



October 20, 2006

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, 2006, reflects the achievement of that goal. Each year this document is prepared to provide you with 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. We believe the data and presentation are fair and accurate and that you will find everything necessary 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, 2006, 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, 2006, 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, 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.

We are 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 2006, to aid readers in understanding their financial impact and 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 and account groups of the 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 and account groups of Wake County, as well as its component units. Component units are legally separate entities for which Wake County is financially accountable.

The Wake County Board of Alcoholic Beverage Control is a component unit of Wake County and is presented as a proprietary fund. Proprietary funds are used to account for a government's continuing business-type organizations and activities. 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 turn the spotlight on the quality of life

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

- **#1 Area for Tech Business (Raleigh-Durham, NC)**, Silicon Valley Leadership Group, September 2006
- **#3 Best City for Entrepreneurs (Raleigh-Durham-Chapel Hill, NC)**
Entrepreneur.com, August 2006
- **#10 Fastest Growing MSA (Raleigh-Cary, NC)**
US Census Bureau, July 2000 - July 2005 (Released August 2006)
- **#3 Top Metro Overall (Raleigh-Cary, NC)**
Expansion Management Mayor's Challenge, August 2006
- **#12 Best Sports City (Raleigh-Durham-Chapel Hill, NC)**
The Sporting News, August 2006
- **#4 Greatest Home Price Appreciation Market (Raleigh-Durham, NC)**
Veros, July 2006
- **#6 Best City for Singles (Raleigh-Durham, NC)**
Forbes.com, July 2006
- **5-Star Business Metro for Business Expansion (Raleigh, NC)**
Expansion Management, July/August 2006

Wake County is the second most-populous county in the state. Its 12 municipalities include Raleigh, the County seat and state capital. A unique 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

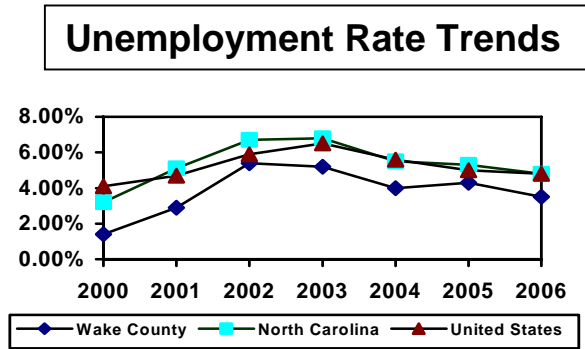
The County's economic diversity provides a strong foundation for the area's economy. On June 30, 2006, the unemployment rate stood at 3.5%, compared with 4.8% for the state and 4.8% for the nation. A sampling includes:

- 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
- three general-care hospitals, two of which are not-for-profit, providing a total of 1,492 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 on the Durham County portion. In 1990, Wake County began installing water/sewer lines in its portion to open the 31 sites located on the south side for economic development.

To date, 17 companies have located in the Wake County portion, building nearly 2.5 million sq. ft. of space for biotechnology and information technology purposes. Another 1.1 million sq. ft. is under construction.

Of the approximately 39,000 people currently employed in RTP, the Research Triangle Foundation estimates that 58 percent reside in Wake County, evidence that it is very much a primary component of our economy.



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 in investments, and strong corporate citizens with global impact. In the past year, Swiss drug maker Novartis has chosen Holly Springs for a vaccine-production facility, and Fidelity Investments has added more than 2,000 new jobs in RTP. Also, Credit Suisse announced expansion here in April.

The Blue Ribbon Committee on the Future of Wake County spent six months examining Wake County’s infrastructure needs for the next 25 years and identifying options to pay for those. The committee’s report recommends the County seek legislative authority for ways to pay for growth in addition to property tax revenues, such as sales taxes. Commissioners appointed a Citizens’ Facilities Advisory Committee to examine school construction plans and County construction plans to ensure wise use of taxpayers’ dollars.

Wake County has completed the Post-Closure-Use Master Plan for the North Wake Landfill, calling for hiking/biking trails, athletic fields, a dog park and an environmental education center. Neighborhood citizens, City of Raleigh, Wake County Schools and sports and environmental groups collaborated on the plan.

Wake County is stepping up efforts to secure state and private funding for a local mental health crisis inpatient facility. With Dorothea Dix Hospital, a state facility, closing in 2007, the County is engaging the hospital community to identify operating partners. The County budgeted \$5 million to cover anticipated operating deficits, and previously had earmarked \$10 million, with \$5 million from Wake Alcoholic Beverage Control Board, to help cover construction costs.

Wake County Emergency Medical Services (EMS) has placed new cardiac monitor-defibrillators in all ambulances. Paramedics partnered with Rex Healthcare and WakeMed Raleigh to implement new technology that is getting heart attack patients to life-saving hospital treatment 50% faster. The Automatic Vehicle Location (AVL) system will allow computerized tracking of ambulance locations to improve response times.

Wake County is working with partners locally and regionally to better address stormwater pollution, water quality and flooding challenges through the Stormwater Management Task Force. Wake adopted new flood-hazard maps that are available online.

The County completed the initial phase of a long-term fire apparatus replacement program, purchasing 13 new pumper-tankers, 7 tankers, 11 brush trucks and 15 administrative vehicles. This countywide approach saved taxpayers an estimated \$600,000.

Wake County officials will break ground in December 2006 for the Northern Regional Center in Wake Forest. Citizens from Wake Forest and Rolesville have given input on the center’s scope of services. The County is studying the feasibility of a fourth regional center in western Wake.

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 connection with the County's capital planning, in June 2006 Commissioners adopted a seven-year, \$3.57-billion CIP for fiscal years 2007-13.

The current CIP totals \$3.57 billion of initiatives to improve the capital infrastructure of the County, of which \$2.857 billion is dedicated to the Wake County Public School System. The remaining \$661 million would be invested in several areas of capital need, including criminal justice (\$464.9 million), County building improvements (\$41.9 million), community college facilities (\$36.5 million), fire suppression (\$32.5 million), water/sewer (\$14.8 million), solid waste operations (\$14.1 million), investments in libraries (\$12.5 million), and automation (\$20.5 million).

Five years ago, Wake County initiated a new capital funding program with an increased emphasis on debt financing in order to expand the County's ability to support capital projects. There are two fundamental strategies that 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 assures 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.

At present, the two primary funding sources for the CIP are dedicated property tax revenue (16.5 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 together 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. More specifically, 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 library capital needs, as well.

OTHER ACCOMPLISHMENTS

Wake County opened **West Regional Library** in northwestern Cary on a plot of land donated by the Town of Cary. This library was identified in the Capital Improvement Program as one of the facilities to be developed with proceeds from the October 2003 \$35-million library bond. **Cameron Village Regional Library** opened in a renovated and expanded 36,000-square-foot space.

Wake County and the City of Raleigh collaborated to open and staff the **Hurricane Katrina Evacuation Center**. Over the 2005 Labor Day weekend, some 400 evacuees from New Orleans were flown to Raleigh. The center was open for 19 days and provided shelter, food, clothing, economic, health and other support services to more than 1,500 people. Wake volunteers were invaluable in the effort.

Wake County's **Child Welfare program** became part of the National Breakthrough Series Collaborative to reduce racial disparities for local children. Casey Family Programs sponsors the national initiative bringing together 9 states and only 3 other U.S. counties.

Wake County completed the **Courthouse Plaza Accessibility Project** to accompany the City's reopening of Fayetteville Street. Along with ongoing asbestos removal and maximizing courtroom space, the plaza project is part of overall renovations to the Courthouse, in accordance with the Criminal Justice Facilities Master Plan.

The County was honored for its **Open Space Program**, preserving 3,200 acres since 2000. Wake is one of six counties nationwide to win the County Leadership in Conservation Awards from the Trust for Public Land and the National Association of Counties. Also, the Conservation Trust of North Carolina presented the County the Local Government of the Year award for its outstanding commitment to protecting land and water resources in the state.

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, 2005. This was the 22nd 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

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Melinda Canady

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Finance Director