

Management's Discussion and Analysis

As management of Harnett County, we offer readers of Harnett County's financial statements this narrative overview and analysis of the financial activities of Harnett County for the fiscal year ended June 30, 2007. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements, which follow this narrative.

Financial Highlights

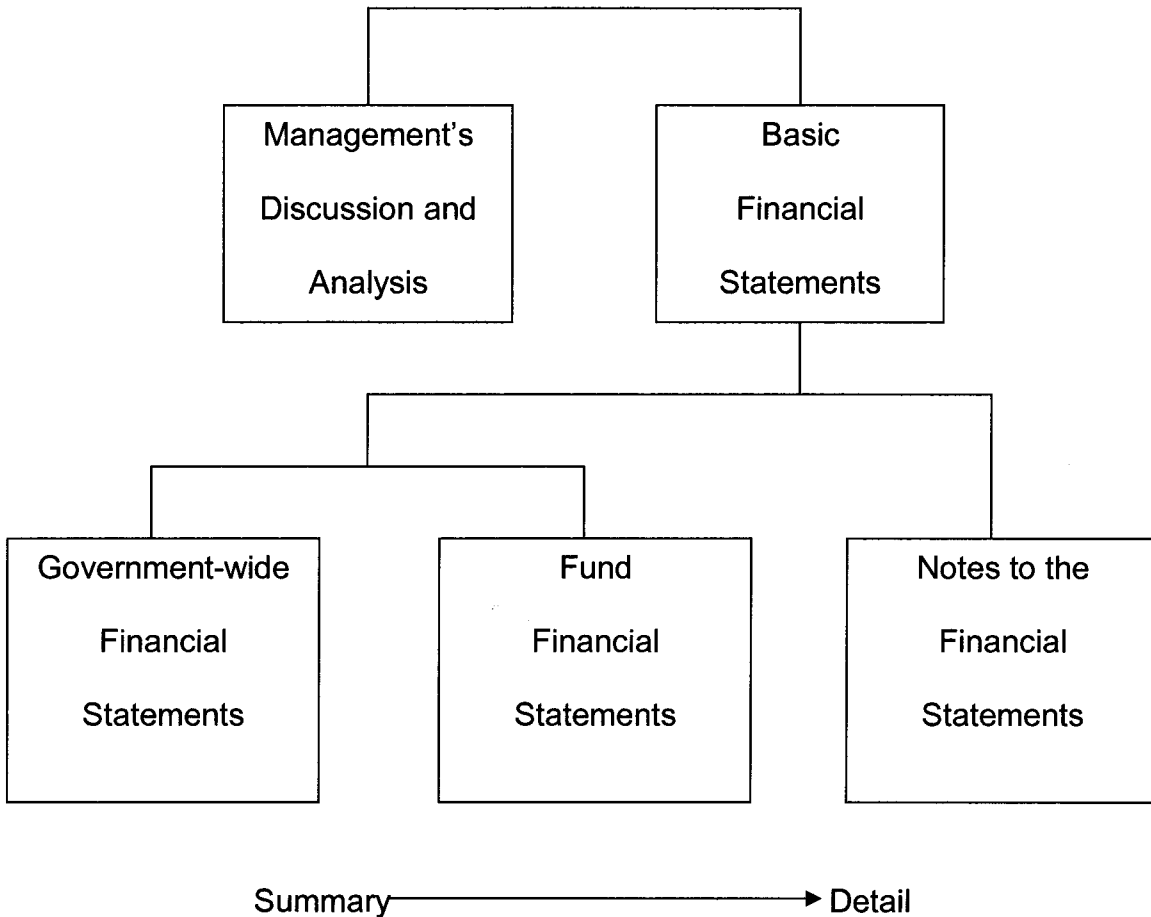
- The assets of Harnett County exceeded its liabilities at the close of the fiscal year by \$124,592,366 (net assets).
- The government's total net assets increased by \$35,584,855. This increase was due to charges for water and sewer services and capital contributions for the Business-type activities and projects.
- In accordance with North Carolina law, liabilities of the County include approximately \$65.5 million in long-term debt associated with assets belonging to the Harnett County Board of Education and Central Carolina Community College. As these assets are not reflected in the County's financial statements and the full amount of the long-term debt is reflected in the County's financial statements, the County reports a corresponding lower net asset amount.
- As of the close of the current fiscal year, Harnett County's governmental funds reported combined ending fund balances of \$70,979,066, an increase of \$41,743,801 in comparison with the prior year. Approximately 78.85% of this total amount, or \$55,972,120, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, undesignated fund balance for the General Fund was \$10,004,357, or 10.68% percent of total general fund expenditures for the fiscal year.
- Harnett County's total debt increased by \$53,934,412 (48.52%) during the current fiscal year. Although the amount of outstanding debt decreased as a result of payments on the principal, the total debt increased as a result of new obligations for the 2007 Certificates of Participation and Revenue Bonds that were issued.
- Harnett County maintained its A3 and A bond ratings for Certificates of Participation and A2 and A+ bond rating for General Obligations.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Harnett County's basic financial statements. The County's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the County through the

use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Harnett County.

Required Components of Annual Financial Report



Basic Financial Statements

The first two statements (Pages D-1 and D-2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the County's financial status.

The next statements (Pages E-1 through E-12) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statement. The next

section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the County's non-major governmental funds, all of which are added together in one column on the basic financial statements. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the County's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the County's financial status as a whole.

The two government-wide statements report the County's net assets and how they have changed. Net assets are the difference between the County's total assets and total liabilities. Measuring net assets is one way to gauge the County's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the County's basic services such as general government, public safety, environmental protection, transportation, economic and physical development, human services, cultural and recreational and education. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. These include the water and sewer and solid waste services offered by Harnett County.

The government-wide financial statements are on Pages D-1 and D-2 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Harnett County, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the County's budget ordinance. All of the funds of Harnett County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County’s basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting which provides a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the County’s programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Harnett County adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the statement of revenues, expenditures and changes in fund balances. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – Harnett County has one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Harnett County uses enterprise funds to account for its water and sewer activity and for its solid waste management fund. This fund is the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Agency Funds – Agency funds are used to account for assets the County holds on behalf of others. The County has three agency funds.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages F-1 through F-44 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Harnett County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page G-1 of this report.

Government-Wide Financial Analysis

Harnett County is in its fifth year of financial reporting based on the requirements of GASB 34. Effective with fiscal year 2004, all units of government across the United States were required to comply with this accounting standard. Prior to fiscal year 2003, Harnett County maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of Harnett County. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of Harnett County exceeded liabilities by \$124,592,366 as of June 30, 2007. The County's net assets increased by \$35,584,855 for the fiscal year ended June 30, 2007.

The largest portion totaling \$158,071,787 reflects the County's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. Harnett County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Harnett County's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

Harnett County's Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Assets						
Cash and investments	\$ 59,974,543	\$ 16,208,899	\$ 16,054,847	\$ 5,410,878	\$ 76,029,390	\$ 21,619,777
Taxes receivable, net	1,100,875	1,138,610	2,954	2,734	1,103,829	1,141,344
Accounts receivable, net						
Accounts	2,628,987	2,439,794	3,647,008	7,015,442	6,275,995	9,455,236
Restricted intergovernmental	7,980,663	7,068,205	37,675	36,000	8,018,338	7,104,205
Other	3,608	12,244	-	-	3,608	12,244
Cash on deposit with escrow agent	4,175,346	6,190,215	-	-	4,175,346	6,190,215
Bond issue costs, net	892,041	212,460	671,205	365,566	1,563,246	578,026
Inventories	15,214	15,768	265,323	286,984	280,537	302,752
Capital assets:						
Nondepreciable	10,143,611	12,508,880	57,747,028	31,004,918	67,890,639	43,513,798
Depreciable	41,448,567	36,221,300	99,121,917	88,263,968	140,570,484	124,485,268
Total assets	<u>128,363,455</u>	<u>82,016,375</u>	<u>177,547,957</u>	<u>132,386,490</u>	<u>305,911,412</u>	<u>214,402,865</u>
Liabilities						
Accounts payable and accrued liabilities	2,504,753	1,772,289	2,626,157	5,318,016	5,130,910	7,090,305
Accrued interest payable	472,661	312,748	390,008	186,246	862,669	498,994
Customer deposits	-	-	1,011,048	807,357	1,011,048	807,357
Unearned revenue	1,296,310	927,571	69,252	50,449	1,365,562	978,020
Claims payable	477,874	346,951	-	-	477,874	346,951
Long-term liabilities:						
Due in less than one year	8,462,536	7,756,725	4,325,957	3,189,328	12,788,493	10,946,053
Due in more than one year	97,643,179	60,779,950	62,039,311	43,947,724	159,682,490	104,727,674
Total liabilities	<u>110,857,313</u>	<u>71,896,234</u>	<u>70,461,733</u>	<u>53,499,120</u>	<u>181,319,046</u>	<u>125,395,354</u>
Net assets						
Capital assets, net of related debt	36,962,897	39,542,666	99,508,987	76,151,245	136,471,884	115,693,911
Restricted for:						
Capital projects	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-
Unrestricted	(19,456,755)	(29,422,525)	7,577,237	2,736,125	(11,879,518)	(26,686,400)
Total net assets	<u>\$ 17,506,142</u>	<u>\$ 10,120,141</u>	<u>\$ 107,086,224</u>	<u>\$ 78,887,370</u>	<u>\$ 124,592,366</u>	<u>\$ 89,007,511</u>

As with many counties in the State of North Carolina, the County's unrestricted net assets, is low or negative due primarily to the portion of the County's outstanding debt incurred for the County Board of Education (the "school system") and Central Carolina Community College (CCCC). Under North Carolina law, the County is responsible for providing capital funding for the school systems. The County has chosen to meet its legal obligation to provide the school systems capital funding by using a mixture of County funds. The assets funded by the County, however, are owned and utilized by the school systems. Since the County, as the issuing government, acquires no capital assets, the County has incurred a liability without a corresponding increase in assets. At the end of the fiscal year, approximately \$65.5 million of the outstanding debt on the County's financial statements was related to assets included in the school systems' financial statements. However, the school system's related debt is installment purchases financed by the governmental funds and are repaid from the resources of the General Fund. Accordingly, the County is authorized and required by State law to levy ad valorem taxes, without limit as to rate or amount, as may be necessary to pay the debt service on its

general obligation bonds. Principal and interest requirements will be provided by an appropriation in the year which they become due.

Several particular aspects of the County's financial operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes achieved a collection percentage of 96.64%, which is slightly above the 2006 statewide average of 96.63% for the County's population group.
- Increased charges for services revenue due to growth in the use of County facilities.
- Continued low cost of debt due to the County's high bond rating
- The amount of cash on deposit with an escrow agent for the Law Enforcement Expansion Capital Project. This project, which is funded by proceeds from the issuance of the 2007 Certificates of Participation, provides for the construction, furnishing and equipping of a jail and law enforcement center. The new 300 bed facility, expandable to 370, will replace the current 85 bed facility. The new law enforcement center will be constructed in the existing Harnett County Governmental Complex, thereby improving law enforcement operations and jail security.
- The amount of cash on deposit with an escrow agent for the Overhills Elementary School Capital Project. This project, which is also funded by the proceeds from the issuance of the 2007 Certificates of Participation, will provide for the construction of a new elementary school with the capacity to accommodate up to 800 students.
- Accounts receivable for the governmental activities increased due to an increase in the sales tax revenue, grant programs and services provided for emergency medical services.
- Cash and Investments for the Business-type Activities increased from the prior year due to an increase in the fees and the cash within the projects. The daily average consumption of water increased from 8,200,209 gallons to 8,742,905, the number of water service connections increased from 35,522 to 37,794 and the number of sewer connections increased from 7,080 to 7,811.
- Capital assets increased for business-type activities as a result of the number of on-going construction projects.

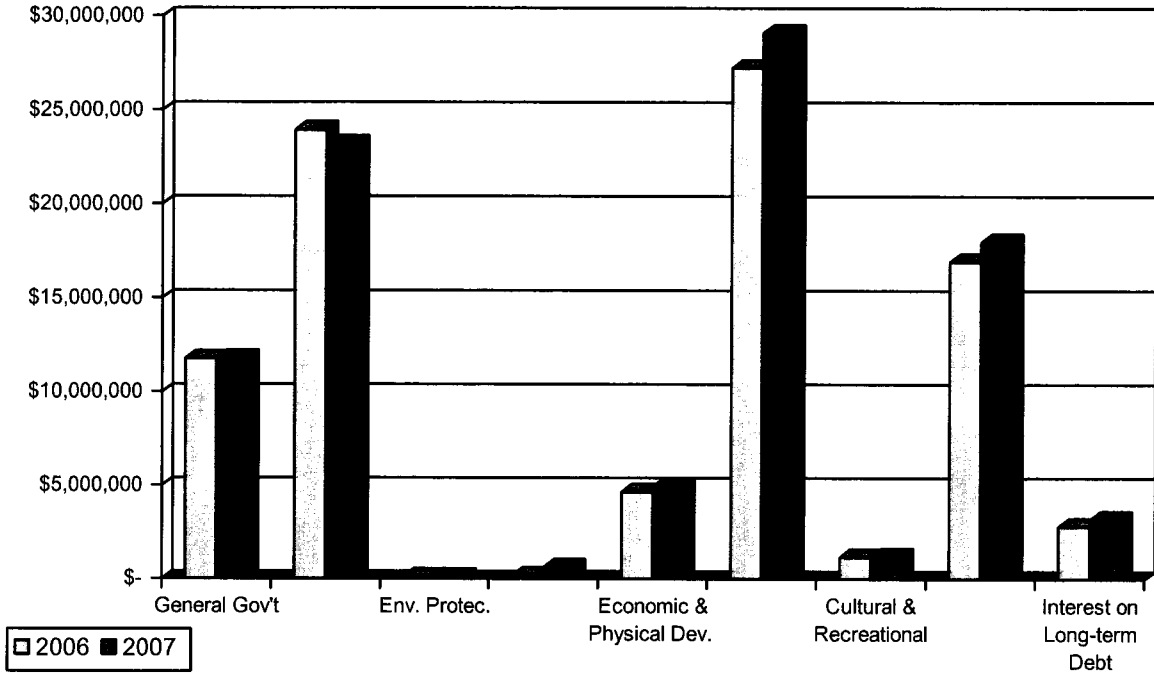
Harnett County Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 11,817,416	\$ 11,799,500	\$ 23,211,204	\$ 19,058,206	\$ 35,028,620	\$ 30,857,706
Operating grants and contributions	20,497,406	21,080,304	21,431,292	411,375	41,928,698	21,491,679
Capital grants and contributions	19,656	2,200	-	8,773,746	19,656	8,775,946
General revenues:						
Property taxes	42,322,460	40,420,076	-	-	42,322,460	40,420,076
North Carolina sales tax	20,068,211	18,124,258	-	-	-	-
Other taxes	1,083,171	927,666	107,930	101,665	1,191,101	1,029,331
Grants and contributions not restricted to specific programs	668,085	1,462,300	-	-	668,085	1,462,300
Other	2,985,991	2,971,570	2,529,171	209,016	5,515,162	3,180,586
Total revenues	<u>99,462,396</u>	<u>96,787,874</u>	<u>47,279,597</u>	<u>28,554,008</u>	<u>126,673,782</u>	<u>107,217,624</u>
Expenses:						
General government	11,819,168	11,780,292	-	-	11,819,168	11,780,292
Public safety	23,195,858	23,948,439	-	-	23,195,858	23,948,439
Environmental Protection	129,917	121,443	-	-	129,917	121,443
Transportation	639,875	216,201	-	-	639,875	216,201
Economic and physical development	4,958,192	4,678,094	-	-	4,958,192	4,678,094
Human services	29,108,185	27,257,065	-	-	29,108,185	27,257,065
Cultural and recreation	1,233,206	1,188,384	-	-	1,233,206	1,188,384
Education	18,006,432	16,948,707	-	-	18,006,432	16,948,707
Interest on long-term debt	3,204,761	2,838,662	-	-	3,204,761	2,838,662
Landfill	-	-	3,743,693	3,473,564	3,743,693	3,473,564
Water and sewer	-	-	15,117,851	13,185,106	15,117,851	13,185,106
Total expenses	<u>92,295,594</u>	<u>88,977,287</u>	<u>18,861,544</u>	<u>16,658,670</u>	<u>111,157,138</u>	<u>105,635,957</u>
Increase in net assets before transfers	7,166,802	7,810,587	28,418,053	11,895,338	15,516,644	1,581,667
Transfers	219,199	151,650	(219,199)	(151,650)	-	-
Increase/(decrease) in net assets	7,386,001	7,962,237	28,198,854	11,743,688	35,584,855	19,705,925
Net assets, July 1	10,120,141	2,157,904	78,887,370	67,143,682	89,007,511	69,301,586
Net assets, June 30	<u>\$ 17,506,142</u>	<u>\$ 10,120,141</u>	<u>\$ 107,086,224</u>	<u>\$ 78,887,370</u>	<u>\$ 124,592,366</u>	<u>\$ 89,007,511</u>

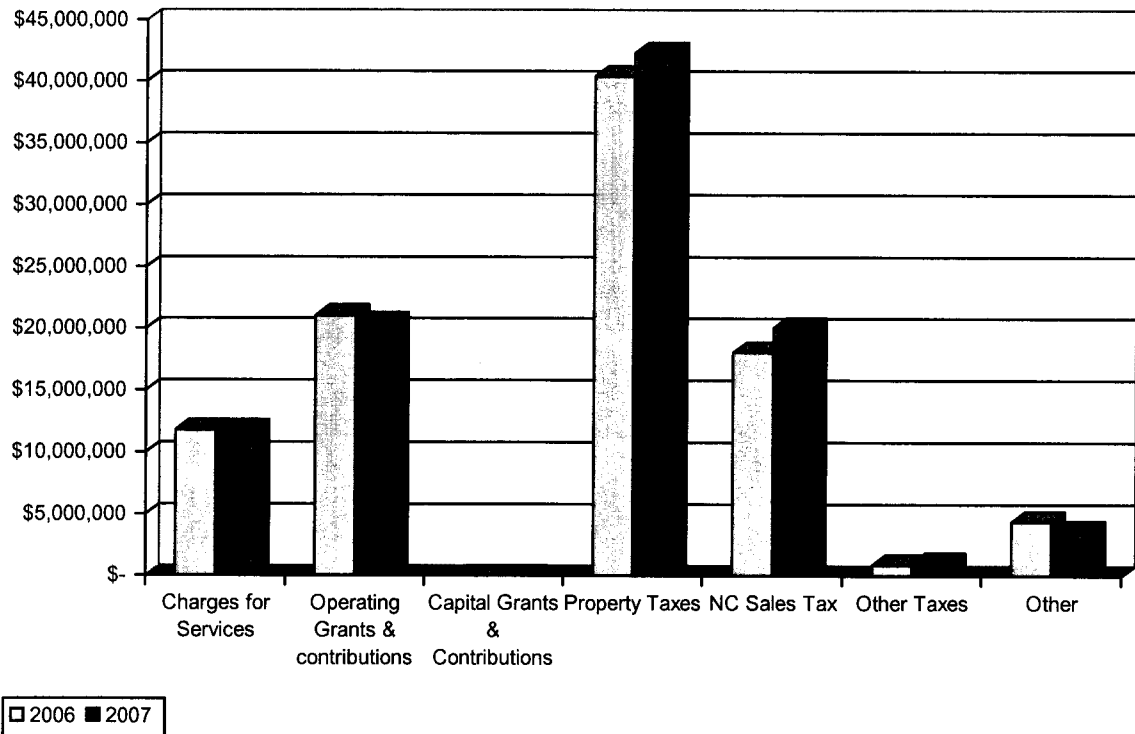
Governmental activities. Governmental activities increased the County's net assets by \$7,386,001. Key elements of this increase are as follows:

- Under General Revenues, property taxes increased by 4.70%. This was due to the increase in the collection of property taxes as the County continues to aggressively collect these funds.
- Sales tax revenue increased \$1,943,953, or 10.72%, over the prior year. Sales tax continues to increase due to growth in the County.
- Charges for Services increased \$17,916, or .15% over the prior year. Although the overall Charges for Services increased only \$17,916, several programs experienced differences in excess of that amount. General Government experienced the largest increase of \$125,256 or 6.4%, due to fees collection for planning permits and inspections. Cultural and Recreational charges decreased \$30,643, or 5.8%, as a result of the fines and forfeitures that are received from the Clerk of Court for pass-through to the Board of Education.
- Although overall Program Revenues showed a slight decrease in Operating Grants and Contributions of 2.8%, certain programs experienced increases. Transportation grants and contributions increased 104% as a result of the grant funding received for the various Airport Capital Projects which are currently ongoing within the County. Human Services increased 7.5% as a result in the increase of Social Services Administration and Day Care Subsidy.
- Transportation Expenses reflected an overall increase of \$423,674 or 196% over the prior as a result of the current year expenditures associated with the Harnett Regional Jetport Capital Project. This project consists of Runway Safety Area Extension and Glideslope preparation at the Harnett County Regional Jetport.
- Human Services expenditures increased 6.75% over the prior year. A portion of this increase was due to the increase in expenditures associated with Medicaid and Day Care.
- Expenditures for the payment of debt service interest and fees increased 13% as a result of the issuance of the 2007 Certificates of Participation and the refunding of a portion of the 2002 Certificates of Participation.

Expenses – Governmental Activities



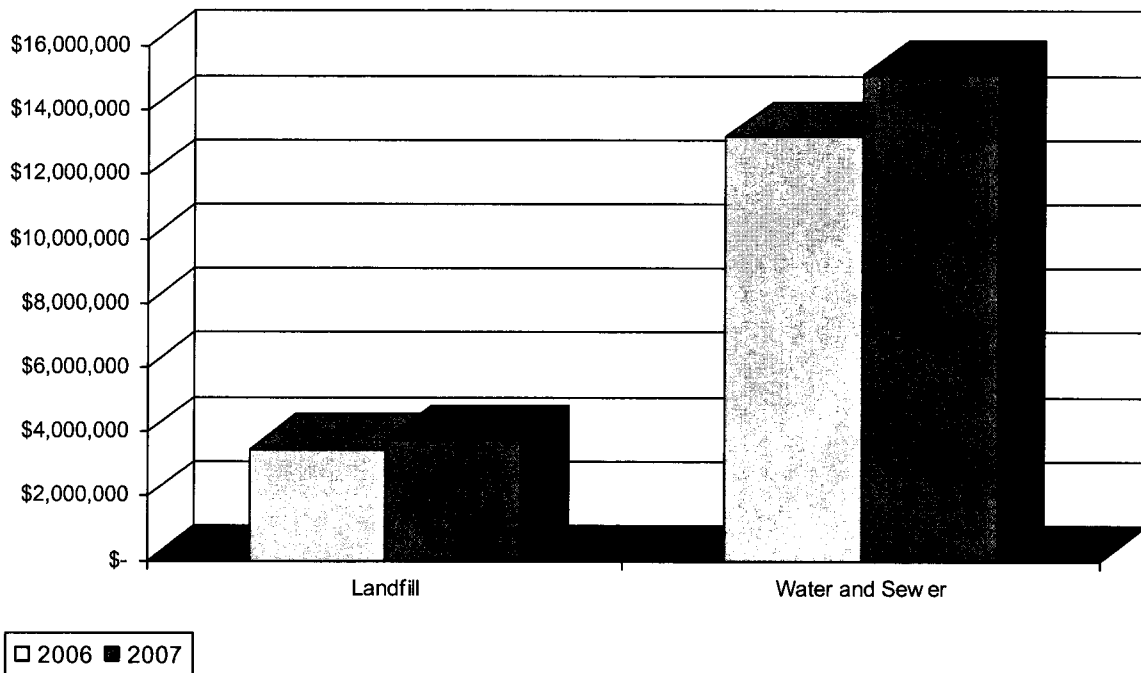
Revenues by Source – Governmental Activities



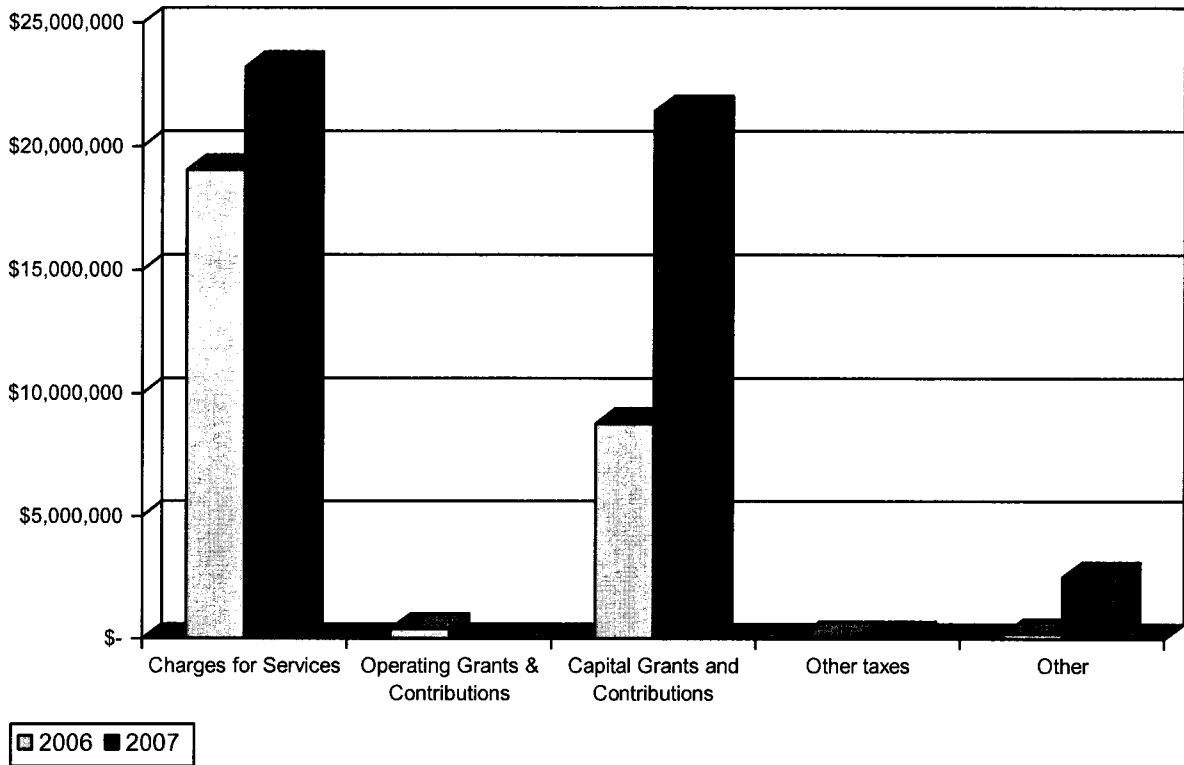
Business-type activities: Business-type activities increased Harnett County's net assets by \$28,198,854. Key elements of this increase are as follows:

- Charges for services increased 25.37% over the prior year as a result of a fee increase which was approved for the fiscal year. Additionally, the number of service connections increased 6.3% for water and 10.3% for sewer over the prior year as a result of the growth in the County.
- The largest increase, \$2,231,708 was recognized in Miscellaneous Revenues. This increase was due to the intergovernmental project revenue received for the Fort Bragg Water Supply & Wastewater and the Water Plant Expansion projects. The Fort Bragg Water Supply & Wastewater Project consists of the 8 mgd expansion of the Harnett County Regional Water Treatment Plant, the design of an 8 mgd expansion to the currently designed South Harnett Regional Wastewater Treatment Plant and the installation of waterlines and wastewater force main to serve Fort Bragg. The project also consists of the interim operations of the existing water and wastewater treatment plants located on Fort Bragg until these construction improvements are made. The Water Plant Expansion Project consists of the construction of an 18 mgd expansion of the Harnett Regional Treatment Plant which will bring the total water treatment capacity of the plant to 36 million gallons per day. Several local governments are purchasing capacity in the plant.
- Water and sewer expenditures increased 14.6% over the prior year for salaries, chemicals, utilities and treatment cost associated with the increase in water and sewer sales.

Expenses – Business-type Activities



Revenues – Business-type Activities



Financial Analysis of the County’s Funds

As noted earlier, Harnett County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of Harnett County’s governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Harnett County’s financing requirements. Specifically, unreserved fund balance can be a useful measure of a government’s net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of Harnett County. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$10,004,357, while total fund balance reached \$22,860,214. As a measure of the general fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 10.68% of total General Fund expenditures, while total fund balance represents 24.24% percent of that same amount.

At June 30, 2007, the governmental funds of Harnett County reported a combined fund balance of \$70,979,066, a 142.79% increase over last year. Approximately 70% of this total amount (\$49,786,452) constitutes unreserved, undesignated fund balance, which is available for spending at the government's decision. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed for the following:

- Liquidate contracts and purchase orders of the prior period (\$114,190),
- Pay debt service (\$4,175,346),
- Fund subsequent year's expenditures (\$3,265,000),
- Reserved by State Statute (\$10,615,024), and
- For a variety of other restricted purposes (\$102,386).

Proprietary Funds. Harnett County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Landfill Fund at the end of the fiscal year amounted to \$951,528, and those for the Water and Sewer Fund equaled \$106,134,695. The total growth in net assets for both funds was \$(1,27,040) and \$28,325,893 respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of Harnett County's business-type activities.

General Fund Budgetary Highlights: During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased revenues by \$5,378,467, a material amount. This increase was due to budget amendments for the collection of sales tax, investment earnings and state and federal grants which were either awarded for the fiscal year or adjusted from the original budget ordinance once final grant funding confirmations were received. For the fiscal year, sales tax revenue exceeded the original budget estimates by 8%. Due to an unpredictable market, investment earnings have historically been budgeted conservatively. As an indicator of the recovering economy, and the County's investment policy which directs the investment of idle funds, final budgeted investment earnings exceeded original budget estimates by 180%. Amendments to Unrestricted Intergovernmental revenues increased the original budget by 22.84%. Grant funding for social services programs accounted for 19% of the total increase to the Unrestricted Intergovernmental revenue, while the remaining increase was to adjust various Cooperative Extension programs to reflect the actual grant funding awarded for the year.

Capital Asset and Debt Administration

Capital assets. Harnett County's investment in capital assets for its governmental and business-type activities as of June 30, 2007, totals \$208,461,123 (net of accumulated depreciation). These assets include buildings, land, construction in progress, buildings, land improvements, furniture, computer hardware, computer software, fixtures, machinery and equipment, park facilities, vehicles and plant distribution and collection systems.

Major capital asset transactions during the year include:

- Purchased new vehicles for the Public Safety Department
- Purchased computers and software for various departments in the County
- Addition of construction in progress on Water and Sewer plant facilities and Airport construction projects
- Addition of several contributed water lines

Harnett County Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 2,214,535	\$ 2,214,535	\$ 2,554,484	\$ 1,018,011	\$ 4,769,019	\$ 3,232,546
Plant, distribution and collection systems	-	-	97,321,445	86,579,587	97,321,445	86,579,587
Buildings	33,942,350	31,104,956	583,157	614,674	34,525,507	31,719,630
Land Improvements	4,120,197	2,109,116	-	-	4,120,197	2,109,116
Furniture, fixtures and equipment	839,850	482,172	758,655	669,374	1,598,505	1,151,546
Computer hardware	131,682	296,349	-	-	131,682	296,349
Computer software	358,988	236,547	-	-	358,988	236,547
Vehicles	2,055,500	1,992,160	458,660	400,333	2,514,160	2,392,493
Construction in progress	7,929,076	10,294,345	55,192,544	29,986,907	63,121,620	40,281,252
Total	\$ 51,592,178	\$ 48,730,180	\$ 156,868,945	\$ 119,268,886	\$ 208,461,123	\$ 167,999,066

Additional information on the County's capital assets can be found in Note 7 of the Basic Financial Statements.

Long-term Debt. At the end of the current fiscal year, Harnett County had total debt outstanding in the amount of \$165,071,265. Of this amount, \$16,452,000 represents general obligation bonds issued by the County's water and sewer districts to fund the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the County. At June 30, 2007, the County's outstanding debt consisted of:

Harnett County Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Installment purchase	\$ 101,683,332	\$ 66,134,470	\$ 11,503,883	\$ 11,035,550	\$ 113,187,215	\$ 77,170,020
General obligation bonds	-	-	16,452,000	17,210,400	16,452,000	17,210,400
Capitalized leases	736,726	941,063	70,963	138,654	807,689	1,079,717
Revenue Bonds	-	-	15,265,909	-	15,265,909	-
State Bond loan	-	-	19,358,452	15,676,716	19,358,452	15,676,716
	<u>\$ 102,420,058</u>	<u>\$ 67,075,533</u>	<u>\$ 62,651,207</u>	<u>\$ 44,061,320</u>	<u>\$ 165,071,265</u>	<u>\$ 111,136,853</u>

Harnett County's total debt increased by \$53,934,412 (48.52%) during the past fiscal year, primarily due to the addition of additional debt.

As mentioned in the financial highlights section of this document, Harnett County maintained its A3 and A bond rating for Certificates of Participation, A3 and A for Revenue Bonds and A2 and AAA bond rating for General Obligations from Moody's Investor Service and Standard and Poor's Corporation. These bond ratings are a clear indication of the sound financial condition of Harnett County.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Harnett County is \$279,394,415. The County has \$42,000,000 in bonds authorized but unissued at June 30, 2007.

Additional information regarding Harnett County's long-term debt can be found in notes 10 and 11 on pages F-25 through F-36 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the County.

- The unemployment rate for Harnett County for the fiscal year ending June 30, 2007 was 5.50%, which is an increase from a rate of 5.20% a year ago. Compared to the State average of 5.10% for the same period, the County is only slightly above the State average.
- The Local Option Sales Tax, which replaced the loss of State reimbursements, continues to generate additional revenue for the County.
- The Economic Development Commission, through its recruiting efforts, continues to assist local businesses in expansion and attracting new industry to the area.

Budget Highlights for the Fiscal Year Ending June 30, 2008

Governmental Activities: Property taxes and revenues from permits and fees are expected to lead the increase in revenue projections and the County will use these increases to finance programs currently in place. Harnett County continually evaluates property on a yearly basis even though a revaluation will not be done. This evaluation, along with the County's continued aggressive tax collection efforts, provide an analysis of future income.

Expenditures in the General Fund have been budgeted at \$98,862,941 and includes amounts appropriated for Interfund transfers, debt service, capital reserve and contingency. The increase in the budget is due to the implementation of a 3% cost-of-living increase for employees, the addition of new positions in Social Services, Sheriff and the Information Technology Departments, an increase in education funding and debt service for the 2007 Certificates of Participation for the new law enforcement center and Overhills Elementary School.

Business-type Activities: The water and sewer rates for the 2007 – 2008 fiscal year were increased. This increase was necessary to meet the current level of service, infrastructure investment and ongoing capital projects. The rates for landfill services will not increase. Expenditures for Public Utilities and Solid Waste for the fiscal year have been budgeted at \$18,038,502 and \$4,153,810, respectively. These budgeted expenditures will cover increased personnel, supplies and operating costs associated with the increasing demand for water and services due to growth.

Requests for Information

This report is designed to provide an overview of the County's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the

Director of Finance, Harnett County, P.O. Box 760 102 East Front Street
Lillington, NC 27546.