

September 30, 2008

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, 2008. 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.

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 24th largest county in the State based on the US Census Bureau's population estimate at July 2007 of 108,721. The county seat, the Town of Lillington, has a population of 3,215 while the City of Dunn, the largest municipality located in the County, has a population of 9,922. These two municipalities comprise approximately 12.08% 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 pines 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 calendar year 2007, travelers spent \$62.68 million in Harnett County, which represents a 9.9% increase over the previous year. The tourism industry generated \$4.82 million in state and local taxes. 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 550 jobs with an annual payroll of \$9.43 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 2008 scored a 95% passage rate on the July North Carolina Bar Exam, topping all other law schools in the state. In 2008, the Law School's Moot Court Program was ranked 17th nationally among 196 ABA accredited law schools.

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 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.

Agriculture plays a significant role in the economy of Harnett County. Gross income from all agriculture (farming and urban horticulture) for the 2007 calendar year is estimated to be \$170.35 million. Total gross income from farming during the 2007 calendar year is estimated to be \$158.85 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 \$22 million. Other crops were peanuts, soybeans, cotton, corn, sweet potatoes, vegetables, fruits, nuts, swine and beef production, wool, honey, horses, and hay.

Currently, over 85,000 acres of forest are managed in Harnett County. The management of forestry in Harnett County accounted for \$4.2 million in 2007.

Urban horticulture is another important aspect of agricultural economy in Harnett County. Greenhouses and nurseries occupy 600 acres and generate \$6 million in gross income. Seven golf courses occupy 1,900 acres and generate \$5.5 million in gross income.

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

- HFTC created the Western Harnett Industrial Park, a 250-acre site located on NC Highway 87 between Sanford and Fort Bragg, to attract business and industry. The Western Harnett Industrial Park Board began construction of a speculative building that will be available for lease or sale by early 2009.
- Central Carolina Community College completed the final phase of construction of a new campus at the Western Harnett Industrial Park.
- HFTC purchased a scenic, rolling tract in western Harnett County and has designated this site as a future recreation and park site for the County. HFTC, along with the County, invested \$3.1 million in the 1,014-acre property. The property, known as Anderson Creek, is located approximately nine miles west of Lillington near NC Highway 27, in the Anderson Creek Township, and is considered an essential addition to meeting the recreational and green space needs of the County. A committee has been formed to oversee the design and development of this park.
- HFTC donated 16 acres of land, constituting a portion of the former Swift Denim Weave facility in Erwin, for the Cape Fear River Park. The County, the Town of Erwin and HFTC received \$493,000 in parks and recreation grant funding from the State to make this park a first-class tourism destination. The park, which is located at the NC Highway 217 bridge over the Cape Fear River in Erwin, celebrated its grand opening on May 3, 2008. The park is part of the over 100-mile-long Cape Fear Paddle Trail that ends in Wilmington and features walking trails, river overlooks, restrooms, a shelter and space for outdoor education, and a canoe/kayak access.
- HFTC purchased 130 acres of land just west of the Harnett County Courthouse in Lillington. The \$5.7 million property, known as Brightwater, will become home to the County's first biotechnology campus. Partnerships have been established with Campbell University's School of Pharmacy and Central Carolina Community College's new biotechnology lab.
- The County-owned airport became the "Harnett Regional Jetport" and a completed runway extension to 5,000 feet will accommodate corporate business jets, thereby allowing it to be classified as a "business class airport."
- Since its purchase of 43 acres in the Edgerton Industrial Park, Old Castle/Adams Products has nearly completed construction of a \$23 million project that is expected to create 20 jobs. Manufacturing operations will begin in December, 2008.
- The former Swift Denim Weave facility in Erwin, which was purchased and renovated by HFTC to attract new industry, is now home to Pentair Pool and Spa and employs over 100 people.

Harnett County's industry base continues to grow. Industry highlights for the past calendar year include:

- Edwards Brothers book publishing company in Lillington purchased and installed a new \$4.5 million hard bound book finishing line which will increase overall finishing capacity by 40%. Additionally, a web offset press was recently transferred to the press room from the Michigan plant, bringing with it \$6 million in volume, increasing sales in the Lillington plant by 20% and creating 25 new jobs.
- Gray Metal South of Dunn, a manufacturer of sheet metal ducts for heating and cooling completed a \$4.3 million expansion.
- Due in large part to public/private economic development efforts, Tri-South Industrial Park, a private 30-acre industrial park, opened on US Highway 401 North. One of the current tenants is Jarco Supply, a grading and sitework supplier, and construction is nearly complete on a second site to house a thermo-control supplier.
- Heatmaster, a manufacturer of gas logs and fireplace accessories located in Angier, completed a merger with American Gas Logs, located in Georgia. As a result of this merger, American Gas Logs will relocate manufacturing operations from Decatur, Georgia to the Angier facility.
- Mile Marker Logistics, an express and standard freight-forwarding transportation and logistics solutions company, expanded its operations to include a logistics site in Dunn, creating 10 new jobs.
- Central Carolina Tire and Disposal, a scrap tire processor located in the western part of the county, invested \$2.5 million in construction and equipment expansion to boost capabilities and increase employment by 40%.
- Kidde Fire Fighting, Inc. completed a \$3 million expansion.
- Champion Homes, a mobile and modular home manufacturer, added 58 new employees for a total workforce of 208. The company also received the OSHA Carolina Star Award for safety.

The Economic Development web site continues to serve as a research and sales tool. On average, during the 2007 - 2008 fiscal year, there were 2,513 visitors to the www.harnettedc.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 \$9,021,127 or 9.13% of total general fund expenditures and transfers out.

The County's investment in economic development efforts of the past few years continue to result in new investments in the County by new and existing industry. The County's continued aggressive approach to economic development is illustrated in current projects as the County responds to the needs associated with being the eighth fastest growing County in the state. 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 the County as well as 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. The expansion of Highway 87 to a four-lane highway continues to promote more growth in western Harnett County. This expansion, in addition to the Base Realignment and Closure Act (BRAC) announcement which estimates that 40,000 people are expected to move to Harnett County by the year 2013, will bring about even more growth. Assistance to our existing businesses and industries continues to be a top priority and has resulted in the development of an 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. Continued growth requires that the County continue developing infrastructure and, at the same time, ensure that the growth experienced by our communities takes place in a planned and positive manner. The capital needs of public education will continue to challenge our community as well as the needs of other services.

During the fiscal year, the County began the following projects:

- Overhills Elementary School - This project, funding by the issuance of certificates of participation, consists of the construction of a new elementary school. The school will be constructed on County-owned land on Ray Road in the Overhills Community in the southwestern portion of the County. The school will have the capacity to accommodate up to approximately 800 students and will include classrooms, administrative offices, a gymnasium, playgrounds and playing fields.
- Angier Elementary School - This project, which is funded by installment purchase loan proceeds, will consist of the construction of a new elementary school which will seat 750 students. The existing structure, which was built in 1928, will be demolished before construction on the new building begins.
- Airport Airfield Improvements 100 - This project, funded by a grant from the North Carolina Department of Transportation, consists of the rehabilitation of the airfield pavement, relocation of existing hangars and rotating beacon and site preparation and supporting taxiway for the proposed hangar.

Our Public Utilities Department continues work on several capital projects. New projects which began during the fiscal year include the following:

- Edgerton Water Tank - This project, which is funded in part by North Carolina Rural Center and Community Development grants, consists of the construction of a 300,000 gallon elevated storage tank to serve the Edgerton Industrial Park located outside of Dunn. This project will also consist of the purchase and installation of an 80 gallon per minute sewer lift station with appurtenances to serve the park.
- Buffalo Lakes Road Wastewater Extension - This project consists of approximately 18,000 linear feet of 12 inch wastewater forcemain and approximately 10,000 linear feet of 8 - 16 inch wastewater gravity to serve the Buffalo Lakes Road and Highway 87/24 corridor in Harnett County. It also consists of the construction of a 180 gallon per minute wastewater pumping station and the upgrade to the existing NTA wastewater pumping station of Highway 87. This project will serve as the beginning conduit to send the waste generated in this portion of the County to the South Harnett Wastewater Treatment Plant currently under construction off Shady Grove Road.

Infrastructure improvements continue throughout the County in response to the growth which the County continues to experience. 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 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 area 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, 2008.

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.

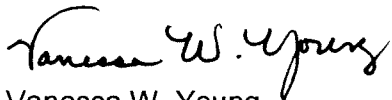
The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The County participates in two self-funded risk-financing pools administered by the North Carolina Association of County 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 carries flood insurance through the National Flood Insurance Plan and is also eligible and has purchased commercial flood insurance. The Worker's Compensation Insurance is self insured with reinsurance through Safety National Insurance Company and Key Risk Management Services, Inc. as the 3rd 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, 2007. This was the sixteenth 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