



October 30, 2007

Residents of Wake County  
The Honorable Board of County Commissioners  
Wake County, North Carolina

Maintaining the fiscal strength and stability of County government is a primary goal of the Wake County Board of Commissioners. This Comprehensive Annual Financial Report (financial statements) of Wake County, North Carolina, for the fiscal year ended June 30, 2007, reflects the achievement of that goal. Each year this document is prepared to provide details about how the County receives, spends and accounts for its money, as well as key indicators of its financial strength. The County's Finance Department prepares the financial statements and assumes all responsibility for the accuracy of the data, the completeness and fairness of the presentation, and all disclosures. Wake County officials believe the data and presentation are fair and accurate, and that everything necessary is included in this document to gain an understanding of the County's financial activities over the last fiscal year.

Wake County Government's financial statements have been audited by Cherry, Bekaert & Holland, L.L.P., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2007, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with generally accepted accounting principles. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing single audit

engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements. This is to be done with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the County's separately issued Single Audit Report.

Wake County is required to present a Management's Discussion and Analysis (MD&A) section as an introduction to the financial information. This section immediately follows the auditor's opinion and provides an overview and analysis of the County's significant transactions in fiscal year 2007, to aid readers in understanding the financial impact and the relationship to the financial statements and schedules provided. This letter of transmittal is written to complement the MD&A.

### **FINANCIAL REPORTING ENTITY**

The financial statements include all funds of Wake County, including all activities considered to be part of (controlled by or dependent on) the County. Control by, or dependence on, the County was determined in accordance with the criteria established by the Governmental Accounting Standards Board (GASB) and included in the GASB's guidance in defining the governmental reporting entity.

The financial reporting entity includes all funds of Wake County, as well as its component units. Component units are legally separate entities for which Wake County is financially accountable.

Proprietary funds are used to account for a government's continuing business-type organizations and activities. The Wake County Board of Alcoholic Beverage Control is a component unit of Wake County and is presented as a proprietary fund. Most of the generally accepted accounting principles of proprietary funds are those applicable to similar private businesses.

### **PROFILE OF WAKE COUNTY**

The recurring publicity of Wake County as one of the most desirable places to live and work in the United States, as evidenced by recent surveys in national magazines, has continued to shine the spotlight on the quality of life

enjoyed by Wake County citizens. National accolades received recently by the Wake County include:

- **#Top 10 Metro Areas for Job Growth**, *Business 2.0*, May 2007
- **#1 Best U.S. City for Jobs (Raleigh-Cary, NC)**, *Forbes*, February 2007
- **#1 Best Place for Business and Careers (Raleigh, NC)**, *Forbes*, April 2007
- **#1 School District in the Nation for Certified Teachers (Wake County)**, National Board of Certified Teachers, January 2007
- **#8 Fastest Growing Metro in the Nation (Raleigh, NC)**, U.S. Census Bureau, April 2007
- **#3 City for African Americans to Live (Raleigh, NC)**, *Black Enterprise Magazine*, 2007
- **#5 Best Place to Find a Mate (Raleigh, NC)**, *Men's Health*, March 2007
- **#1 Best City for Women Entrepreneurs (Raleigh-Cary, NC)**, *AllBusiness.com*, November 2006

Wake County is the second most-populous county in the state. Its 15 municipalities include Raleigh, the county seat and state capital. A mix of urban and rural areas and small towns distinguishes Wake from other counties and provides something for every lifestyle. Located in the north central section of the state on the Piedmont Plateau, Wake County is on a major industrial corridor approximately halfway between Washington, D.C., and Atlanta. North Carolina's beautiful mountains and serene beaches are each within easy driving distance. The County's topography is characterized by low, rolling hills in the northwest, changing gradually to level land in the southeast. The location, geography and climate make Wake County an enjoyable place to live, work, learn and play, while also contributing significantly to the economic viability of the region.

## **FACTORS AFFECTING FINANCIAL CONDITION**

### **Economic Diversity**

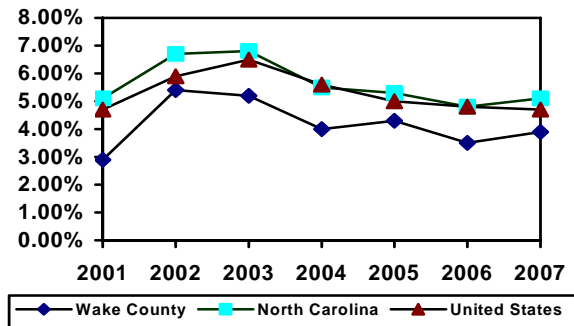
Wake County's economic diversity provides a strong foundation for the area's economy. On June 30, 2007, the unemployment rate was 3.9%, compared with 5.1% for the state and 4.7% for the nation. A sampling of the area's industry and services includes:

- manufacturing (including light manufacturing of telecommunications equipment, pharmaceuticals, electrical and machine parts, and electrical components)
- service industries
- seven public and private institutions of higher education, including North Carolina State University, recognized as a national leader in research and technology
- state and local government, including the principal executive, legislative, judicial and regulatory offices of state government
- four general-care, not-for-profit hospitals with more than 1,450 patient beds.

Additionally, Research Triangle Park (RTP), straddled on the Wake and Durham county line, is a major source of employment and economic stimulus for the entire area. Organized in 1959, RTP today encompasses 7,000 acres set aside for research and research-oriented manufacturing. The combined annual salaries in RTP amount to more than \$2.7 billion. Since its founding, RTP has developed steadily in the Durham County portion. In 1990, Wake County began installing water/sewer lines in its portion to open 31 sites located on the south side for economic development.

To date, 16 companies have located in the Wake County portion of RTP, occupying nearly 2.9 million sq. ft. of space for biotechnology and information technology purposes. Another 123,000 sq. ft. have been approved for construction. Of the approximately 39,000 people currently employed in RTP, the Research Triangle Foundation estimates that 71 percent reside in Wake County, which adds significantly to the County's economy.

## UNEMPLOYMENT RATE TRENDS



### Long-Term Planning

Wake County's regional economy is expected to remain relatively stable in the foreseeable future. In an effort to influence economic growth, the County established an Economic Development Commission and contracts with the Greater Raleigh Chamber of Commerce to promote economic development throughout the County.

The County's economic development efforts are helping bring thousands of new, high-paying jobs, millions of dollars in investments, and strong corporate citizens with global impact. New business leaders Fidelity Investments, Novartis and Network Appliance, Inc., invested a total of \$408.5 million in Wake County's economy last year. These expansions and new facilities expect to bring nearly 3,000 new jobs to area communities. RBC Centura Bank continues building its U.S. headquarters in downtown Raleigh, while Credit Suisse opened a new \$40 million facility in RTP with 850 employees.

The N.C. Association of County Commissioners recognized the Blue Ribbon Committee on the Future of Wake County with the 2006 Outstanding County

Program Award. The Committee studied and made recommendations to address growth and how to finance infrastructure needs of the County over the next 25 years. Committee members also assisted the County in requesting new revenue sources through the N.C. General Assembly. Over the next three years, the State will take over all County Medicaid funding. In conjunction with this relief, counties may choose to enact new revenue options that can be used to fund infrastructure needs, such as public school construction and transportation. The two new revenue options authorized by the General Assembly that Wake County would consider for the future include a land transfer tax and additional sales tax.

County Commissioners and the Wake County Board of Education appointed a Citizens' Facilities Advisory Committee to study and recommend improvements for Wake County's capital improvement program, starting with school construction plans and costs. Of note are recommendations for a jointly appointed committee to study land acquisition to achieve a more streamlined process and to increase land banking for prospective new school properties.

County Commissioners also appointed a Citizens' Facilities Advisory Committee to study and recommend improvements in school construction plans and costs. Of note are recommendations for a jointly appointed committee to study land acquisition to achieve a more streamlined process and to increase land banking for prospective new school properties.

Wake County is working with the City of Raleigh and the Public School System to implement the North Wake Landfill Post-closure Master Plan recommended by neighboring citizens and accepted by Wake County Commissioners in February 2007. Using this new plan, the School System will design a new elementary school on the site and include multiple uses of the property, such as recreation space, to benefit the community. The County completed all permitting and approvals for the South Wake Landfill and will proceed with construction. The newly formed South Wake Landfill Citizens Committee will provide a communication conduit among landfill neighbors and the County.

Through the Mental Health Capital Plan, Wake County has identified new ways to provide mental health care when Dorothea Dix Hospital closes. This includes a contract with Holly Hill Hospital to provide inpatient psychiatric treatment to residents, creating a model to provide continual care for acute

adult mental health and substance abuse services, and continuing to look at additional facilities.

Wake County Emergency Medical Services was recognized by the National Association of Counties for being one of the first in the nation to use Induced Cooling treatment to successfully resuscitate victims of cardiac arrest and increase survival rates. The Wake County Sheriff's Office implemented Project Lifesaver, a rapid-response program that locates people with brain disorders who wander away from their caregivers. Raleigh-Durham Airport safety forces and the Raleigh Police Department joined other County and municipal emergency responders on the 800 MHz radio system to foster comprehensive, seamless communications during crises.

Wake County officials will open the new Northern Regional Center in Wake Forest in January 2008, bringing County services closer to citizens from the area. The County is studying the feasibility of a fourth regional center in western Wake County. The Western Wake Human Services Center opened in Cary in 2007, providing child welfare blended teams, and child support, childcare subsidy and mental health staff who serve this area's families.

### **Community Improvement Plan**

The primary goal of the Community Improvement Plan (CIP) is to ensure that the County is investing in infrastructure for a growing community and that quality services continue to be delivered to Wake County citizens in a timely and efficient manner. The County ensures effective and efficient service delivery through investments in renovations and new capital improvements that preserve the integrity of facilities, maintain the quality of current fixed assets, and provide new services when needed.

In June 2007, Commissioners adopted a seven-year, \$1.5 billion CIP for fiscal years 2008-14 in connection with Wake County's capital planning.

The current CIP totals \$1,505 billion of initiatives to improve the capital infrastructure of the County, of which \$779 million is dedicated to the Wake County Public School System. The remaining \$726 million would be invested in several areas of capital need, including criminal justice (\$446.3 million), County building improvements (\$35.7 million), community college facilities (\$34.7 million), fire suppression (\$37.2 million), water/sewer (\$14.6 million), solid waste operations (\$12.9 million), investments in

libraries (\$10.9 million), public safety (\$18.1 million), and automation (\$21 million).

Six years ago, Wake County initiated a new capital funding program with an increased emphasis on debt financing to expand the County's ability to support capital projects. Two fundamental strategies are key to the success of the new program: 1) dedicating a funding stream specifically to capital, and 2) maintaining a financing ratio of 80% debt and 20% cash.

Dedicating annual revenue streams for a capital program requires a great deal of fiscal discipline. It also is essential for the success of the long-term capital program and to deliver quality services to the current and future residents of Wake County. This means setting aside a percentage of the property and sales tax proceeds each year to fund current and future capital payments. The dedicated stream of revenue is critical to the integrity of the capital financial model, as it ensures that funds are available to pay for additional debt service payments. Funding is set aside each year in debt service as it is incurred in the future years of the CIP planning period. A major part of the debt-based strategy was initiated when Wake County citizens passed bond referenda in November 2000 to support the use of general obligation bond funding of schools, jail facilities and open space. The support of this strategy continued when citizens passed bond referenda in October 2003 for schools and library construction, and in November 2004 for Wake Technical Community College and open space. In 2006, voters again approved a record \$970 million bond for public school construction.

At present, the two primary funding sources for the CIP are dedicated property tax revenue (19.2 cents) and a percentage of the sales tax receipts to the capital program. The sales tax percentage is based upon legislation codified in the North Carolina General Statutes. A third funding source is investment earnings from the General Fund. Since debt service payments and investment earnings are both interest rate-sensitive, the two are linked to leverage the variable debt portion of our portfolio.

**Property Tax Revenues:** One of the most significant aspects of the financial model is the commitment to dedicate a portion of the property tax to capital investments. This means that a percentage of the property tax revenues is specifically dedicated to debt service payments and pay-as-you-go funding as needed throughout the seven-year plan. As the largest single source of

revenues for the County, the dedication of property tax revenues represents a critical contribution to maintaining the integrity of the capital program.

**Sales Tax Revenues:** Wake County continues to contribute a portion of sales tax revenues for school capital expenditures as outlined in the state statutes. N.C. General Statute 105, Articles 40 and 42, require that 30 percent and 60 percent of the receipts from sales taxes (authorized by the respective Articles) be used for either public school capital outlays or for servicing county debt incurred for school purposes.

Other funding sources used in the County’s CIP are as follows: 1) transfers from other funds, 2) investment earnings, 3) fund balance appropriations, 4) grants and 5) donations.

**Transfers from Other Funds:** In addition to the property and sales tax allocations, transfers from the Fire Tax District Fund will contribute to the capital investment model over the seven-year period.

**Investment Earnings:** As bonds are sold, transfers from other funds occur, and actual expenditures occur at a slower pace than anticipated, cash in the capital projects and debt service funds can be invested in money market securities. The investment earnings in capital funds are used for capital purposes. Consequently, these earnings can be a viable funding source in the capital investment model. Beginning in fiscal year 2004, General Fund investment earnings were added to the model to leverage the variable-rate debt, as both are interest rate-sensitive.

**Fund Balance Appropriations:** Another source of revenue for capital expenditures is the fund balance in the capital projects funds. This is a one-time source and cannot be used as a recurring source of funding for the capital program.

**Grants:** Grants from the N.C. Public School Building Capital Fund will contribute to the capital investment model over the seven-year period.

**Donations:** Finally, as the momentum from an innovative volunteer contributions campaign builds, donations are expected to supplement tax appropriations in the Community Improvement Plan. Although not identified in the current plan, this has the potential of being an excellent source of revenue for future capital needs.

**OTHER ACCOMPLISHMENTS**

Four new or expanded libraries opened in the last year – West Regional Library on city-donated land in Cary, North Regional and Southgate libraries in Raleigh, and Holly Springs Branch Library collocated with the town-supported Cultural Arts Center.

The County implemented the first stages of design and planning for the 30-year Criminal Justice Facilities Master Plan, which includes \$215 million for a downtown criminal courthouse, a public records/administration facility, high-security and public/employee parking decks, and renovations to the existing courthouse and Public Safety Center.

In advance of the fall 2008 real estate revaluation, the County completed an update of its property tax systems to provide base data and analyses needed to establish new real estate values.

The Stormwater Management Task Force, which includes members from all 13 local governments in the County, is finalizing its assessment of stormwater services countywide and recommending collaborative stormwater management efforts in the future.

The County Planning Department won an Achievement Award from the National Association of Counties for its collaborative effort on the Wake County Public School System Student Projection Model, approved by County and Board of Education staffs for use in system-wide planning in 2007-2027. Wake County has the largest-enrollment school district in the state and is ninth largest in the nation.

The County is completing acquisition of 1,961 acres of land at a cost of approximately \$14.5 million to develop and protect the Little River Reservoir, which will provide water for growing eastern Wake County in the future. An interlocal agreement between Wake County and the City of Raleigh will designate the City responsibility for permitting, constructing and operating the reservoir and provide for the repayment of the land acquisition cost to the County. The County acquired an additional 340 acres adjoining the reservoir lands for recreational purposes.

**AWARDS AND ACKNOWLEDGMENTS**

***Certificate of Achievement for Excellence in 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 Wake County for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This marks the 23rd consecutive year in which the County has received this recognition. To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. The GFOA award is valid for a period of one year.

***Acknowledgments***

We appreciate the assistance and dedication of the Finance Department staff throughout the year, especially during the preparation of this document. We would like to thank all members of the department who contributed to its preparation and the County’s independent certified public accountants, Cherry, Bekaert & Holland, L.L.P., for their assistance. The cooperation of each County department is appreciated as we work together to conduct the County’s financial operations. We also express our appreciation to the members of the Wake County Board of Commissioners for their continued support, guidance and advice in planning and conducting the financial activities of the County in a responsible and progressive manner. The County’s excellent financial status is a tribute to that involvement.

Respectfully submitted,

***David Cooke***

David Cooke  
County Manager

***Melinda Canady***

Melinda Canady  
Finance Director