They also assist companies with 25 or fewer employees that are already in business, but want to become more successful.

Residential growth in predominantly the southwest and northeast portions of the County continued in 2005 – 2006. The County's affordable cost of living index continues to contribute to population growth. Residential construction permits approved during the 2005 – 2006 year totaling \$151,707,796. Valuation for commercial and industrial construction projects totaled \$6,313,885.

Agriculture plays a significant role in the economy of Harnett County. Gross income from all agriculture (farming and urban horticulture) for the 2006 calendar year is estimated to be \$167.3 million. Total gross income from farming during the 2006 calendar year is estimated to be \$144.9 million. The leading agricultural commodity was roaster production with a gross income of \$93.8 million. The second leading agricultural product was tobacco with a gross income of \$16 million. Other crops were peanuts, soybeans, cotton, corn, sweet potatoes, vegetables, fruits, nuts, swine and beef production, dairy production, wool, honey, horses, and hay.

Urban horticulture is another important aspect of agricultural economy in Harnett County. Greenhouses and nurseries occupy 600 acres and generate \$6.6 million in gross income. Seven golf courses occupy 1,900 acres and generate \$5.5 million in gross income. Currently, over 85,000 acres of forest are managed in Harnett County. The management of forestry in Harnett County accounted for \$5.8 million in 2006. Approximately 1,800 acres of timber generated \$4.5 million due to harvest in 2006.

Principal taxpayers for 2005 – 2006 include four public service/utility companies, one shopping strip, custom truck body manufacturer, a wholesale distributor, grocery food chain store, real estate rental company and a carbon products manufacturer. The County is fortunate to have such diversity among these corporate citizens.

Significant growth in the County's local economy included the following:

- Edgerton Industrial Park, Phase II, a 90 acre site located across US 301 from Edgerton's 47 acre Phase I, in Dunn, was completed during 2005. This site, which was certified by the North Carolina Department of Commerce in 2003, includes paving, utilities, landscaping and permanent signs. Protective covenants have been completed and adopted and four directional signs to the park's location have been placed on I-95. Lots four and five, totaling 43 acres, were sold during the 2005 – 2006 year to Old Castle/Adams products, a manufacturer of masonry block and pavers, who will begin construction on a \$20 million project in early 2007. This project will create 20 jobs, with an average salary of \$35,000 plus benefits. To accommodate this project's needs and to

prepare for future growth in this area, approximately \$1.2 million in infrastructure will be added to this area in the next year. Improvements will be funded by state and federal grants and will include an elevated water tank, a sewer pump and 1,600 linear feet of rail.

- Western Harnett Industrial Park, a 250 acre site located on NC 87, was certified by the North Carolina Department of Commerce in 2003. This site includes paving, utilities, landscaping and permanent signs. Central Carolina Community College has announced plans to build a new campus at the industrial park which will be open to students in the Fall of 2007. Protective covenants have been drafted and adopted. Three-phase power was installed in the park during 2006.
- The Harnett Forward Together Committee (HFTC) purchased a scenic, rolling tract in western Harnett County during the year and has designated this site as a future major recreation and park site for the County. The HFTC, a non-profit economic development corporation, with the support of the Harnett County Board of Commissioners, invested \$3.1 million in the 1,014 acre property.

The Harnett Forward Together Committee also purchased 130 acres of land just west of the Harnett County Courthouse in Lillington. The \$5.7 million property will become home to the County's first Biotechnology Campus. The land's proximity to Campbell University makes the site attractive for potential pharmaceutical companies and high-tech startups, as well as for commercial development. With 1,800 feet of road frontage directly on Highway US 401, it is both visible and easily accessible, offering tremendous development potential.

- Servpro of Fayetteville purchased 6.25 acres in Phase I of the Edgerton Industrial Park will construct a 10,000 square foot building, retaining seven jobs and creating three. Servpro cleans commercial and residential buildings after fire, smoke or water damage as well as mold and mildew problems.
- Southeastern Transformer expanded its operation to Phase I of the Edgerton Industrial Park. The company recently moved into the 35,000 square foot industrial building formerly known as the "Dunn Shell Building". This move allowed for the creation of five new jobs. Southeastern Transformer rebuilds, repairs and maintains electrical transformers for cities and large factories.
- The North Carolina Parks and Recreation Trust Fund allocated a matching grant of \$500,000 for renovations to the town park in Angier, located in the northern part of the county. The Trust also allocated another matching grant of \$493,000 for a new river park to be built along the Cape Fear River in Erwin.
- Eastern Building Components purchased eight and one-half acres in Edgerton Industrial Park, Phase I in Dunn, near I-95. This plant manufactures roof and floor trusses for the residential and commercial building industries. The purchase will lead to the construction of a new facility and the creation of 20 new jobs.
- G&D Transportation, a trucking company with about 150 regional employees and a fleet of 122 trucks, has located in Dunn. The six year old division of G&D Integrated in Morton, Illinois, has purchased the office complex, maintenance

shop and 26 acres of land at the former Alliance Truck Driving School at located at 1693 Sadler Road off I-95, exit 77. The company expects to hire 70 additional drivers, including 40 that will be based in Dunn.

- SAAB Barracuda, LLC, a manufacturer of defense mechanisms in Lillington, announced a second major expansion that will result in the creation of 70 additional jobs.
- TOMSED Corporation, a manufacturer of turnstiles, announced an expansion that will result in the construction of a new 60,000 square foot building and the creation of 60 – 70 new jobs.
- The Economic Development web site continues to serve as a research and sales tool. On average, during the 2005 – 2006 fiscal year, there 1,634 visitors to the [www.harnettcdc.org](http://www.harnettcdc.org) website each week.

### **LONG-TERM FINANCIAL PLANNING**

Harnett County continues 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. As a demonstration of the County's commitment to financial planning and fiscal health, unreserved, undesignated fund balance in the general fund was \$6.7 million or 7.63% of total general fund expenditures and transfers out. The following is an overview of the accomplishments of County Government over the past year and its goals for the coming year:

Economic development efforts of the past few years are now beginning to result in new investment in the County by new and existing industry. The County's aggressive approach to economic development is illustrated in current project announcements in Edgerton Industrial Park and the development of a community college campus within the Western Harnett Industrial Park. Also this year, assistance to our existing businesses and industries continues to be a top priority and has resulted in the development of an ongoing outreach program designed to assist existing businesses and industries as they grow and expand. These efforts place Harnett County in the forefront of economic development efforts in North Carolina and have prepared our County for investment in a growing economy. It should be noted that this success requires the continued involvement of a variety of private and public groups dedicated to its success. The major partner of the County in this regard remains the Harnett Forward Together Committee, which serves as the main focus of the overall development program.

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Our Public Utilities Department continues work on several capital projects. These include the regional wastewater facility located in Lillington and the finalization of partnerships with the City of Fayetteville and Fort Bragg that provide a regional solution to water and sewer needs in southwestern Harnett County and northern Cumberland County. The County also began steps to acquire the existing water and wastewater facilities from the Town of Erwin. The purchase will be completed this summer and work will begin to convert the existing Erwin Wastewater Treatment Plant into a 2,800 gallon per minute regional pumping station to transport the waste from the Town of Erwin to the North Harnett Regional Wastewater Treatment Plant. This project will also consist of the construction of approximately 12 miles of 16 inch force main which will cross the Cape Fear and Little Rivers and continue up to the regional plant. As a result of this acquisition, Harnett County will now provide either wholesale or retail water and/or wastewater treatment services to every municipality in the County with the exception of the City of Dunn. Also, major infrastructure improvements to serve the Highway 87 Corridor are underway and will prepare the county to serve the tremendous growth in this area of the County. A map which details the location and size of the waterlines throughout the County can be viewed on the County's website at [www.harnett.org](http://www.harnett.org) by clicking on *Departments*, *GIS/Land Records* and then *GIS Map Gallery*.

Improvements also continue in a variety of departments and in a variety of service areas. In particular, several ordinances and planning policies continue to be revised and strengthened in an attempt to deal with ongoing development issues and challenges. In addition, efforts are underway to prepare for the relocation of troops to our areas as a result of the BRAC process. Finally, in regards to overall public service, departments continue to strive to improve the level of service provided our citizens. As a result, Harnett County Government has become a model for other counties in our State. This recognition, as well as the enhanced services we provide our citizens, is the result of these efforts and the dedication of our employees.

## **FINANCIAL INFORMATION**

The North Carolina Local Government Budget and Fiscal Control Act govern all local governments and their agencies in North Carolina. The budget is an integral part of a unit's accounting system and daily operations and the County's budgets are adopted as required by the North Carolina General Statutes by July 1 of each year. Formal budgetary accounting is employed as a management control for all funds of the County. Annual budget ordinances are adopted each fiscal year, and amended as required, for the General Fund, all debt service funds, all special revenue funds and for the enterprise funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the capital project funds. 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 and Capital Project Funds are reported on the modified accrual basis in the financial statements. The County's Trust and Agency Funds are reported on the accrual basis to recognize receivables and payables. 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.

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, 2006.

The legal level of control over expenditures is at the department level for the General Fund, Special Revenue funds, and Enterprise funds. The balances in the Capital Reserve Funds will be appropriated when transferred to the General Fund or their respective capital project funds. The County Manager is authorized by the budget ordinance to transfer amounts between line item expenditures within a department without limitation with an official report on such transfers at the next regular meeting of the board of commissioners. These changes should not result in changes in recurring obligations such as salaries. The manager may not transfer amounts between departments of the same fund or transfer amounts between funds or from any contingency appropriation within a fund. All other transfers, as well as any revisions that alter the total expenditures of any fund, require prior approval by the board of commissioners. 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 generally accepted accounting principles 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 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 two self-funded risk-financing pools administered by the North Carolina Association of County Commissioners. Through these pools, the County obtains coverage equal to replacement cost values of the owned property subject to certain limits and also offers health, dental and life insurance for County employees. The County also has blanket flood coverage. The Worker's Compensation Insurance is self insured with reinsurance through Safety National Insurance Company and Key Risk Management Services, Inc. as the 3<sup>rd</sup> Party Plan Administrator. Additional information on the County's risk management can be found in Note 9 in the notes to the financial statement.

## **AWARDS AND ACKNOWLEDGMENTS**

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, 2005. This was the fourteenth 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