

## **INTRODUCTORY SECTION**

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October 28, 2010

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, 2010. The financial statements and supplemental schedules contained herein have been audited by the independent, certified public accounting firm of Martin, Starnes & Associates, P.A. 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 Commission (LGC), which is established by statute to oversee local government financial affairs. The Commission is authorized to issue rules and regulations regarding such audits. The LGC approves all audit contracts for audits of units of local government. LGC policy requires audited financial reports to be submitted within four months of the end of the fiscal year. If the audited financial report is submitted later than five months after the end of the fiscal year the audit contract must be amended and that amendment approved by the LGC before final payment is made to the auditor.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Harnett County MD&A can be found immediately following the report of the independent auditors.

## HARNETT COUNTY GOVERNMENT PROFILE

The County, formed in 1855, is located in the south central portion of North Carolina. It lies partially in the Coastal Plain and partially in the Piedmont section. Harnett County is the 24<sup>th</sup> largest county in the State based on the US Census Bureau's population estimate in 2009 of 115,761. The county seat, the Town of Lillington, has a population of 3,431 while the City of Dunn, the largest municipality located in the County, has a population of 10,173. These two municipalities comprise approximately 11.76% 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 27 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 (RTP), 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 2009, travelers spent \$59.61 million in Harnett County, which represents a 4.1% decrease over the previous year. The tourism industry generated \$4.89 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 530 jobs with an annual payroll of \$9.05 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 and health sciences, business, education and divinity as well as a wide variety of undergraduate degrees. The Campbell University College of Pharmacy and Health Sciences posted a 100% passage rate on the 2009 North American Pharmacy Licensure Exam developed by the National Association of Boards of Pharmacy. The Campbell University College of Pharmacy and Health Sciences was established in 1986 as the first new school of pharmacy to open in the United States in 35 years. The University's Norman Adrian Wiggins School of Law at Campbell University has been recognized by the American Bar Association (ABA) as having the nation's top Professionalism Program and by the American Academy of Trial Lawyers for having the nation's best Trial Advocacy Program. Campbell Law boasts more than 3,200 alumni, including 2,200 who reside and work in North Carolina. In September 2009, Campbell Law relocated to a new state-of-the-art building in downtown Raleigh. The opening with the Fall 2010 semester of the Physician's Assistant program enhanced the University's offerings in health sciences and the expectation is that a College of Osteopathic Medicine will open in 2012 following feasibility study completion in 2011.

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, forestry and urban horticulture) for the 2009 calendar year is estimated to be \$163.35 million. Total gross income from farming and forestry during the 2009 calendar year is estimated to be \$156.85 million. The leading agricultural commodity was roaster production with a gross income of \$91.8 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, Harnett County contains 210,000 acres of timberland not subject to preservation. In 2009, approximately 4.6 million dollars was paid to landowners for standing timber. The timber harvested was sold at the mill for approximately 6 million dollars. Harnett County ranks 32<sup>nd</sup> in North Carolina timber harvest.

Urban horticulture is another important aspect of agricultural economy in Harnett County. Greenhouses and nurseries occupy 600 acres and generate \$5 million in gross income. Eight golf courses generate \$14 million in gross income.

The County continues its efforts to broaden the tax base. The Harnett Forward Together Committee (HFTC), a county-wide volunteer organization, is a group of over 100 businesses and individuals that develop programs and activities to increase economic development in the County. The Harnett County Economic Development Commission, in partnership with the HFTC, has made significant strides during the past year toward attracting new economic activity. Growth in the County's local economy included the following:

- The 250-acre Western Harnett Industrial Park created by HFTC to serve companies desiring a more western location or one near Fort Bragg saw the completion of the 8,600 square foot spec building in the park. The park was heavily marketed through a number of venues to defense companies, manufacturing companies and office users.
- Central Carolina Community College provided classroom instruction at the western Harnett facility.
- HFTC continued to work with Parks and Recreation for the development of West Park to include maintenance and enhancements to trails and a roadway. The Harnett County School system in partnership with Parks and Recreation conducted its annual nature day to school children from across the county.
- The Cape Fear River Park became the site of the Town of Erwin's annual festival and attracted visitors from across the region to the Cape Fear River. 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 Science and Technology Campus, will become home to the County's first biotechnology park. A phased "planning and architectural design at Brightwater has been completed and HFTC's efforts in collaboration with Harnett County and East Central Water and Sewer District on the development and installation of infrastructure in the Brightwater Campus continued through the year. The location, in this park, of a new hospital to serve citizens is expected to be completed in 2012. HFTC is collaborating with Central Carolina Community College and Campbell University

for the addition of a training facility, the Allied Health Building, in the park adjacent to the hospital. This facility will allow students from both institutions to hold class and proceed immediately to the hospital to perform their clinical work. The 19 acre tract given to HFTC by Harnett County was developed into the Brightwater Business Park. HFTC is overseeing development of this park to complement the offerings of the Brightwater Science and Technology Campus located just across the street. This new business park will support a wide variety of economic endeavors, including: medical facilities, chain restaurants, retail stores and hotel chains.

- HFTC has deeded a lot in the Park to First Choice for the construction of a medical facility. The facility is expected to open in 2012 providing invaluable health care services to citizens.

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

- Pentair Pool & Spa closed Harnett operations on December 31, 2009.
- Metal Masters, a custom metal fabricator and powder coat shop, opened a new location in Dunn with 5 employees.
- Morgan AM&T continued to migrate into its 16,000 sq feet expansion with two new CNC centers doubling their targeted express business and hiring seven new employees.
- Oldcastle/Adams Products completed its first full year of operations in Dunn with 30 employees and approximately 50 loads of concrete products per day.
- American Physical Security Group (APSG) relocated its operations from northwest Harnett County to a larger facility in Lillington. APSG received a \$50M Multiple Award Contract (MAC), Indefinite Delivery Indefinite Quantity (IDIQ) Award from the Naval Facilities Expeditionary Logistics Center (NFELC) of Port Hueneme, California.
- Saab Barracuda LLC received 1B4NC Award from NC State University Industrial Extension Service (IES) which recognizes those companies that report more than \$1 million in economic benefit based on projects facilitated by IES. Saab was also awarded a \$12,808 Incumbent Workforce Development Grant. Training provided will focus on ISO 14001 which involves demonstrated compliance with environmental regulations.
- Staplcoth leased the HFTC building in Erwin for cotton storage and distribution creating 5 new jobs.
- ATG Access, Inc. acquired the vehicle barrier and gate division of the Canadian Allen-Vanguard Corporation.



The Economic Development web site continues to serve as a research and sales tool. On average, during the 2009-2010 fiscal year, there were 369 visitors to the [www.harnettcdc.org](http://www.harnettcdc.org) website each week.

## LONG-TERM FINANCIAL PLANNING

Harnett County continues to prepare for the future through various initiatives that will enhance the services provided by the County well into the new century. Utilizing policy initiatives, as well as infrastructure improvements, the County is making great strides in many areas. As a demonstration of the County's commitment to financial planning and fiscal health, unreserved, undesignated fund balance in the general fund was \$3,421,229 or 3.46% 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. Over the next ten years Harnett County's growth is expected to be 24% surpassed only by growth in Wake and Johnston Counties. 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 growth at Fort Bragg with an estimated 22,000 new persons expected to choose Harnett County as their home will continue the strong growth pattern. 1,000 companies are also expected to choose the area as the United States Army Forces Command Headquarters and the United States Army Reserve Command begin operation at Fort Bragg in 2011. These companies will come first as small office/space users and grow as business grows. Harnett County needs to be able to ensure these companies have choices in the county such as at the 8,600 square foot Spec Building awaiting them at the Western Harnett Industrial Park. Additional public/private efforts will be required to meet the need not only in Western Harnett County but in other areas with access to Fort Bragg and Raleigh.

Assistance to our existing businesses and industries continues through a strong existing industry support program. Annual visits, newsletter, roundtables and an annual golf outing dedicated to industries aids in maintaining a strong bond between companies and the EDC office. 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. Additional schools will be required to serve the children coming with the Fort Bragg expansion. It is estimated that this includes two high schools, one middle school and two elementary schools.

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

- Emergency SVC Renovation – This project consists of the renovation of a building formerly known as the Law Enforcement and Detention Center, to facilitate office space for the Emergency Services division.
- AMPI Unrecoverable Cost – This project will maintain a public assistance program that aides property owners in the removal of abandoned manufactured housing.
- Airport Runway Reimbursement – This project is a grant awarded by the NC Aeronautics Council to reimburse the County for meals and materials provided to the military for Runway extension grading in a previous year.
- Airport Overlay Zoning – This project is for the Land Use Compatibility Zoning Plan and the preliminary engineering/design for airport pavement rehabilitation.
- Good Hope Mental Health – This project will consist of the renovation of the Good Hope Hospital into a 16 bed mental health facility.
- CAMPO Pedestrian Trail – This project will consist of planning and construction of a safe mode of pedestrian transportation throughout the Harnett Central Middle and High School campus and Neill's creek Park.
- Single Family SRF – This project consists of the rehabilitation of scattered site single family housing units owned and occupied by low and very low income elderly and/or disabled homeowners

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

- South Central WW 1B-1 – The construction of approximately 31,000 linear feet of gravity sewer, 14,000 linear feet of sewer force main, and one wastewater lift station to serve the South Harnett/Anderson Creek portion of Harnett County. This project will provide sewer service to approximately 385 residences and serve over 700 people in this district.
- South Central WW 1B-2 – The construction of approximately 66,000 linear feet of gravity sewer, 4,000 linear feet of sewer force main, and one wastewater lift station to serve the South Harnett/Anderson Creek portion of Harnett County. This project will provide sewer service to approximately 350 residences and serve over 600 people in this district.
- Brightwater Infrastructure – The construction of approximately 5,000 linear feet of gravity sewer, 4,000 linear feet of water mains, and 7,000 linear feet of roadways to the Brightwater Science and Technology Campus. This project will provide necessary infrastructure to accommodate the planned construction of the new hospital and other development in this park.

- Coats HWY 55 WW Extension – This project will consist of the construction of approximately 5,000 linear feet of gravity sewer, along NC 55 from the Town of Coats existing municipal boundary. This project is the result of a January 2009 agreement between the County and the Town to jointly fund this sewer extension project.
- South Central WW 1C-1 – This project consists of the construction of approximately 23,000 linear feet of gravity sewer and two wastewater lift stations to serve the South Harnett/Anderson Creek portion of Harnett County. This project will provide sewer service to approximately 200 residences and serve over 500 people in this district.
- South Central WW 1C – 2 - This project consists of the construction of approximately 23,000 linear feet of gravity sewer and two wastewater lift stations to serve the South Harnett/Anderson Creek portion of Harnett County. This project will provide sewer service to approximately 200 residences and serve over 500 people in this district.

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](http://www.harnett.org) by clicking on *Departments*, *GIS/Land Records* and then *GIS Map Gallery*.

Improvements also continue in a variety of departments and in a variety of service areas. In particular, several ordinances and planning policies continue to be revised and strengthened in an attempt to deal with ongoing development issues and challenges. In addition, efforts continue in the preparation 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, 2010.

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.

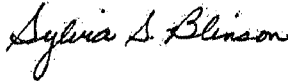
The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The County participates in two self-funded risk-financing pools administered by the North Carolina Association of County 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 3<sup>rd</sup> Party Plan Administrator. Additional information on the County's risk management can be found in Note 8 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, 2009. This was the eighteenth 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,



Sylvia S. Blinson, CLGFO  
Finance Officer

