

## 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, 2009. 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.

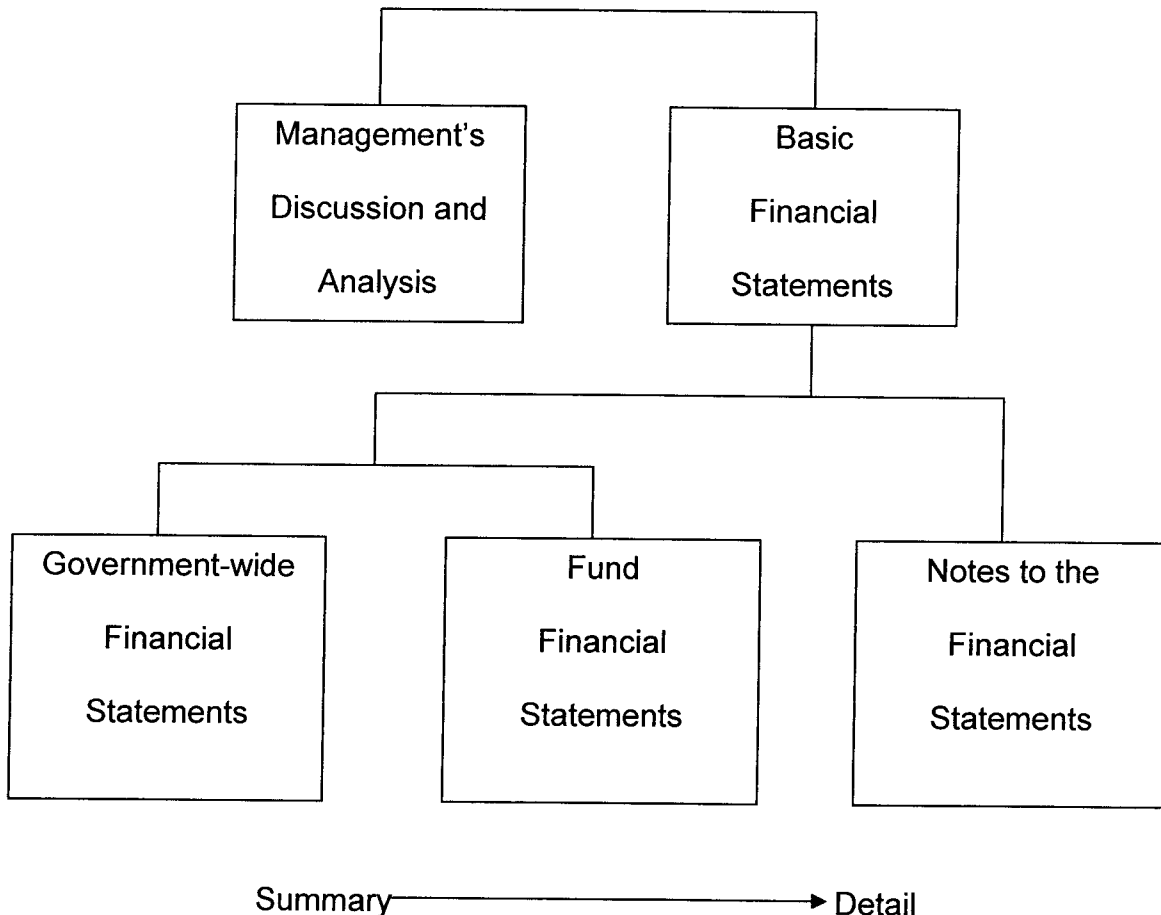
### Financial Highlights

- The assets of Harnett County exceeded its liabilities at the close of the fiscal year by \$136,935,492 (net assets).
- The government's total net assets increased by \$8,137,996. 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 \$107.5 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 \$51,768,120, a decrease of \$4,180,759 in comparison with the prior year. Approximately 80.46% of this total amount, or \$41,652,990, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, undesignated and designated fund balance for the General Fund was \$9,327,602, or 9.15% percent of total general fund expenditures for the fiscal year.
- Harnett County's total debt increased by \$51,181,849 (85.38%) 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 the issuance of certificates of participation for school construction and the issuance of revenue bonds for Public Utilities.
- Harnett County held A3 and A+ bond ratings for Certificates of Participation, A2 and AA- ratings for Issuer Ratings and A2 and AA- ratings for Revenue Bonds as assigned by Moodys and Standard & Poors, respectively.

## 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-38 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 seventh 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 \$136,935,492 as of June 30, 2009. The County's net assets increased by \$8,137,996 for the fiscal year ended June 30, 2009.

The largest portion totaling \$213,996,936 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	
	2009	2008	2009	2008	2009	2008
<b>Assets</b>						
Cash and investments	\$ 47,919,351	\$ 48,950,326	\$ 24,514,214	\$ 15,590,277	\$ 72,433,565	\$ 64,540,603
Taxes receivable, net	536,530	626,970	-	-	536,530	626,970
Accounts receivable, net						
Accounts	4,261,554	3,065,882	7,537,013	4,020,163	11,798,567	7,086,045
Restricted intergovernmental	7,631,990	8,343,678	695,401	143,656	8,327,391	8,487,334
Other	-	2,508	-	-	-	2,508
Cash on deposit with escrow agent	-	1,856,896	-	-	-	1,856,896
Bond issue costs, net	1,520,287	826,082	2,136,888	979,991	3,657,175	1,806,073
Inventories	11,704	23,522	293,625	269,409	305,329	292,931
Capital assets:						
Nondepreciable	27,505,448	21,893,891	126,999,603	77,454,396	154,505,051	99,348,287
Depreciable	43,521,352	44,513,197	103,376,251	100,378,546	146,897,603	144,891,743
Total assets	<u>132,908,216</u>	<u>130,102,952</u>	<u>265,552,995</u>	<u>198,836,438</u>	<u>398,461,211</u>	<u>328,939,390</u>
<b>Liabilities</b>						
Accounts payable and accrued liabilities	5,148,197	5,556,720	11,072,596	2,814,336	16,220,793	8,371,056
Accrued interest payable	492,239	581,204	644,323	342,070	1,136,562	923,274
Claims payable - current	570,000	-	-	-	570,000	-
Customer deposits	-	-	1,258,148	1,162,408	1,258,148	1,162,408
Unearned revenue	717,072	736,593	96,423	81,444	813,495	818,037
Claims payable	371,572	1,235,826	-	-	371,572	1,235,826
Long-term liabilities:						
Due in less than one year	8,515,824	10,000,225	4,739,343	13,931,235	13,255,167	23,931,460
Due in more than one year	136,171,791	105,083,038	91,728,191	58,616,795	227,899,982	163,699,833
Total liabilities	<u>151,986,695</u>	<u>123,193,606</u>	<u>109,539,024</u>	<u>76,948,288</u>	<u>261,525,719</u>	<u>200,141,894</u>
<b>Net assets</b>						
Capital assets, net of related debt	61,156,323	37,271,906	150,839,435	111,540,080	211,995,758	148,811,986
Unrestricted	(80,234,802)	(30,362,560)	5,174,536	10,348,070	(75,060,266)	(20,014,490)
Total net assets	<u>\$ (19,078,479)</u>	<u>\$ 6,909,346</u>	<u>\$ 156,013,971</u>	<u>\$ 121,888,150</u>	<u>\$ 136,935,492</u>	<u>\$ 128,797,496</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 \$107.5 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 influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes achieved a collection percentage of 97.13%, which is slightly below the 2008 statewide average of 97.83% 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 Boone Trail Elementary School Capital Project, which is funded by certificates of participation will consist of the construction of a new elementary school to be known as Boone Trail Elementary School. The school will be constructed on County-owned land at the intersection of Griffin Road and Adcock Road in the Mamers community, which is located in the western portion of the County. The school will have capacity to accommodate up to approximately 800 students and will include classrooms, administrative offices, a gymnasium, playgrounds and playing fields.
- The amount of cash on deposit with an escrow agent for the Harnett Central High School Capital Project. This project will include the construction of a 13,550 square-foot auxiliary gymnasium and a 24-classroom addition to the Harnett Central High School. The gymnasium will feature a multi-purpose room to be used for physical education purposes. It will also be used to provide recreation opportunities for the Harnett Central High School community. The 24 additional classrooms will replace 24 mobile units and will increase in-building capacity by approximately 700 students.
- The amount of cash on deposit with an escrow agent for the Johnsonville Elementary School Capital Project. This project will consist of the construction of a 15-classroom addition to the Johnsonville Elementary School. The additional classrooms will add the capacity to accommodate approximately 350 students.
- Accounts receivable for the governmental activities increased due to an increase in revenue for grant programs and services provided for emergency medical services.
- Accounts receivable for the Business-type Activities increased from the prior year due to an increase in the fees and customer activity. The daily average consumption of water increased from 9,870,257 gallons to 9,938,972, the number of water service connections increased from 37,891 to 38,214 and the number of sewer connections increased from 8,295 to 8,669.
- Capital assets increased for business-type activities as a result of the number of on-going construction projects.

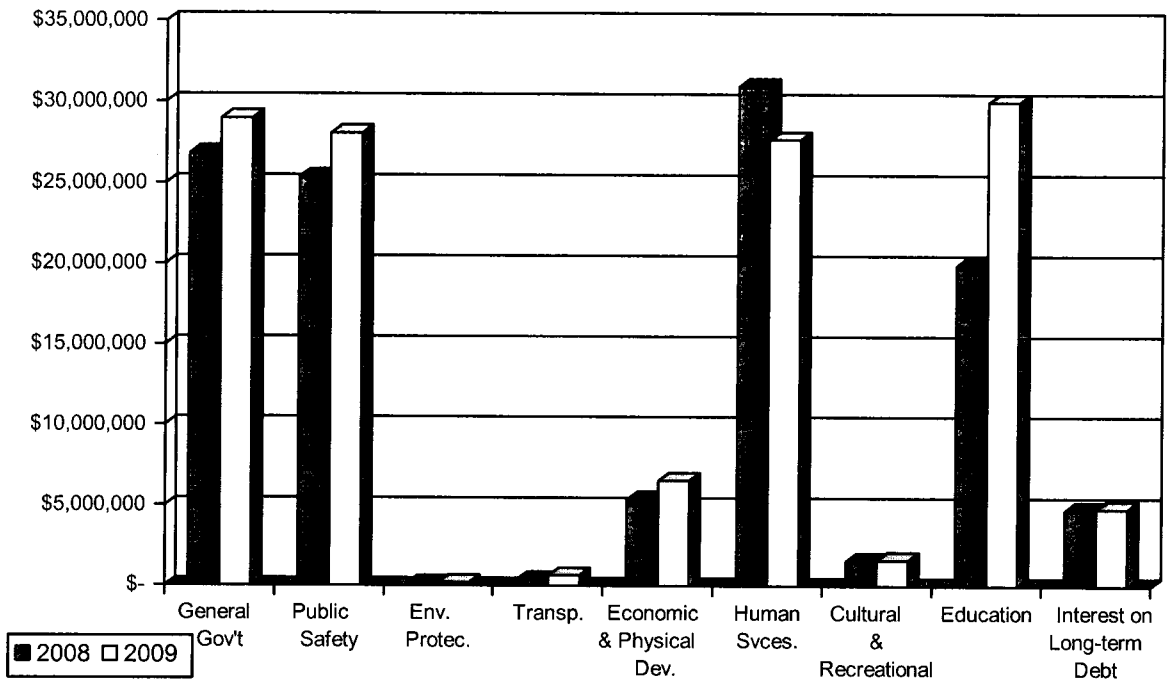
## Harnett County Changes in Net Assets

	Governmental Activities		Business-type Activities		Total
	2009	2008	2009	2008	
<b>Revenues:</b>					
Program revenues:					
Charges for services	\$ 13,072,812	\$ 12,896,575	\$ 24,969,493	\$ 25,294,146	\$ 38,190,721
Operating grants and contributions	21,867,992	21,694,768	-	511,300	22,206,068
Capital grants and contributions	8,000	15,000	31,384,786	9,638,451	9,653,451
General revenues:					
Property taxes	46,969,567	44,199,461	-	-	44,199,461
North Carolina sales tax	16,508,236	20,757,236	-	-	20,757,236
Other taxes	954,293	1,087,668	160,785	114,575	1,202,243
Grants and contributions not restricted to specific programs	234,713	144,532	-	-	-
Other	2,614,408	3,605,130	745,620	343,170	144,532
Total revenues	<u>102,230,021</u>	<u>104,400,370</u>	<u>57,260,684</u>	<u>35,901,642</u>	<u>140,302,012</u>
<b>Expenses:</b>					
General government	28,913,861	26,813,716	-	-	26,813,716
Public safety	28,144,340	25,374,027	-	-	25,374,027
Environmental Protection	202,232	139,421	-	-	139,421
Transportation	639,194	407,741	-	-	407,741
Economic and physical development	6,568,721	5,382,775	-	-	5,382,775
Human services	27,738,723	30,964,992	-	-	30,964,992
Cultural and recreation	1,621,761	1,570,301	-	-	1,570,301
Education	30,006,235	19,928,849	-	-	19,928,849
Interest on long-term debt	4,822,044	4,730,870	-	-	4,730,870
Landfill	-	-	-	-	-
Water and sewer	-	-	4,204,938	4,116,940	4,116,940
Total expenses	<u>128,657,111</u>	<u>115,312,692</u>	<u>22,695,598</u>	<u>20,784,189</u>	<u>136,096,881</u>
Increase in net assets before transfers	(26,427,090)	(10,912,322)	34,565,086	15,117,453	4,205,131
Transfers	439,265	315,526	(439,265)	(315,526)	-
Increase/(decrease) in net assets	(25,987,825)	(10,596,796)	34,125,821	14,801,927	4,205,131
Net assets, July 1	6,909,346	17,506,142	121,888,150	107,086,223	124,592,365
Net assets, June 30	<u>\$ (19,078,479)</u>	<u>\$ 6,909,346</u>	<u>\$ 156,013,971</u>	<u>\$ 121,888,150</u>	<u>\$ 128,797,496</u>

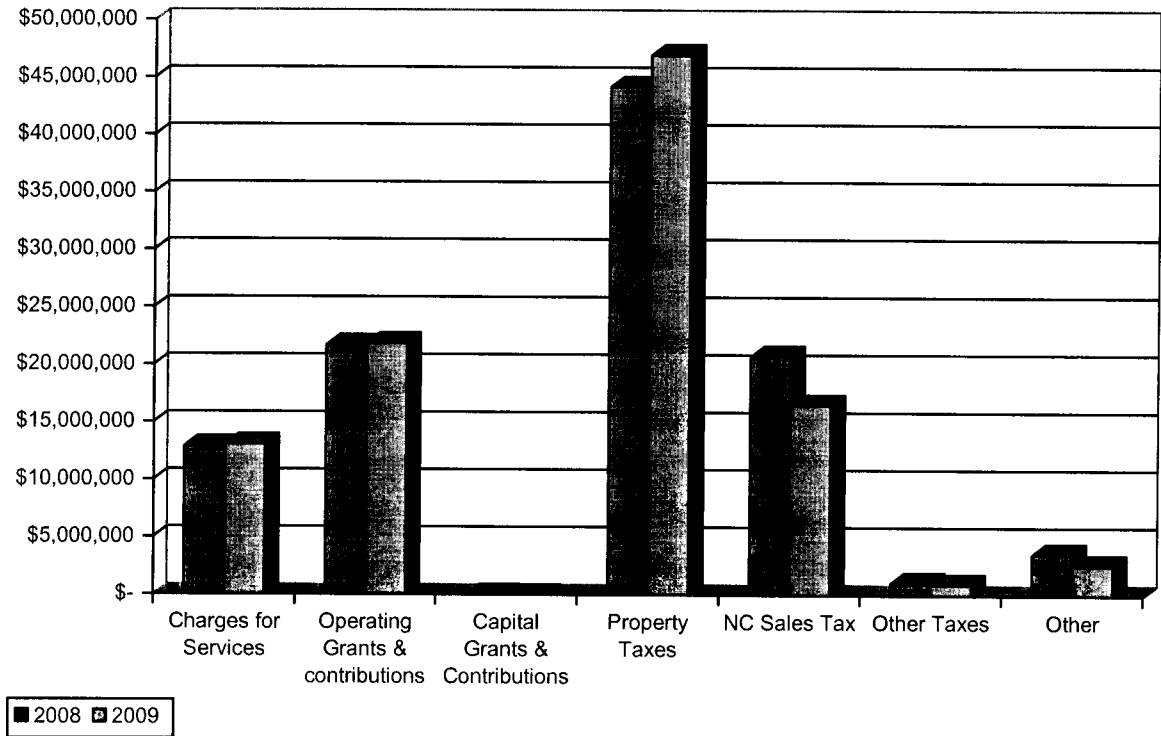
**Governmental activities.** Governmental activities decreased the County's net assets by \$25,987,825. Key elements of this decrease are as follows:

- The most significant change in the governmental activities net assets over the prior fiscal year was the expenses reported for Education which increased \$10,077,386 or 50.57%. This increase was due to cost associated with the construction on the Boone Trail Elementary, Harnett Central High School, Johnsonville Elementary and Highland Elementary School Gym Capital Projects.
- Under General Revenues, property taxes increased by 6.27%. This was due to the increase in the collection of property taxes as the County continues to aggressively collect these funds.
- Sales tax revenue decreased \$4,249,000 or 25.74%, over the prior year. This decrease was due in part to the partial withholding of Article 44 sales tax for the Medicaid swap and a declining economy.
- Grants and Contributions Not Restricted to Specific Programs increased \$90,181 or 6.2% due to various airport construction projects which were reimbursed by grants from the North Carolina Department of Transportation.
- Another area of governmental activity which saw a large increase in expenditures was in the area of Public Safety which increased \$2,697,500, or 10.63% over the prior year. This increase was the result of the hiring of 22 additional law enforcement personnel to staff the new Law Enforcement Center, the increase in ad valorem tax paid to area rescue, and the inclusion of E911 services which had been accounted for in a special revenue fund in prior years.
- Expenditures for the payment of debt service interest and fees increased 1.9% as a result of the first debt payments which began on the 2007 Certificates of Participation and the refunding of a portion of the 2002 Certificates of Participation.
- Human Services expenditures decreased \$3,226,269, or 10.42%. The most significant area of change was for Medicaid which decreased \$2,177,866 over the prior year as a result of the Article 44 sales tax swap.

### Expenses – Governmental Activities



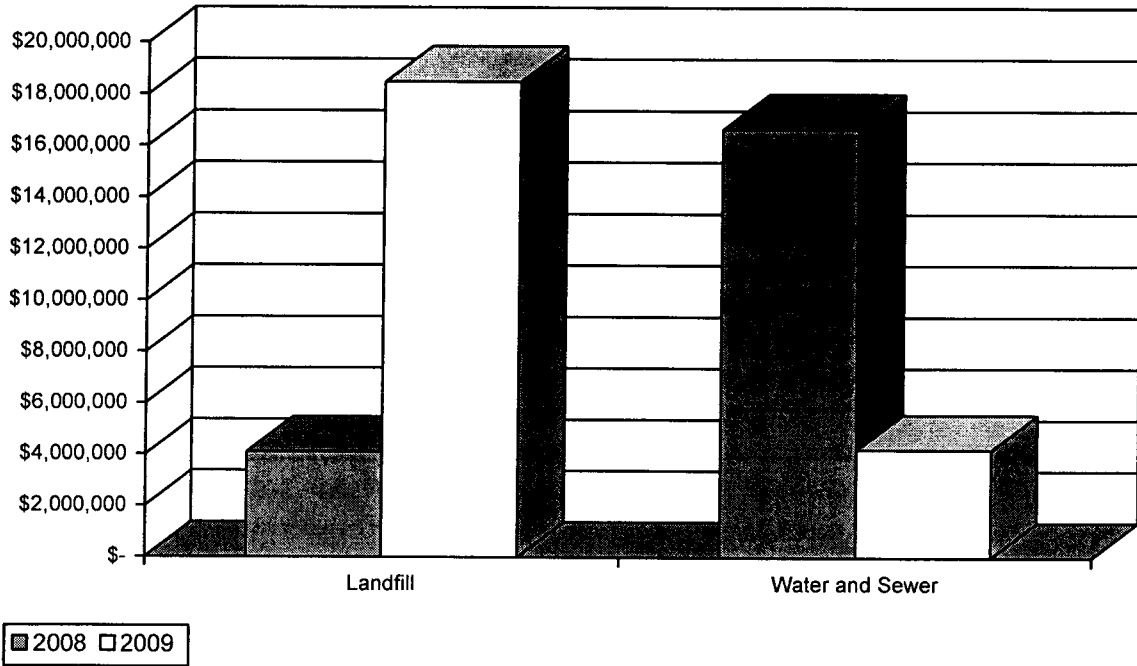
### Revenues by Source – Governmental Activities



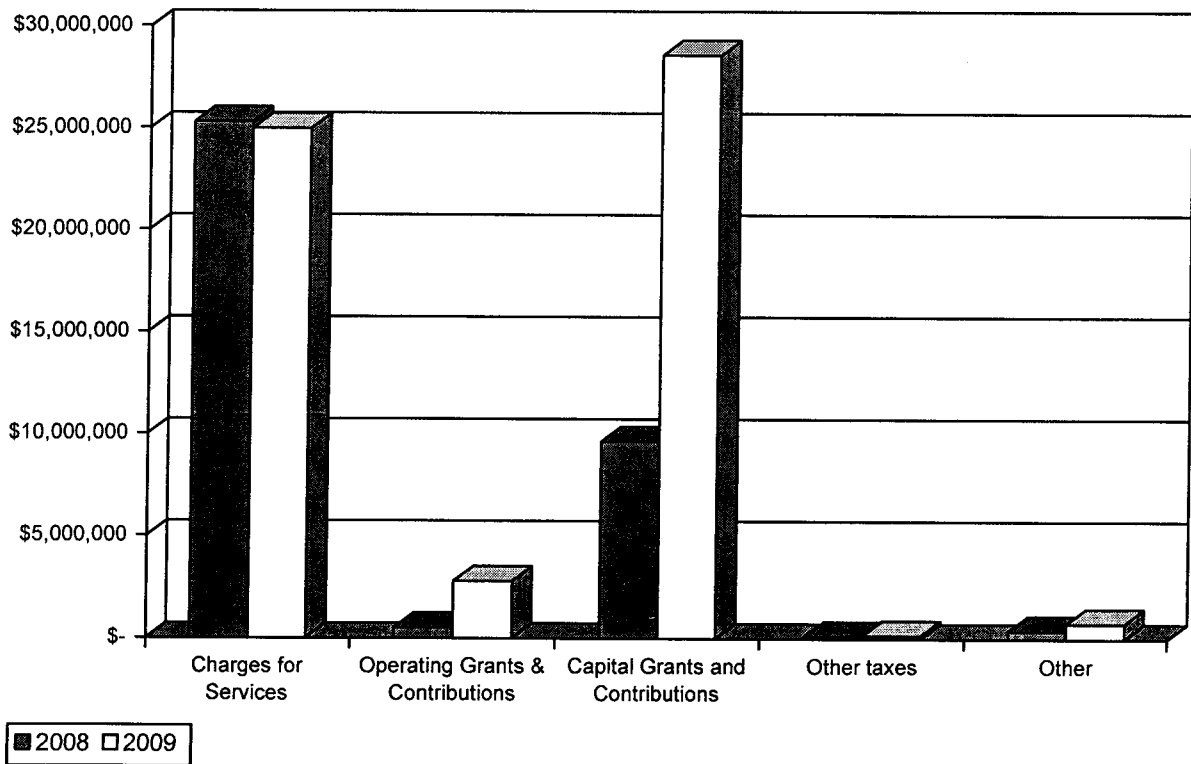
**Business-type activities:** Business-type activities increased Harnett County's net assets by \$34,125,821. Key elements of this increase are as follows:

- Capital Grants and Contributions increased 226% from \$9,638,451 to \$31,384,786. The revenue reported in this category is associated with various projects which are currently underway in the Public Utilities Department. The Harnett/Fuquay Wastewater Project consists of the building of a 30-inch gravity interceptor from the present Kenneth Creek Wastewater Treatment Plant site in Wake County approximately 8,600 feet to the Harnett County line. The line will continue along into Harnett County, where it will be upsized to 42 inches and then again to 48 inches in diameter, until it reaches the new regional pumping station. This project also includes an upgrade to the existing wastewater plant to treat the increased wastewater flows from the Town of Fuquay and northeastern section of Harnett County. The Fort Bragg Water Supply and Wastewater Treatment 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 11% 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 \$3,839,077, while total fund balance was \$18,440,861, a decrease of 26% over the prior fiscal year due in part to the loss of Article 44 sales tax as part of the Medicaid Swap. The staggering economy greatly impacted local sales as well as the construction of new homes. The County is experiencing a significant population growth with the expanding number of school aged children enrolling in Harnett County. Additionally, this added growth has placed demands on County services such as public safety, law enforcement and emergency services. 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 1.63% of total General Fund expenditures, while total fund balance represents 18.10% percent of that same amount.

At June 30, 2009, the governmental funds of Harnett County reported a combined fund balance of \$51,768,120, a 7.48% decrease over last year. Approximately 7.42% of this total amount (\$3,839,077) constitutes unreserved, undesignated fund balance, which is available for spending at the government's decision. Fund balance for the Law Enforcement Expansion Capital Project decreased 82% over the prior year to \$1,289,674. At fiscal year end, 95% of the project budget had been spent toward the construction of a new facility which opened in May, 2009. Angier Elementary reported a total fund balance of \$1,580,725. This project, began construction in May, 2008 to replace an existing school built in 1928, has spent 90% of its current project budget. 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 (\$96,094),
- Pay debt service (\$197,297),
- Fund subsequent year's expenditures (\$5,488,525),
- Reserved by State Statute (\$8,806,164), and
- For a variety of other restricted purposes (\$119,516).

**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 \$(44,843), and those for the Water and Sewer Fund equaled

\$156,058,814. The total growth in net assets for both funds was \$(514,255) and \$34,640,076 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 \$ 3,248,658 and expenditures by \$5,486,931, a material amount. Following are the main components of this increase:

- \$2,637,396 supplemental appropriations for restricted intergovernmental revenues, an increase of 14.14% to reflect state and federal grants for the Health, Cooperative Extension, Sheriff and Emergency Management Departments which were either awarded for the fiscal year or adjusted from the original budget ordinance once final grant funding confirmations were received. During the budget process, the County budgets a portion of the grant program revenues (normally three months) pending final confirmation or denial by the grantor. Once a grant amount is confirmed by the funding agency, the budget is adjusted to reflect the final award.
- \$246,773 supplemental appropriations permits and fees to reflect an increase in the number of concealed gun permit application and fingerprint fees and to account for Radio User Fees which, in prior years, were account for in the Emergency Telephone Fund.
- \$266,391 supplemental appropriations for sales and services due to an increase in Home Health Fees as a result in the number of patients who received occupational and physical therapy.
- \$316,901 supplemental appropriations for other general revenues were due to contributions from Wake Medical for the Bioterrorism and Emergency Management programs, the receipt of insurance proceeds, an increase in the funds received for Cooperative Extension Programs and the number of donations received by various departments.
- \$1,669,341 supplemental appropriations for Public Safety due to the additional funds required to staff additional positions for the New Law Enforcement Center.
- \$1,784,494 supplemental appropriations for Economic & Physical Development expenditures were due largely to the receipt of various grants for Cooperative Extension. During the budget process, the County general budgets a portion of grant program expenditures pending final confirmation or denial by the grantor. Once a grant amount is confirmed by the funding agency, the budget is adjusted to reflect the final award.
- \$812,148 supplemental appropriations for Human Services were to adjust for Day Care and to budget for various Health Department programs funded by grants and contributions.

## 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, 2009, totals \$301,236,441 (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	
	2009	2008	2009	2008	2009	2008
Land	\$ 2,214,535	\$ 2,214,535	\$ 2,733,126	\$ 2,667,112	\$ 4,947,661	\$ 4,881,647
Plant, distribution and collection systems	-	-	99,477,662	98,487,728	99,477,662	98,487,728
Buildings	32,368,674	33,159,652	2,509,875	551,944	34,878,549	33,711,596
Land Improvements	7,691,014	7,720,829	-	-	7,691,014	7,720,829
Furniture, fixtures and equipment	631,156	904,168	640,264	904,107	1,271,420	1,808,275
Computer hardware	52,539	49,939	-	-	52,539	49,939
Computer software	345,287	458,271	-	-	345,287	458,271
Vehicles	2,432,682	2,220,338	748,450	434,767	3,181,132	2,655,105
Construction in progress	25,290,913	19,679,356	124,048,563	74,805,729	149,339,470	94,485,085
<b>Total</b>	<b>\$ 71,026,800</b>	<b>\$ 66,407,088</b>	<b>\$ 230,157,940</b>	<b>\$ 177,851,387</b>	<b>\$ 301,184,734</b>	<b>\$ 244,258,475</b>

Additional information on the County's capital assets can be found in Note 6 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 \$231,161,287. Of this amount, \$24,591,000 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, 2009, the County's outstanding debt consisted of:

### Harnett County Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Installment purchase	\$ 137,910,547	\$ 110,290,619	\$ 9,070,001	\$ 10,161,918	\$ 146,980,548	\$ 120,452,537
General obligation bonds	-	-	24,591,000	25,417,000	24,591,000	25,417,000
Capitalized leases	725,620	905,925	-	13,455	725,620	919,380
Revenue Bonds	-	-	40,825,000	14,825,000	40,825,000	14,825,000
State Bond loan	-	-	18,039,119	18,365,521	18,039,119	18,365,521
	<u>\$ 138,636,167</u>	<u>\$ 111,196,544</u>	<u>\$ 92,525,120</u>	<u>\$ 68,782,894</u>	<u>\$ 231,161,287</u>	<u>\$ 179,979,438</u>

Harnett County's total debt increased by \$51,181,849 (28.44%) 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 held A3 and A+ bond ratings for Certificates of Participation, A2 and AA- ratings for Issuer Ratings and A2 and AA- ratings for Revenue Bonds as assigned by Moodys and Standard & Poors, respectively. 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 \$290,104,204. The County has \$32,247,000 in bonds authorized but unissued at June 30, 2009

Additional information regarding Harnett County's long-term debt can be found in notes 9 and 10 on pages F-20 through F-26 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, 2009 was 11.80%, which is an increase from a rate of 6.8% a year ago. Compared to the State average of 11.20% for the same period, the County is only slightly above the State average.
- The Research Triangle Park region is noted for development of biotechnology and science clusters as a successful model, which for Harnett County, reinforces the efforts of the Harnett Forward Together Committee and its investment in the Brightwater Science and Technology Campus. Beyond the launching of the hospital project, Harnett County's support for the cooperative development of an Allied Health facility, with training capacity for Campbell University and Central Carolina University, will encourage private clinical research organizations to invest in the human capital and training needs of our regions. Harnett County has planned well and is prepared for both population growth and the infrastructure to support business expansion and investment.

### **Budget Highlights for the Fiscal Year Ending June 30, 2010**

**Governmental Activities:** Property taxes and revenues from sales and services 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. A property revaluation became effective January 1, 2009. This revaluation, 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 \$102,077,280 and include amounts appropriated for Interfund transfers, debt service, capital reserve and contingency. The budgeted increased slightly, only \$104,096, over the fiscal year ended 2009 budget. In response to the slowing economy and decrease in sales tax and other revenues, the County implemented steps to minimize spending. Although cuts were made, increases were made for Education to allow additional expenses associated with the startup of the new Overhills School, and debt service payments. The budget does not contain a cost of living increase.

**Business-type Activities:** The water and sewer rates for the 2009 – 2010 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 were also increased for the 2009 - 2010 fiscal year. This increase was necessary to continue to meet the growing demands for service, fund debt payments on the new transfer station and remit the \$2 per ton excise tax, which became effective July 1, 2008, to the North Carolina Department of Revenue. Expenditures for Public Utilities and Solid Waste for the fiscal year have been budgeted at \$20,943,705 and \$4,234,089, respectively.

These budgeted expenditures will cover personnel, supplies and operating costs associated with the increasing demand for utility and landfill 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.