

*Wake County*

*Basic*

*Financial Statements*

**WAKE COUNTY, NORTH CAROLINA**

(Continued)

**STATEMENT OF NET ASSETS  
As of June 30, 2006**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>	<b>Board of Alcoholic Control</b>
<b>ASSETS</b>				
Cash and investments - pooled equity	\$ 474,131,567	\$ 35,118,942	\$ 509,250,509	\$ -
Cash and investments - cash equivalents	1,139,862	-	1,139,862	16,648,047
Taxes receivable (net)	5,770,212	-	5,770,212	-
Accounts receivable (net)	73,602,544	2,842,944	76,445,488	410
Loans receivable	20,147,047	-	20,147,047	-
Accrued interest receivable	5,406,032	402,317	5,808,349	-
Prepaid items	245,597	-	245,597	-
Internal balances	(114,961)	114,961	-	-
Inventories	272,556	-	272,556	4,033,941
Net pension asset	1,042,261	-	1,042,261	-
Bond issuance costs	155,932	-	155,932	-
Capital assets not being depreciated:				
Land	25,171,436	1,875,253	27,046,689	-
Construction in progress	178,207,033	17,925	178,224,958	-
Capital assets (net of accumulated depreciation):				
Landfills	-	7,054,343	7,054,343	-
Buildings	169,847,689	1,009,209	170,856,898	4,589,752
Improvements	5,978,837	232,628	6,211,465	-
Machinery and equipment	3,274,881	4,273	3,279,154	498,587
Vehicles and motorized equipment	10,395,908	-	10,395,908	-
Infrastructure	7,753,659	-	7,753,659	-
<b>TOTAL ASSETS</b>	<b>982,428,092</b>	<b>48,672,795</b>	<b>1,031,100,887</b>	<b>25,770,737</b>

# WAKE COUNTY, NORTH CAROLINA

## STATEMENT OF NET ASSETS As of June 30, 2006

LIABILITIES	Primary Government			Component Unit
	Governmental Activities	Business- type Activities	Total	Board of Alcoholic Control
Accounts payable and accrued liabilities	\$ 46,047,330	\$ 2,267,449	\$ 48,314,779	\$ 5,865,042
Due to other governmental units	32,767,106	-	32,767,106	-
Accrued interest payable	13,805,434	-	13,805,434	-
Unearned revenues	5,129,395	-	5,129,395	-
Housing loan deferred revenue	18,622,013	-	18,622,013	-
Commercial paper notes payable				
Schools	38,591,332	-	38,591,332	-
Other	19,658,668	-	19,658,668	-
Long term liabilities:				
Amounts due within one year:				
Water bonds/capital leases	456,733	-	456,733	-
General obligation bonds - schools	62,987,848	-	62,987,848	-
General obligation bonds - other	7,662,152	-	7,662,152	-
Quality zoning academic bonds	163,461	-	163,461	-
Installment purchases	833,891	-	833,891	-
Compensated absences payable	10,255,060	38,331	10,293,391	-
Amounts due beyond one year:				
Water bonds/capital leases	514,371	-	514,371	-
General obligation bonds - schools	902,055,995	-	902,055,995	-
General obligation bonds - other	73,798,579	-	73,798,579	-
Quality zoning academic bonds	1,634,616	-	1,634,616	-
Installment purchases	6,929,586	-	6,929,586	-
Closure/Post closure costs	-	14,098,376	14,098,376	-
Total liabilities	<u>1,241,913,570</u>	<u>16,404,156</u>	<u>1,258,317,726</u>	<u>5,865,042</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	290,775,463	10,193,631	300,969,094	5,088,339
Restricted for:				
Working capital	-	-	-	1,808,895
Unrestricted (See Note 1.Q)	<u>(550,260,941)</u>	<u>22,075,008</u>	<u>(528,185,933)</u>	<u>13,008,461</u>
Total net assets (deficit)	<u>\$ (259,485,478)</u>	<u>\$ 32,268,639</u>	<u>\$ (227,216,839)</u>	<u>\$ 19,905,695</u>

# WAKE COUNTY, NORTH CAROLINA

## STATEMENT OF ACTIVITIES For the Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Component Unit
				Governmental Activities	Business-type Activities	Total
<b>FUNCTIONS/PROGRAMS</b>						
<b>Primary Government:</b>						
Governmental activities:						
General administration	\$ 68,198,823	\$ 12,027,205	\$ 2,416,522	\$ (53,755,096)	\$ -	\$ (53,755,096)
Human services	250,108,791	58,876,026	112,417,917	(78,814,848)	-	(78,814,848)
Education	496,720,211	-	8,218,405	(488,501,806)	-	(488,501,806)
Community development and cultural	55,385,595	7,017,247	2,435,970	(45,932,378)	-	(45,932,378)
Environmental services	8,145,774	2,546,631	358,126	(5,241,017)	-	(5,241,017)
Public safety	99,183,648	14,143,661	5,145,585	(79,894,402)	-	(79,894,402)
Interest on long-term debt	49,736,040	-	-	(49,736,040)	-	(49,736,040)
Total governmental activities	<u>1,027,478,882</u>	<u>94,610,770</u>	<u>130,992,525</u>	<u>(801,875,587)</u>	<u>-</u>	<u>(801,875,587)</u>
Business-type activities:						
Solid Waste	<u>19,178,292</u>	<u>20,528,263</u>	<u>1,038,558</u>	<u>-</u>	<u>2,388,529</u>	<u>2,388,529</u>
Total primary government	<u>\$ 1,046,657,174</u>	<u>\$ 115,139,033</u>	<u>\$ 132,031,083</u>	<u>(801,875,587)</u>	<u>2,388,529</u>	<u>(799,487,058)</u>
<b>Component unit:</b>						
Board of Alcoholic Control	<u>\$ 45,791,056</u>	<u>\$ 47,031,347</u>	<u>\$ -</u>			<u>\$ 1,240,291</u>
General revenues:						
Property taxes				468,502,179	-	468,502,179
Sales taxes				136,593,464	-	136,593,464
Occupancy and prepared food taxes				26,532,040	-	26,532,040
Other taxes				16,564,492	-	16,564,492
Grants and contributions not restricted to specific programs				5,704,166	-	5,704,166
Unrestricted investment earnings				18,525,606	1,122,962	19,648,568
Other				6,031,422	466,064	6,497,486
Transfers				275,000	(275,000)	-
Total general revenues and transfers				<u>678,728,369</u>	<u>1,314,026</u>	<u>680,042,395</u>
Change in net assets				<u>(123,147,218)</u>	<u>3,702,555</u>	<u>(119,444,663)</u>
Net assets (deficit), beginning of year				<u>(136,338,260)</u>	<u>28,566,084</u>	<u>(107,772,176)</u>
Net assets (deficit), end of year				<u>\$ (259,485,478)</u>	<u>\$ 32,268,639</u>	<u>\$ (227,216,839)</u>

**WAKE COUNTY, NORTH CAROLINA**

(continued)

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of June 30, 2006**

	Major Funds					Nonmajor	Total Governmental Funds
	General	Affordable	Debt	Capital	School	Other	
	Fund	Housing Fund	Service Fund	Improvements Fund	Capital Fund	Governmental Funds	
<b>ASSETS</b>							
Cash and investments - pooled equity	\$ 132,301,338	\$ 3,312,061	\$ 60,531,388	\$ 88,490,537	\$ 158,132,117	\$ 20,102,672	\$ 462,870,113
Cash and investments - cash equivalents	1,139,812	50	-	-	-	-	1,139,862
Taxes receivable (net)	5,605,468	-	-	-	-	164,743	5,770,211
Accounts receivable (net)	62,163,266	22,120	-	5,099,153	1,859,233	4,010,613	73,154,385
Prepaid expenditures	245,522	-	-	-	-	75	245,597
Loans receivable	-	18,622,013	110,368	1,414,666	-	-	20,147,047
Accrued interest receivable	-	2,022	2,656,814	725,272	1,656,900	257,675	5,298,683
Internal balances (interfund receivable)	758,307	-	4,958,620	4,143,625	-	-	9,860,552
Inventories	272,555	-	-	-	-	-	272,555
<b>TOTAL ASSETS</b>	<b>\$ 202,486,268</b>	<b>\$ 21,958,266</b>	<b>\$ 68,257,190</b>	<b>\$ 99,873,253</b>	<b>\$ 161,648,250</b>	<b>\$ 24,535,778</b>	<b>\$ 578,759,005</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable and accrued liabilities	\$ 28,960,651	\$ 111,825	\$ 81,603	\$ 6,435,883	\$ 43,233	\$ 5,327,818	\$ 40,961,013
Due to other governmental units	-	-	-	-	32,758,332	8,099	32,766,431
Internal balances (interfund payable)	-	-	4,143,625	-	-	5,716,927	9,860,552
Deferred revenues	10,272,934	18,622,013	-	6,142,209	713,618	832,409	36,583,183
Commercial paper notes payable	-	-	250,167	15,998,912	38,402,590	3,598,331	58,250,000
<b>Total Liabilities</b>	<b>39,233,585</b>	<b>18,733,838</b>	<b>4,475,395</b>	<b>28,577,004</b>	<b>71,917,773</b>	<b>15,483,584</b>	<b>178,421,179</b>

# WAKE COUNTY, NORTH CAROLINA

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of June 30, 2006**

	Major Funds					Nonmajor	Total
	General	Affordable	Debt	Capital	School	Other	
	Fund	Housing	Service	Improvements	Capital	Governmental	Governmental
	Fund	Fund	Fund	Fund	Fund	Funds	Funds
Fund Balances:							
Reserved for inventories	\$ 272,555	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 272,555
Reserved for noncurrent receivable	673,431	-	-	-	-	-	673,431
Reserved for encumbrances	5,178,786	1,387,915	4,102	21,597,141	86,214,344	354,078	114,736,366
Reserved by State statute	59,979,643	24,142	7,725,802	5,240,507	3,516,133	2,907,464	79,393,691
Unreserved:							
Designated for subsequent year's expenditures	13,016,863	-	-	-	-	-	13,016,863
Designated for subsequent year's expenditures - special revenue funds	-	1,812,371	-	-	-	5,752,238	7,564,609
Designated for subsequent year's expenditures - capital project funds	-	-	-	44,458,601	-	-	44,458,601
Designated for subsequent years' debt service	-	-	56,051,891	-	-	-	56,051,891
Designated for subsequent years' debt service - special revenue funds	-	-	-	-	-	734,941	734,941
Designated for working capital	80,686,087	-	-	-	-	-	80,686,087
Designated for working capital - special revenue funds	-	-	-	-	-	235,236	235,236
Undesignated	3,445,318	-	-	-	-	-	3,445,318
Undesignated - special revenue funds	-	-	-	-	-	2,202,206	2,202,206
Undesignated - capital project funds	-	-	-	-	-	(3,133,969)	(3,133,969)
Total Fund Balances	<u>163,252,683</u>	<u>3,224,428</u>	<u>63,781,795</u>	<u>71,296,249</u>	<u>89,730,477</u>	<u>9,052,194</u>	<u>400,337,826</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 202,486,268</u>	<u>\$ 21,958,266</u>	<u>\$ 68,257,190</u>	<u>\$ 99,873,253</u>	<u>\$ 161,648,250</u>	<u>\$ 24,535,778</u>	<u>\$ 578,759,005</u>

## **WAKE COUNTY, NORTH CAROLINA**

### **Reconciliation of the Balance Sheet to the Statement of Net Assets As of June 30, 2006**

Fund balances - Governmental Funds	\$ 400,337,826
<b>Amounts reported for governmental activities in the Statement of Net Assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	400,629,443
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds	13,822,266
An internal service fund is used by management to charge the costs of risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	6,915,314
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,081,190,327)</u>
Net assets (deficit) of governmental activities	<u><u>\$ (259,485,478)</u></u>

# WAKE COUNTY, NORTH CAROLINA

(Continued)

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

### GOVERNMENTAL FUNDS

For the Year Ended June 30, 2006

	Major Funds					Total Nonmajor Funds	Total Governmental Funds
	General Fund	Affordable Housing Fund	Debt Service Fund	Capital Improvements Fund	School Capital Fund		
<b>REVENUES:</b>							
Taxes	\$ 603,516,564	\$ -	\$ -	\$ -	\$ -	\$ 44,032,026	\$ 647,548,590
Licenses and permits	4,455,484	-	-	-	-	-	4,455,484
Intergovernmental	114,955,825	3,003,067	-	1,637,621	8,218,405	5,848,414	133,663,332
Charges for services	82,997,253	219,953	-	6,448,191	-	620,625	90,286,022
Investment earnings	277,815	6,762	7,845,289	2,808,562	6,584,796	687,537	18,210,761
Miscellaneous	902,560	20,000	-	1,044,597	-	-	1,967,157
<b>Total Revenues</b>	<b>807,105,501</b>	<b>3,249,782</b>	<b>7,845,289</b>	<b>11,938,971</b>	<b>14,803,201</b>	<b>51,188,602</b>	<b>896,131,346</b>
<b>EXPENDITURES:</b>							
Current:							
General administration	55,354,680	-	32,654	10,648,114	-	1,461,466	67,496,914
Human services	239,443,124	3,109,997	-	3,008,963	-	5,885,590	251,447,674
Education	267,807,500	-	-	-	224,372,107	4,183,414	496,363,021
Community development and cultural	20,434,342	-	-	37,026,429	-	22,586,539	80,047,310
Environmental services	8,266,909	-	-	4,453,710	-	-	12,720,619
Public safety	76,156,171	-	-	21,108,722	-	14,698,671	111,963,564
Debt service:							
Principal	-	-	70,480,946	-	-	-	70,480,946
Interest	-	-	49,736,040	-	-	-	49,736,040
<b>Total Expenditures</b>	<b>667,462,726</b>	<b>3,109,997</b>	<b>120,249,640</b>	<b>76,245,938</b>	<b>224,372,107</b>	<b>48,815,680</b>	<b>1,140,256,088</b>
<b>REVENUES OVER (UNDER)</b>							
<b>EXPENDITURES</b>	<b>139,642,775</b>	<b>139,785</b>	<b>(112,404,351)</b>	<b>(64,306,967)</b>	<b>(209,568,906)</b>	<b>2,372,922</b>	<b>(244,124,742)</b>

# WAKE COUNTY, NORTH CAROLINA

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

### GOVERNMENTAL FUNDS

For the Year Ended June 30, 2006

	Major Funds					Total Nonmajor Funds	Total Governmental Funds
	General Fund	Affordable Housing Fund	Debt Service Fund	Capital Improvements Fund	School Capital Fund		
OTHER FINANCING SOURCES (USES):							
Transfers in	\$ 1,070,961	\$ 1,104,000	\$ 115,471,000	\$ 29,043,481	\$ -	\$ 986,290	\$ 147,675,732
Transfers out	(144,748,290)	-	-	(1,000,000)	-	(6,785,442)	(152,533,732)
Bonds issued	-	-	-	-	41,000,000	-	41,000,000
Bond premiums	-	-	1,358,620	-	-	-	1,358,620
Capital leases, capital donations and installment purchases	2,670,274	-	-	-	-	10,243	2,680,517
Total Other Financing Sources (Uses)	<u>(141,007,055)</u>	<u>1,104,000</u>	<u>116,829,620</u>	<u>28,043,481</u>	<u>41,000,000</u>	<u>(5,788,909)</u>	<u>40,181,137</u>
NET CHANGE IN FUND BALANCES	(1,364,280)	1,243,785	4,425,269	(36,263,486)	(168,568,906)	(3,415,987)	(203,943,605)
Fund Balances at beginning of year	<u>164,616,963</u>	<u>1,980,643</u>	<u>59,356,526</u>	<u>107,559,735</u>	<u>258,299,383</u>	<u>12,468,181</u>	<u>604,281,431</u>
FUND BALANCES AT END OF YEAR	<u>\$ 163,252,683</u>	<u>\$ 3,224,428</u>	<u>\$ 63,781,795</u>	<u>\$ 71,296,249</u>	<u>\$ 89,730,477</u>	<u>\$ 9,052,194</u>	<u>\$ 400,337,826</u>

# WAKE COUNTY, NORTH CAROLINA

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

<b>Net change in fund balances - total governmental funds</b>	\$ (203,943,605)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays increases exceeded the book value of capital asset decreases in fiscal year being reported.	66,180,209
Depreciation expense for the fiscal year being reported	(15,707,336)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	31,144,837
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	559,840
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(56,826)
An internal service fund is used by management to charge the costs of risk management to individual funds. The net revenue of the internal service fund is reported with governmental activities.	<u>(1,324,337)</u>
<b>Change in net assets of governmental activities</b>	<u><u>\$ (123,147,218)</u></u>

# WAKE COUNTY, NORTH CAROLINA

## GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 595,954,000	\$ 595,954,000	\$ 603,516,564	\$ 7,562,564
Licenses and permit:	3,955,409	3,955,409	4,455,484	500,075
Intergovernmental	109,507,024	116,918,278	114,955,825	(1,962,453)
Charges for service:	86,779,461	87,513,427	82,997,253	(4,516,174)
Investment earning:	77,210	77,210	277,815	200,605
Miscellaneous	560,613	568,084	902,560	334,476
Total Revenues	<u>796,833,717</u>	<u>804,986,408</u>	<u>807,105,501</u>	<u>2,119,093</u>
EXPENDITURES:				
Current:				
General administratior	63,333,096	57,700,425	52,684,406	5,016,019
Human services	236,007,941	246,022,413	239,443,124	6,579,289
Education	261,452,000	267,807,500	267,807,500	-
Community development and cultura	20,057,146	21,034,136	20,434,342	599,794
Environmental service:	8,101,201	8,529,764	8,266,909	262,855
Public safety	77,211,616	82,183,063	76,156,171	6,026,892
Total Expenditures	<u>666,163,000</u>	<u>683,277,301</u>	<u>664,792,452</u>	<u>18,484,849</u>
REVENUES OVER EXPENDITURES	<u>130,670,717</u>	<u>121,709,107</u>	<u>142,313,049</u>	<u>20,603,942</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,022,870	1,022,870	1,070,961	48,091
Transfers out	(142,633,000)	(144,748,290)	(144,748,290)	-
Total Other Financing Sources (Uses)	<u>(141,610,130)</u>	<u>(143,725,420)</u>	<u>(143,677,329)</u>	<u>48,091</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(10,939,413)</u>	<u>(22,016,313)</u>	<u>(1,364,280)</u>	<u>20,652,033</u>
APPROPRIATED FUND BALANCE	<u>10,939,413</u>	<u>22,016,313</u>	<u>-</u>	<u>(22,016,313)</u>
REVENUES, OTHER FINANCING SOURCES, AND APPROPRIATED FUND BALANCE UNDER EXPENDITURES AND OTHER USES	<u>\$ -</u>	<u>\$ -</u>	<u>(1,364,280)</u>	<u>\$ (1,364,280)</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>164,616,963</u>	
LESS: EXPENDITURES ASSOCIATED WITH CAPITAL LEASE INCEPTION & CAPITAL DONATIONS			(2,670,274)	
ADD: PROCEEDS OF CAPITAL LEASES AND CAPITAL DONATIONS			<u>2,670,274</u>	
TOTAL LEASE INCEPTIONS, CAPITAL DONATIONS AND PROCEEDS			<u>-</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 163,252,683</u>	

The notes to the financial statements are an integral part of this statement.

# WAKE COUNTY, NORTH CAROLINA

## STATEMENT OF NET ASSETS PROPRIETARY FUNDS As of June 30, 2006

	Business-type Activities	Governmental Activities
	Enterprise	Internal Service
	Solid Waste	Risk Management
	Fund	Fund
<b>ASSETS</b>		
Current assets:		
Cash and investments - pooled equity	\$ 35,118,942	\$ 11,261,454
Accounts receivable (net)	2,842,944	499,930
Accrued interest receivable	402,317	107,348
Total current assets	<u>38,364,203</u>	<u>11,868,732</u>
Noncurrent assets:		
Capital assets not being depreciated:		
Land	1,875,253	-
Construction in progress	17,925	-
Capital assets (net of accumulated depreciation):		
Landfills	7,054,343	-
Buildings	1,009,209	-
Machinery and equipment	4,273	-
Improvements	232,628	-
Total capital assets	<u>10,193,631</u>	<u>-</u>
Total assets	<u>48,557,834</u>	<u>11,868,732</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	2,267,449	535,858
Other liabilities	-	4,285,096
Total current liabilities	<u>2,267,449</u>	<u>4,820,954</u>
Noncurrent liabilities:		
Compensated absences	38,331	17,503
Closure/postclosure care costs	14,098,376	-
Total noncurrent liabilities	<u>14,136,707</u>	<u>17,503</u>
Total liabilities	<u>16,404,156</u>	<u>4,838,457</u>
<b>NET ASSETS</b>		
Invested in capital assets	10,193,631	-
Unrestricted	21,960,047	7,030,275
Total net assets	<u>32,153,678</u>	<u>\$ 7,030,275</u>
Adjustment to reflect the consolidation of Risk Management Fund activities related to Solid Waste Fund	114,961	
Net assets of business-type activities	<u>\$ 32,268,639</u>	

# WAKE COUNTY, NORTH CAROLINA

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS For the Year Ended June 30, 2006

	Business-type Activities	Governmental Activities
	Enterprise	Internal Service
	Solid Waste Fund	Risk Management Fund
OPERATING REVENUES:		
Licenses and permits	\$ 4,700	\$ -
Charges for services	20,523,563	19,966,703
Miscellaneous	466,064	69,300
Total Operating Revenues	<u>20,994,327</u>	<u>20,036,003</u>
OPERATING EXPENSES:		
Cost of service	15,368,446	27,103,422
Administration	1,451,531	216,824
Depreciation and amortization	2,355,540	-
Total Operating Expenses	<u>19,175,517</u>	<u>27,320,246</u>
OPERATING INCOME (LOSS)	1,818,810	(7,284,243)
NON-OPERATING REVENUES AND EXPENSES:		
Intergovernmental	1,038,558	509,290
Investment earnings	1,122,962	314,841
Income (loss) before transfers	<u>3,980,330</u>	<u>(6,460,112)</u>
TRANSFERS:		
Transfers in	-	5,133,000
Transfers out	(275,000)	-
CHANGE IN NET ASSETS	3,705,330	(1,327,112)
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>28,448,348</u>	<u>8,357,387</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 32,153,678</u>	<u>\$ 7,030,275</u>
Reconciliation to Changes in net assets of business-type activities:		
Change in net assets	\$ 3,705,330	
Adjustment to reflect the consolidation of the Risk Management Fund activities related to Solid Waste	(2,775)	
Change in net assets of business-type activities	<u>\$ 3,702,555</u>	

**WAKE COUNTY, NORTH CAROLINA**

(Continued)

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2006**

	Business-type Activities <u>Solid Waste Fund</u>	Governmental Activities <u>Risk Management Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 19,449,938	\$ 19,941,925
Cash payments to suppliers for goods and services	(16,141,294)	(23,714,838)
Cash payments to employees for services	(902,122)	(773,824)
Other operating revenues	<u>470,764</u>	<u>69,300</u>
Net cash provided (used) by operating activities	<u>2,877,286</u>	<u>(4,477,437)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Intergovernmental revenue	1,038,558	509,290
Transfers in	-	5,133,000
Transfers out	<u>(275,000)</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>763,558</u>	<u>5,642,290</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of capital assets	<u>(17,925)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(17,925)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received on investments	<u>974,023</u>	<u>264,369</u>

# WAKE COUNTY, NORTH CAROLINA

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS For the Year Ended June 30, 2006

	Business-type Activities <u>Solid Waste Fund</u>	Governmental Activities <u>Risk Management Fund</u>
Net increase in cash and cash equivalents	\$ 4,596,942	\$ 1,429,222
Cash and cash equivalents at beginning of year	<u>30,522,000</u>	<u>9,832,232</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 35,118,942</u>	<u>\$ 11,261,454</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 1,818,810	\$ (7,284,243)
Adjustments to reconcile operating income/loss to net cash provided (used) by operating activities:		
Depreciation and amortization	2,355,540	-
Increase in accounts receivable	(1,073,625)	(24,778)
Increase/(decrease) in accounts payable and accrued liabilities	<u>(223,439)</u>	<u>2,831,584</u>
Total adjustments	<u>1,058,476</u>	<u>2,806,806</u>
Net cash provided (used) by operating activities	<u>\$ 2,877,286</u>	<u>\$ (4,477,437)</u>

# WAKE COUNTY, NORTH CAROLINA

## STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS As of June 30, 2006

	Separation Allowance	Agency Funds
	<u>                    </u>	<u>                    </u>
ASSETS		
Cash and investments - pooled equity	\$ 2,755,626	\$ 1,327,337
Accounts receivable (net)	-	36,055
Accrued interest receivable	24,805	2,537
	<u>2,780,431</u>	<u>1,365,929</u>
Total assets		
	<u>2,780,431</u>	<u>1,365,929</u>
LIABILITIES		
Other liabilities	-	1,040,526
Due to other governmental units	-	325,403
	<u>-</u>	<u>1,365,929</u>
Total liabilities		
	<u>-</u>	<u>\$ 1,365,929</u>
NET ASSETS		
Held in trust for employee's pension benefits (Schedule of Funding Progress on page 60)	<u>\$ 2,780,431</u>	

# WAKE COUNTY, NORTH CAROLINA

## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FIDUCIARY FUNDS

For the Year Ended June 30, 2006

Additions:	Separation Allowance
Employer Contributions	<u>\$ 538,000</u>
Net investment income	<u>81,852</u>
Total additions	619,852
Deductions:	
Benefits	<u>762,777</u>
Net increase	(142,925)
Net assets held in trust for pension benefits:	
Beginning of year	<u>2,923,356</u>
End of year	<u><u>\$ 2,780,431</u></u>

**NOTE 1.**  
**Summary of Significant  
Accounting Policies**

The County of Wake (County) was established in 1771 by the North Carolina General Assembly under North Carolina State Law [General Statute (G.S.) 153A-10]. The County is governed by a seven-member board of commissioners and provides the following services: public safety, culture-recreation, human services programs, community development, environmental services, planning and zoning, employment and training, education and general administration.

The accounting policies of the County conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles in the United States. The following is a summary of the more significant accounting policies:

**A. Reporting Entity**

The County is one of the 100 counties established in North Carolina under State Law [G.S. 153A-10]. As required by GAAP, these financial statements present the County and its component unit, a legally separate entity for which the County is financially accountable. The discretely presented component unit below is reported in a separate column in the County's government-wide financial statements to emphasize that it is legally separate from the County.

**Discretely Presented Component Unit**

**Wake County Board of Alcoholic Control (ABC Board)**

The members of the ABC Board's governing board are appointed by the County Board of Commissioners. The ABC Board is required by State statute to distribute its surpluses to the General Fund of the County. The ABC Board has a June 30 year-end. The financial statement may be obtained at 225 Hillsborough St., Raleigh, NC 27602.

**B. Government-wide and  
Fund Financial Statements**

The Statement of Net Assets and the Statement of Changes in Net Assets, which are the government-wide statements, report information on all of the nonfiduciary activities of the County and its component unit. Most of the interfund activity has been removed from these statements. The County's governmental activities, which are supported primarily by taxes and intergovernmental revenues, are reported separately from its business-type activities, which rely on charges for services for support. Likewise, the County is reported separately from the ABC Board, a legally separate component unit for which the County is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of specific functions are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges for services and grants or contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not properly included among program revenues, including all taxes, are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide statements. Major individual governmental funds are included as separate columns in the fund financial statements. The proprietary funds distinguish operating revenues and expenses from nonoperating items. The operating items generally result from providing services in connection with the fund's principal ongoing operations. All revenues and expenses not meeting the operating criteria are reported as nonoperating items.

**C. Measurement Focus, Basis  
of Accounting, and Financial  
Statement Presentation**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus, except for the agency funds which have no measurement focus. The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all the eligibility requirements imposed by the provider are met.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont.)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. Expenditures are recognized when a fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt which are recognized when due.

In the governmental funds statements, property taxes, investment earnings and charges for services of the current fiscal period are susceptible to accrual and thus counted as revenue for the current fiscal period if received within 30 days of year-end. With the exception of sales tax distributions, revenues collected beyond 30 days after year end are not susceptible to accrual because generally they are either not available or not measurable until received in cash. Sales tax distributions are accrued and treated as revenue for the current fiscal period if received within 90 days of year-end.

The County reports the following major funds:

General Fund - The general fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and federal and State grants. The primary expenditures are for education, human services, public safety, environmental, cultural and recreational services, community development, and general governmental services.

Affordable Housing Fund - The Affordable Housing fund provides housing rehabilitation, infrastructure improvements, and relocation assistance to households meeting eligibility requirements. These programs are funded with both County funds and federal grant moneys.

Debt Service Fund - The County budgets and pays debt service for its general obligation bonds from this fund.

Capital Improvements Fund - The Capital Improvements Fund accounts for the acquisition of land and buildings by the County for general public purpose.

School Capital Fund - The School Capital Fund accounts for the construction and renovation of school building projects financed by County-issued bonds, various State grants, and other County funds.

Solid Waste Fund - The Solid Waste Fund accounts for the County's landfills, container sites, and recycling operations.

Additionally, the County reports the following fund and fund types:

Internal Service Fund - The County has one internal service fund: the Risk Management Fund, which accounts for the insurance needs (both purchased insurance and self-retained risks) of all County departments.

**Fiduciary Fund Types**

Pension Trust Fund - The Pension Trust Fund accounts for the Law Enforcement Officers' Special Separation Allowance enacted by State legislature.

Agency Funds - Agency funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The County maintains three agency funds: the Municipal Tax Fund, which collects and disburses the taxes for municipalities in the County; the Human Services Fund, which accounts for moneys deposited with County departments for the benefit of certain individuals; and the Fines and Forfeitures Fund, which accounts for moneys received from the Court System for disbursement to the Wake County Public School System.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The County has the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

Basis of accounting refers to when revenues and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the combined financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont.)**

All funds of the County are accounted for during the year on the modified accrual basis of accounting in accordance with North Carolina General Statutes. The governmental funds are also reported using the modified accrual basis of accounting. The proprietary funds are reported using the full accrual basis of accounting.

The County recognizes assets of nonexchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized, on the modified accrual basis, when they are measurable and available. Nonexchange transactions occur when one government provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return. Various intergovernmental revenues, sales taxes, property taxes and most donations are examples of nonexchange transactions.

Under the terms of grant agreements, the County funds certain programs by specific grants, resources and/or general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply grant resources to such programs and then general revenues.

**D. Budgetary Data Control**

In compliance with the North Carolina Local Government Budget and Fiscal Control Act, the Board of County Commissioners adopts an annual budget ordinance using the modified basis of accounting for all governmental and proprietary funds except funds authorized by project ordinances. The annual budget for governmental funds and proprietary funds must be adopted no later than July 1. Agency and pension trust funds are not required by state law to be budgeted. All capital projects funds and special revenue funds other than the Special Tax District and the Major Facilities Funds are budgeted under project ordinances spanning more than one fiscal year and are controlled by project. Project appropriations continue until the projects are complete. The Debt Service Fund is also budgeted annually.

For those funds for which annual budgets are adopted, appropriations are budgeted and controlled on a functional basis and amended as necessary during the fiscal year. The County Manager is authorized to transfer budgeted amounts between appropriations within the same fund. However, any transfers exceeding \$75,000 shall be reported to the Board of County Commissioners at the next regularly scheduled meeting. For the Risk Management Internal Service Fund, the Manager may transfer amounts for departmental losses, damages, premiums, or liabilities. Revisions that alter the total appropriations of any fund must be approved by the Board of County Commissioners. Annual appropriations lapse at the end of the budget year.

Amounts reported as general administration expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund differ from the amounts reported in the General Fund Statement of Revenues, Expenditures, and changes in Fund Balances-Budget and Actual by \$2,670,274. This amount represents the expenditures associated with the inception of capital leases and capital donations that are not required to be budgeted by the County under the NC law.

**E. Deposits and Investments**

All deposits of the County are made in board-designated official depositories and are secured as required by State Law [G.S. 159-31]. The County may designate as an official depository any bank or savings and loan association whose principal office is located in North Carolina. Also, the County may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the County to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT), a Securities and Exchange Commission registered (2a-7) mutual fund.

As required, the County's investments are stated at fair value as determined by quoted market prices. The NCCMT Cash Portfolio securities are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio securities are valued based upon a matrix pricing system and/or appraisal by a pricing service. Except for the Pension Trust Fund and unspent bond proceeds, the County pools moneys from several funds to facilitate disbursement and investment and maximize investment income. Income from pooled moneys is allocated to participating funds based on the funds' respective share of total pooled cash and investments. The County pools moneys from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

**F. Receivables and Payables**

Outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide statements as "internal balances."

**G. Taxes Receivable  
Deferred Revenues**

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], ad valorem taxes for property other than vehicles are levied on July 1, the beginning of the fiscal year and are due on September 1 (lien date); however, no penalties or interest are assessed until the following January 6. Property taxes on certain registered motor vehicles are assessed and collected throughout the year. The taxes are based on the assessed values as of January 1, 2005.

Ad valorem taxes collected within 30 days after the fiscal year end for the year ended June 30, 2006 and prior years are accrued within the funds because the amounts are considered measurable and available. The remaining ad valorem taxes receivable are not accrued, as the amount is not considered available. These taxes receivable are significantly past due and are not considered to be an available resource to finance the operations of the subsequent year. GAAP states that property taxes, which are measurable but not available, should be initially recorded as deferred revenues under the modified accrual basis of accounting. The receivable amount is reduced by an allowance for uncollectible taxes and an amount equal to the net receivable is shown as deferred revenue on the combined balance sheet. In addition, property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenues.

**H. Allowances for  
Uncollectible  
Accounts**

Allowances for uncollectible accounts are maintained on all types of receivables that historically experience uncollectible amounts. Allowances are based on collection experience and management's evaluation of the current status of existing receivables.

**I. Inventories and Prepaid  
Expenditures**

Inventories are valued at cost, using the weighted average method. The inventories of the General Fund consist of expendable supplies and are recorded as expenditures when consumed. The General Fund inventories reported on the fund balance sheet are offset by a fund balance reserve, which indicates that it does not constitute a resource available for appropriation. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**J. Capital Assets**

Capital assets that are purchased or constructed are recorded at historical cost. Donated assets are recorded at estimated market value at the time of donation. The County defines capital assets as assets with an individual cost of more than \$5,000, and an estimated useful life of more than two years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is computed using the straight-line method. Any interest incurred during the construction phase of proprietary fund type capital assets is reflected in the capitalized value of the asset being constructed. Capital assets are depreciated on the following basis:

Buildings	40 years
Vehicles and Motorized Equipment	5 years
Machinery and Equipment	3 years
Improvements	40 years
Infrastructure	20-50 years

Land used for landfills is depleted using the straight-line method over its expected useful life of 3 years.

**K. Long-Term Debt**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements governmental fund types report the face amount of debt issued as an other financing source. Bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued and any related premium are reported as other financing sources. Discounts on issuance are reported as other financing uses. Issuance costs are reported as a reduction of proceeds.

**L. Compensated Absences**

The vacation policy of the County provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. An expense and a liability for vacation pay and salary-related payments are accrued as the leave is earned in the government-wide and proprietary fund financial statements. The compensated absences liability is liquidated using funds to which the liability accrued as the accumulated leave is used.

The County's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the County has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

**M. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts the appropriation of fund balance to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through state statute.

**N. Comparative  
Reclassifications**

Certain amounts presented in the prior year's data have been reclassified in order to be consistent with the current year's presentation.

**O. Reconciliation of  
Government-wide and Fund  
Financial Statements**

- 1. Explanation of certain differences between the governmental fund balance sheets and the government-wide statement of net assets.

The governmental fund balance sheet includes reconciliation between the fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains, “ long term liabilities, including bonds payable, are not due in the current period and therefore are not reported in the funds.” The details of this (\$1,081,190,327) difference are as follows:

Outstanding long-term debt payable (per Note 10)	\$	(1,067,292,292)
Add:		
Accrued interest payable		(13,805,434)
Payable to granting agency		(266,036)
Less:		
Compensated absences related to internal service fund included in Note 10		17,503
Bond issuance costs (to be amortized over life of debt)		155,932
Net adjustments to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	\$	<u><u>(1,081,190,327)</u></u>

**O. Reconciliation of  
Government-wide and Fund  
Financial Statements  
(Cont.)**

2. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation states “the issuance of long term debt such as bonds and leases provides current financial resources to governmental funds while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is issued while these amounts are deferred and amortized in the statement of activities.” The details of this \$31,144,837 difference are as follows:

Debt issued or incurred:

Proceeds of refunded general obligation debt	\$ (41,000,000)
Capital lease financing	(278,111)
Plus: premiums on bond issuance	(1,358,620)
Compensated absences increases	(9,473,024)
Interest expense accrual and other adjustments	1,663,104
Total Increases	<u>(50,446,651)</u>

Principal repayments:

General obligation debt - schools	61,194,540
General obligation debt - other	8,440,460
Installment purchase payments	807,485
Quality zoning academy bonds	163,461
Current year amortization of bond premiums	2,188,558
Clean water revolving loan payments	237,920
Capital lease payments	152,169
Compensated absences, decreases	8,401,105
Change in compensted absences related to internal service fund	<u>5,790</u>
Total Decreases	<u>81,591,488</u>

Net adjustment to increase net changes in fund balances - total  
governmental funds to arrive at changes in net assets of  
governmental activities

\$ 31,144,837

**P. Unrestricted (deficit)**

On the Statement of Net Assets, the unrestricted (deficit) for governmental activities is composed of the following:

For school debt	\$ (1,005,433,252)
All other	<u>455,172,311</u>
Total unrestricted net assets	<u>\$ (550,260,941)</u>

Under North Carolina law, the County is responsible for providing capital funding for the Wake County Board of Education (the "School System"). The County has chosen to meet its legal obligation to provide school capital funding by using a mixture of County funds and general obligation debt. The assets funded by the County are owned, utilized and maintained by the school system. 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, the outstanding balance of the school-related debt was \$1,005,433,252. However, the entire amount of school debt outstanding is general obligation debt, which is collateralized by the full faith, credit, and taxing power of the County. 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 in which they become due.

**NOTE 2.  
Related Organizations**

**Industrial Facilities and Pollution Control Financing Authority**

The County Board of Commissioners is responsible for appointing the board members of the Wake County Industrial Facilities and Pollution Control Financing Authority, but the County's accountability for this organization does not extend beyond making these appointments. The Authority exists to issue and service revenue bond debt for private business for economic development purposes. Its primary revenues are the payments to service the issued debt that are received from the businesses involved. The County is not responsible for the debt issued by the Authority and the Authority's debt is not included in determining the County's legal debt limit.

**Wake County Housing Authority**

The County Board of Commissioners is responsible for appointing members of the Wake County Housing Authority, but the County's accountability for this organization does not extend beyond making these appointments. The Authority's purpose is to provide safe, decent, and affordable housing to County residents. Their operations are subsidized by the federal government and other grantors. The Authority determines its own budget and sets rental rates. The County is not responsible for deficits or liabilities of the Authority.

**Wake County Hospital System, Inc.**

The County Board of Commissioners is responsible for appointing eight of the fourteen members of the Hospital's Board of Directors. The County's accountability for this organization does not extend beyond making the appointments. The Hospital, a private, not-for-profit entity, operates as a community general hospital, providing care to indigent patients per an agreement with the County which states that it agrees to provide, on an annual basis, out of pocket indigent cost that equal or exceed 4.8% of its total adjusted revenue.

Effective April 1, 1997, the Hospital and the County agreed that the County, as owner of certain hospital facilities and related property would transfer such property to the Hospital. Prior to the transfer, the Hospital issued revenue bonds to defease hospital revenue bonds previously issued by the County in the Hospital's behalf. The proceeds of the new debt plus a sufficient amount of available funds were placed in an irrevocable trust to provide for all future debt service payments on the old hospital revenue bonds.

**NOTE 3.  
Joint Ventures Without Equity  
Interest**

**Wake Technical Community College**

Technical and vocational training beyond the secondary level is provided by Wake Technical Community College, with some financial assistance from the County. The College is a part of the state-wide system of community colleges and technical institutes. The College has a twelve-member Board of Trustees, four of which are appointed by the County Board of Commissioners. The County has no responsibility for the designation of management and exercises no control over the operations of the College beyond its annual appropriation. The County has an ongoing financial responsibility for the College because of the statutory responsibilities to provide funding for the College's facilities. The County remitted \$13,021,500 to the College for operating purposes during the current year. In addition, the County made debt service payments of \$2,469,347 on general obligation bonds issued to construct College facilities. The County does not have any equity interest in the joint venture; therefore, no equity interest has been reflected in the County's financial statements at June 30, 2006. Complete financial statements for the College may be obtained at their administrative offices at 9101 Fayetteville Road, Raleigh, NC 27603.

**Raleigh-Durham Airport Authority**

The Raleigh-Durham Airport Authority is governed by a board appointed to plan and conduct the operations of the Raleigh-Durham International Airport. This eight-member governing body is jointly appointed by the City of Durham, City of Raleigh, County of Durham, and County of Wake, with each member government appointing two members to the Airport Authority board. The Airport Authority board selects the management and determines the budget and financing requirements for airport operations. The County and other participating governments each appropriate \$12,500 annually to cover administration expenses incurred by the Authority. The participating governments have no equity interest in the joint venture; therefore, no equity interest is reflected in the County's financial statements. Complete financial statements for the Airport Authority may be obtained from the airport's administrative offices at 1051 Cargo Drive, Raleigh, NC 27623.

**Special Airport District of Durham and Wake Counties**

The Special Airport District of Durham and Wake Counties is a special taxing district governed by a four-member board comprised of two members each from the Durham and Wake Boards of County Commissioners. The District is a public body and body corporate limited to aiding the Raleigh-Durham Airport Authority in financing the construction of aeronautical facilities. The District is a joint venture of the two Boards of County Commissioners; however, the Counties do not have an equity interest in the District. Therefore, the County has not included any equity interest in the County's financial statements at June 30, 2006. The District may issue bonds or other obligations pursuant to the provisions of the Local Government Bond Act of the North Carolina General Statutes and is empowered to cause taxes to be levied upon all taxable property within the District sufficient to meet the obligations of the District. The County does not approve the budget of the District, nor does the County control the collection or disbursement of District funds. During the prior fiscal year ended June 30, 2005, the remaining general obligation bonded debt of the District was retired. As a result, the District had no financial transactions during fiscal year 2006 and, accordingly, was not required to file any financial statements.

**Centennial Authority**

The Centennial Authority is a local political subdivision of the State of North Carolina created pursuant to Section 4 of Chapter 458 of the 1995 Session Laws of North Carolina. The purpose of the Authority is to study, design, plan, construct, own, promote, finance and operate a regional facility in Wake County, North Carolina. The regional facility will consist of an arena, coliseum or other buildings or both, where sports, fitness, health recreational, entertainment or cultural activities can be conducted. In addition, the County remitted \$1,537,034 for operations and \$5,121,635 for debt service from the Occupancy and Prepared Food/Beverage taxes for the Authority. The County does not have any equity interest in the joint venture; therefore, no equity interest has been reflected in the County's financial statements at June 30, 2006. Complete financial statements for the Authority may be obtained at their administrative offices at 1520 Blue Ridge Road, Suite 201, Raleigh, NC 27607.

**Greater Raleigh Convention and Visitors Bureau**

The Greater Raleigh Convention and Visitors Bureau (Bureau) was established in fiscal year 1992 in conjunction with a County occupancy tax levy to promote and solicit business, conventions, meetings and tourism in the County. The governing body of the Bureau is a twelve-member Board of Directors with six members appointed by the Raleigh City Council and six members appointed by the County Board of Commissioners. Funding is derived from the six (6) percent occupancy tax levied upon the rental of rooms, lodging or similar accommodations, and from a one (1) percent prepared food & beverage tax levied on all prepared foods and beverages sold by Wake County businesses. Monthly, the County is required to distribute to the Bureau a percentage of the tax collected with a minimum aggregate annual distribution of \$1,000,000. If tax revenues are not sufficient to fully fund the Bureau's minimum annual distributions, the County and City must fund the deficiency equally to ensure that the Bureau receives its minimum distribution of \$1,000,000 in any fiscal year. All unexpended funds of the Bureau revert to the County and City at the end of each fiscal year. The Bureau is a joint venture of equal equity interest between the County and the City of Raleigh. The Wake County Board of Commissioners and the Raleigh City Council must approve the budget and all amendments. The Bureau does not have any outstanding indebtedness except for a minor investment in fixed assets, the only equity in the Bureau at year-end is for encumbrances, which will be expended, in the subsequent year. Based on this, no equity interest in the Bureau is recorded at June 30, 2006.

**NOTE 4.  
Deposits and Investments**

**1. Deposits:** All of the County's deposits are either insured or collateralized using the Pooling Method. Under the Pooling Method, a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the County, these deposits are considered to be held by the County's agent in the County's name. The amount of the pledged collateral is based on an approved averaging method for non interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the pooling method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the County or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the County under pooling method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each pooling depository.

At year-end, the County's deposits had a carrying amount of \$23,440,297 and a bank balance of \$28,055,814. Of the bank balance, \$540,387 was covered by federal depository insurance and \$27,515,427 in interest-bearing deposits were covered by collateral held under the pooling method.

**2. Investments**

As of June 30, 2006, the County had the following investments and maturities.

Investment Type	Fair Value	Less Than		
		2 Years	2 - 3 Years	3 - 5 Years
U.S. Government Treasuries	\$ 69,127,150	\$ 69,127,150	\$ -	\$ -
U.S. Government Agencies	311,767,107	247,813,032	39,399,500	24,554,575
Commercial paper	61,121,679	61,121,679	-	-
N.C. Capital Management Trust -Cash portfolio	28,207,435	28,207,435	-	-
N.C. Capital Management Trust -Term portfolio	3,809,666	3,809,666	-	-
Certificates of Deposit	17,000,000	17,000,000	-	-
Total fair value	<u>\$ 491,033,037</u>	<u>\$ 427,078,962</u>	<u>\$ 39,399,500</u>	<u>\$ 24,554,575</u>

\* Because the NC Capital Management Trust Term Portfolio had a duration of 0.9 years, it was presented as an investment with a maturity of less than 2 years.

*Interest Rate Risk.* As a means of managing its exposure to fair value losses from increasing interest rates, the County has an informal investment policy that limits investment maturities to a maximum of five years. A maximum of \$90 million or 15% of the portfolio can be in the 2-3 year range and a maximum of \$60 million or 10% of the portfolio can be in the 3-5 year range.

*Credit Risk.* State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs); however, the County had no formal policy on managing credit risk. As of June 30, 2006, the County's investments in commercial paper were rated P1 by Standard & Poor's, F1 by Fitch Ratings, and A1 by Moody's Investors Service. In addition, all of the County's commercial paper carries a long-term debt rating of A or better. The County's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2006. The County's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the US government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. The County's investments in US Agencies (Federal Home Loan Bank, Federal Farm Credit Bank, Fannie Mae and Freddie Mac) are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

*Concentration risk:* The County's informal investment policy limits the amount of investments to \$20 million that is allowed in any one issuer's name.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2006, all of the County's investments were in the County's name.

**NOTE 5.  
Receivables**

Receivables, excluding accrued interest, as of year end for the County's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Affordable Housing Fund	Debt Service Fund	Capital Improvement Fund	School Fund	Non Major Funds	Totals
Property taxes	\$ 14,850,634	\$ -	\$ -	\$ -	\$ -	\$ 588,367	\$ 15,439,001
Accounts	10,262,488	-	-	8,197,915	-	-	18,460,403
Interest	-	2,022	2,656,814	725,272	1,656,900	257,675	5,298,683
Special assessments	99,354	-	-	-	-	-	99,354
Intergovernmental	51,644,068	-	-	-	1,859,233	1,265,406	54,768,707
Loans receivable	-	18,760,629	110,368	1,414,666	-	-	20,285,663
Other	5,434,964	50,066	-	319,240	-	2,745,207	8,549,477
Gross receivables	82,291,508	18,812,717	2,767,182	10,657,093	3,516,133	4,856,655	122,901,288
Less allowance for bad debts	(14,522,774)	(166,562)	-	(3,418,002)	-	(423,624)	(18,530,962)
Net total receivables	<u>\$ 67,768,734</u>	<u>\$ 18,646,155</u>	<u>\$ 2,767,182</u>	<u>\$ 7,239,091</u>	<u>\$ 3,516,133</u>	<u>\$ 4,433,031</u>	<u>\$ 104,370,326</u>

Revenues of the Solid Waste Fund are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are \$285,896.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current period, the various components of deferred revenue were as follows:

	Unavailable	Unearned
Taxes receivable (General Fund)	\$ 4,245,040	\$ -
Taxes receivable (Special District Fund)	164,743	-
Housing loans receivable (Affordable Housing Fund)	-	18,622,013
Loans receivable (Capital Improvements Fund)	-	1,414,666
Prepaid taxes not yet earned (cash)	-	2,821,111
Prepaid loans not yet earned (cash)	-	180,000
Other cash deferred revenues (School Capital Fund)	-	713,618
Other deferred revenues	8,421,992	-
	<u>\$ 12,831,775</u>	<u>\$ 23,751,408</u>

**NOTE 6.**  
**Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 25,173,538	\$ -	\$ (2,102)	\$ 25,171,436
Construction in progress	124,632,715	57,981,502	(4,407,184)	178,207,033
Total capital assets, not being depreciated	<u>149,806,253</u>	<u>57,981,502</u>	<u>(4,409,286)</u>	<u>203,378,469</u>
Capital assets, being depreciated:				
Buildings	218,959,406	2,835,181	(1,586)	221,793,001
Improvements Other than Buildings	7,585,757	-	-	7,585,757
Machinery and equipment	27,284,610	1,953,669	(395,370)	28,842,909
Vehicles and motorized equipment	22,080,314	4,654,169	(2,509,877)	24,224,606
Infrastructure	10,939,755	-	-	10,939,755
Total capital assets being depreciated	<u>286,849,842</u>	<u>9,443,019</u>	<u>(2,906,833)</u>	<u>293,386,028</u>
Less accumulated depreciation for:				
Buildings	46,403,136	5,543,762	(1,586)	51,945,312
Improvements Other than Buildings	1,417,277	189,643	-	1,606,920
Machinery and equipment	22,379,655	3,584,973	(396,600)	25,568,028
Vehicles and motorized equipment	13,113,361	3,202,872	(2,487,535)	13,828,698
Infrastructure	3,186,096	3,186,086	(3,186,086)	3,186,096
Total accumulated depreciation	<u>86,499,525</u>	<u>\$ 15,707,336</u>	<u>\$ (6,071,807)</u>	<u>96,135,054</u>
Total capital assets, being depreciated, net	<u>200,350,317</u>			<u>197,250,974</u>
Governmental activities capital assets, net	<u>\$ 350,156,570</u>			<u>\$ 400,629,443</u>

**NOTE 6. (Cont.)**  
**Capital Assets**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,817,850	\$ 57,403	\$ -	\$ 1,875,253
Construction in progress	57,403	17,925	(57,403)	17,925
Total capital assets, not being depreciated/amortized	<u>1,875,253</u>	<u>75,328</u>	<u>(57,403)</u>	<u>1,893,178</u>
Capital assets, being depreciated/amortized:				
Landfills	35,124,359	-	-	35,124,359
Buildings	1,166,902	-	-	1,166,902
Machinery and equipment	28,621	-	-	28,621
Vehicles and motorized equipment	31,751	-	(20,178)	11,573
Improvements	504,900	-	-	504,900
Total capital assets being depreciated/amortized	<u>36,856,533</u>	<u>-</u>	<u>(20,178)</u>	<u>36,836,355</u>
Less accumulated depreciation/amortization for:				
Landfills	25,746,529	2,323,487	-	28,070,016
Buildings	141,937	15,756	-	157,693
Machinery and equipment	21,650	2,698	-	24,348
Vehicles and motorized equipment	31,751	-	(20,178)	11,573
Improvements	258,673	13,599	-	272,272
Total accumulated depreciation/amortization	<u>26,200,540</u>	<u>\$ 2,355,540</u>	<u>\$ (20,178)</u>	<u>28,535,902</u>
Total capital assets, being depreciated/amortized, net	<u>10,655,993</u>			<u>8,300,453</u>
Business-type activities capital assets, net	<u>\$ 12,531,246</u>			<u>\$ 10,193,631</u>

**NOTE 6. (Cont.)**  
**Capital Assets**

Depreciation and amortization expenses were charged to functions as follows:

Governmental activities:	
General administration	\$ 4,563,641
Human services	1,608,786
Education	343,012
Community development and cultural	1,888,250
Environmental services	2,868,684
Public safety	<u>4,434,963</u>
Total depreciation expense - Governmental activities	<u>15,707,336</u>
Business-type activities:	
Solid waste	<u>2,355,540</u>
Total depreciation and amortization	<u>\$ 18,062,876</u>

**NOTE 6. (Cont.)  
Capital Assets**

For the 2006 fiscal year, the construction in progress expenditures for governmental activities were as follows:

**Construction in Progress:**

	Expended At June 30, 2006
800 MHZ Radio Communication System	\$ 19,878,162
American Tobacco Trail	2,310,689
Automation	16,185,501
Barwell Road ECC	1,995,274
County Building Renovations	4,953,766
Detention Facility Expansion	33,263,248
Downtown Parking Structures	560,882
East Wake County Park	1,155,366
EMS Station	4,807,135
Fire Training	2,552,833
Garland Jones Building	625,340
Human Services Sunnybrook	3,961,746
Inpatient Psychiatric Unit	2,195,649
Judicial Facilities	10,122,873
Libraries	15,323,132
Little River Reservoir	16,191,154
Open Space Preservation Program	12,415,697
Open Space - Phase 1 - 3	7,398,811
Open Space - Fuller Tract	2,740,171
Open Space - Pleasants Tract	2,358,628
Poe Center	500,000
PSC Andover Controller Upgrade	212,784
Radio System Infrastructure Dev & Insta	2,785,276
Randleigh Farm Acquisition	1,916,135
RTP Offsite Infrastructure Phase 3	2,140,375
Security Improvement	4,063,798
Southeast Regional Mechanical	159,723
Southeast Regional Wake Co Park	1,848,490
Telephone Replacement	1,490,671
Yates Mill Education Building	1,823,615
Projects under \$100K	270,109
Total	<u>\$ 178,207,033</u>

**NOTE 7.**  
**Interfund Receivables/Payables**  
**and Transfers**

Internal balances as of June 30, 2006 are \$9,860,522. \$758,307 represents amounts due to the General Fund by a non-major government funds for their share of cash and investments pooled equity. \$4,958,620 represents principal and interest amounts due to the Debt Service Fund from the Special Districts fund for the purchase of large apparatus for the rural and municipal fire departments. \$4,143,625 represents principal amounts due to the Capital Improvements Fund from the Debt Service Fund for the purchase of large apparatus for the rural and municipal fire departments.

The County's General Fund transferred funds during fiscal year 2006 to fund debt service payments, capital improvements, the risk management program, economic developments and the County match for State and Federal Grant Programs. The \$275,000 transferred from the Solid Waste enterprise fund is to cover administrative expenses incurred by the County's General Fund on behalf of the solid waste program.

Interfund transfers:

	General Fund	Affordable Housing Fund	Debt Service Fund	Capital Improvements Fund	Other Governmental Funds	Internal Service Fund	Total Transfers out
General Fund	\$ -	\$ 104,000	\$ 114,008,000	\$ 24,517,000	\$ 986,290	\$ 5,133,000	\$ 144,748,290
Capital Improvements Fund	-	1,000,000	-	-	-	-	1,000,000
Other Governmental Funds	795,961	-	1,463,000	4,526,481	-	-	6,785,442
Solid Waste Fund	<u>275,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>275,000</u>
Total transfers in	<u>\$ 1,070,961</u>	<u>\$ 1,104,000</u>	<u>\$ 115,471,000</u>	<u>\$ 29,043,481</u>	<u>\$ 986,290</u>	<u>\$ 5,133,000</u>	<u>\$ 152,808,732</u>

**NOTE 8.  
Risk Management**

**A. Property, Liability, Workers' Compensation and Self-Insured Employee Medical Coverages**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of, assets; errors and omissions; on-the-job injuries to employees; and natural disasters, as discussed below.

The County has established a Risk Management Fund (internal service fund) to account for and finance both its uninsured and insured risks of loss. Effective August 1, 2005, the County's group medical coverage went from fully insured to self-insured which is administered by an outside provider. The County also provides self-insured dental to its employees and dependents. There is no limit for in-network services and a \$1,000,000 lifetime limit for out-of-network services for each covered employee/dependent's medical costs. The cost of providing medical coverage to participating employees and dependents is charged to benefiting funds as premiums. These premiums are an estimate of expected average claims per individual and are recorded as revenue in the internal service fund. Also in this fund, the County is self-insured up to a maximum of \$500,000 for each workers' compensation claim, and up to \$500,000 for other liability claims and \$100,000 for each property damage claim. The County purchases commercial excess insurance for claims in excess of its self-insured retention and for other insurance and bonds to cover specific risks and officials, respectively. Settled claims have not exceeded this commercial coverage in any year since the fund was established in 1990. The County elects not to distribute claims and insurance coverage expenses to the County departments except for deductibles on auto and property claims. A transfer is made annually from the General Fund to fund administrative costs and establish actuarially determined assets to pay ultimate losses and scheduled premiums.

The County's property and liability coverage at June 30, 2006 are as follows:

<b>Property Coverage</b>	<b>Liability</b>
<u>Coverage</u>	<u>Coverage Limits</u>
Property Insurance - Building and Contents	\$ 250,000,000
Workers' Compensation	Statutory
Employers' Liability	\$ 1,000,000
General Liability, Public Officials Liability, Law Enforcement Liability, Auto Liability and Excess Liability	\$ 10,000,000

The claims liability of \$4,285,096 reported in the Risk Management Fund at June 30, 2006 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

The claims liability is actuarially determined and includes an estimate for claims incurred but not reported. Changes in the fund's claims liability amount in fiscal years 2005 and 2006 are as follows:

**Changes in the Fund's Claims Liability**

	2006	2005
Beginning of fiscal year liability	\$ 1,435,535	\$ 1,061,341
Current year claims and changes in estimates	8,435,340	3,153,008
Property and liability claim payments	(1,895,571)	(1,520,834)
Dental benefits claim payments	(1,411,510)	(1,257,980)
Self-insured group medical payments	(2,278,698)	-
Balance at fiscal year-end	<u>\$ 4,285,096</u>	<u>\$ 1,435,535</u>

**NOTE 9.  
Capital Lease Obligations and  
Operating Leases**

The County leases certain equipment under lease agreements that are classified as capital leases for accounting purposes in accordance with GAAP. Obligations of these lease agreements are accounted for in the governmental activities of the government-wide statements. At June 30, 2006, the net book value of the assets acquired through capital leases is \$488,472. The net present value of the future minimum lease payments at June 30, 2006 is \$733,181 as detailed below.

The County also leases buildings and office facilities as well as various equipment under non-cancelable operating leases. The total costs for all operating lease expenditures for the year ended June 30, 2006 were \$2,012,983. The future minimum lease payments for non-cancelable operating leases are \$5,086,888 as detailed below.

At June 30, 2006, future minimum lease payments due under capital leases and operating leases with initial or remaining non-cancelable lease terms in excess of one year are as follows:

Year Ending June 30	Capital Leases	Operating Leases
2007	\$ 218,810	\$ 1,089,306
2008	201,860	859,880
2009	165,010	762,788
2010	149,651	686,724
2011	89,191	583,843
2012	12,987	591,601
2013	-	512,746
Total minimum lease payments	<u>837,509</u>	<u>\$ 5,086,888</u>
Less: amount representing interest	<u>(104,328)</u>	
Present value of net minimum lease payments	<u>\$ 733,181</u>	

The county leases office space under operating lease agreements with terms generally less than one year. Minimum future rentals on non-cancelable lease with terms in excess of one year are not material to the County's financial statements. Rental revenue for the year ended June 30, 2006 was \$302,581.

**NOTE 10.  
Long-term Debt**

**General Obligation Bonds:**

The general obligation bonds reported in Governmental Activities are collateralized by the full faith, credit and taxing power of the County. The County has issued both fixed and variable rate bonds. The fixed rate bonds bear interest at rates varying from 3.00 percent to 5.75 percent. From July 1, 2005 through March 31, 2006 the variable rate bonds bore an initial interest rate of 2.67%. Beginning April 1, 2006, the variable rate was reset weekly by the remarketing agent based on the minimum rate of interest necessary to enable the remarketing agent to remarket all of the weekly rate bonds in the secondary market. The rate ranged from 3.04% to 3.97% during the period April 1 through June 30, 2006. Principal and interest requirements will be provided by an appropriation in the Debt Service Fund in the year in which they become due.

General obligation bonds serviced by the General Fund and payable at June 30, 2006 are comprised of the following:

1997 School Bonds of \$100,000,000 due in annual installments of \$5,000,000 to \$15,000,000 through March 2007; interest of 4.7% to 5.0%.	\$ 5,000,000
1998 Public Improvement, Series Bonds of \$159,000,000 due in annual installments of \$8,000,000 to \$15,000,000 through March 2015; interest of 4.4% to 4.6%.	95,000,000
2000 School Bonds of \$24,000,000 due in annual installments of \$1,000,000 to \$4,000,000 through February 2010; interest of 5.2% to 5.75%.	4,000,000
2001 Criminal Justice Facility Bonds of \$8,000,000 due in annual installments of \$300,000 to \$1,200,000 through August 2017, interest of 4.4% to 4.75%.	6,500,000
2001 School Bonds of \$150,000,000 due in annual installments of \$5,700,000 to \$22,800,000 through February 2015, interest of 4.5% to 5.25%.	88,300,000
2002 Public Improvement Bonds of \$188,000,000 due in annual installments of \$8,500,000 to \$34,000,000 through March 2018, interest of 4.00 to 4.75%.	154,000,000
2003A Public Improvement Bonds of \$122,890,000 due in annual installments of \$8,000,000 to \$17,555,000 through April 2015, interest of 3.00 to 5.00%.	72,000,000
2003B Public Improvement Bonds of \$55,000,000 due in periodic installments of \$10,000,000 to \$30,000,000 beginning in April 2016 through April 2018, interest is variable with a rate of 2.67% at June 30, 2005. The maximum amount of interest, which cannot exceed 12%, through maturity is \$89,125,069.	55,000,000
2003C Public Improvement Bonds of \$45,000,000 due in annual installments of \$13,000,000 to \$32,000,000 beginning in April 2019 through April 2020, interest is variable with a rate of 2.67% at June 30, 2005. The maximum amount of interest, which cannot exceed 12%, through maturity is \$83,316,875.	45,000,000
2003A Refunding Bonds of \$83,145,000 due in annual installments of \$945,000 to \$16,100,000 beginning February 1, 2004 through February 1, 2011 interest of 3.00 to 5.00%.	66,500,000
2003B Criminal Justice Facilities Bonds of \$8,000,000 due in annual installments of \$400,000 to \$550,000 beginning February 1, 2004 through February 1, 2022, interest of 3.00 to 5.00%	7,200,000

**NOTE 10. (Cont.)  
Long-term Debt**

2004 Public Improvement Bonds of \$130,000,000 due in annual installments of \$10,000,000 beginning March 1, 2005 through March 1, 2017, interest of 3.00 to 5.00%.	\$ 110,000,000
2004A Variable Rate School Bonds of \$67,000,000 due in periodic installments of \$29,000,000 to \$38,000,000 beginning April 1, 2018 through April 1, 2019, interest is variables with a rate of 2.67% at June 30, 2005. The maximum amount of interest, which cannot exceed 12% is \$110,345,556.	67,000,000
2004B Variable Rate School Bonds of \$57,000,000 due in periodic installments of \$17,000,000 to \$40,000,000 beginning April 1, 2020 through April 1, 2021, interest is variables with a rate of 2.67% at June 30, 2005. The maximum amount of interest, which cannot exceed 12% is \$92,036,667.	57,000,000
2004 Refunding Bonds of \$114,380,000 due in annual installments of \$2,865,000 to \$23,870,000 beginning March 1, 2007 through March 1, 2015 interest of 4.00 to 5.00%.	114,380,000
2005 Refunding Bonds of \$33,020,000 due in annual installments of \$50,000 to \$22,290,000 beginning February 1, 2006 through February 1, 2017 interest of 3.00 to 5.00%.	32,970,000
2005 School Bonds of \$41,000,000 due in annual installments of \$1,500,000 to \$6,000,000 through May 2023, interest of 3.25 to 5.00%	<u>41,000,000</u>
Total general obligation bonds outstanding	<u><u>\$ 1,020,850,000</u></u>

The annual requirements to amortize all general obligation debt outstanding as of June 30, 2006 are as follows:

June 30	Principal	Interest	Total
2007	\$ 70,650,000	\$ 44,601,250	\$ 115,251,250
2008	70,605,000	41,393,930	111,998,930
2009	70,725,000	38,053,900	108,778,900
2010	70,655,000	34,748,512	105,403,512
2011	70,690,000	31,453,788	102,143,788
2012-2016	359,315,000	107,696,176	467,011,176
2017-2021	298,160,000	30,406,709	328,566,709
2022-2023	10,050,000	621,563	10,671,563
	<u>\$ 1,020,850,000</u>	<u>\$ 328,975,828</u>	<u>\$ 1,349,825,828</u>

The County is subject to the Local Government Bond Act of North Carolina which limits the amount of net bonded debt the County may have outstanding to 8 percent of the appraised value of property subject to taxation less property valued for abatement. At June 30, 2006, such statutory limit of the County was \$6,010,777,645 providing a legal debt margin of \$4,995,459,440. Authorized but unissued general obligation bonds as of June 30, 2006 totaled \$718,500,000. Of this amount \$309,000,000 was for authorized but unissued new general obligation bonds and \$409,500,000 was for authorized but unissued refunding bonds.

**NOTE 10. (Cont.)  
Long-term Debt**

**Quality Zoning Academy Bonds:**

In 2003, the County issued \$3,002,077 of Quality Zoning Academy Bonds as authorized by State Law [G.S. 16A-20]. These are installment financing agreements that are secured by the fixtures and improvements at Needham Broughton High School. The County is obligated to make annual debt service fund payments of \$163,461 through December 2016. The scheduled payments by the County assume projected earning at a fixed rate of 4.02%. If the trustee fails to earn projected amounts, the County shall pay, in addition to its scheduled payments, the amount such that total payments in the Debt Service Fund shall equal \$3,002,077.

**Conduit Debt Obligations:**

Wake County Industrial Facilities and Pollution Control Financing Authority (the "Authority") has used industrial revenue bonds to provide financial assistance to private businesses for economic development purposes. These bonds are secured by the properties financed as well as letters of credit and are payable solely from the payments received from the private businesses involved. Ownership of the acquired facilities is in the name of the private business served by the bond issuance. Neither the County, the Authority, the State of North Carolina, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2006, there were 16 series of industrial revenue bonds outstanding with an aggregate principal amount payable of \$580 million.

**Interest Rate Swap:**

As part of the acquisition by the County of an 85% interest in Five County Stadium pursuant to an Interlocal Agreement dated December 19, 2002, the County assumed the obligations of the Town of Zebulon under an Installment Financing Agreement ("Original Agreement") dated as of February 1, 1999. Effective April 20, 2004, the County entered into an Amended and Restated Installment Financing Agreement ("Amended Agreement") and pay-fixed, receive-variable interest rate swap ("Swap") for the purpose of refinancing the Original Agreement. The initial principal amount of the Amended Agreement was \$9,000,000 and the notional amount of the Swap was \$9,000,000. The notional value of the swap and the principal amount of the associated debt decline annually. The final maturity of the Amended Agreement and Swap is July 1, 2015. The interest rate on the Amended Agreement is 60.45% of one-month LIBOR plus 1.12%. Under the Swap, the County receives 60.45% of one-month LIBOR plus 1.12% (the same as the interest rate on the Amended Agreement) and pays 3.78%, effectively converting the Amended Agreement from variable-rate to fixed-rate. At June 30, 2006, the swap had a positive fair value to the County of \$210,162. Fair value was estimated by the counterparty using mark to market valuations. As of June 30, 2006, the County was exposed to credit risk because the swap had a positive fair value. The swap counterparty, Bank of America, at June 30, 2006 was rated "Aa1" by Moody's Investors Services, "AA+" by Standard and Poor's and "AA-" by Fitch Ratings. Since the variable interest rate the County pays on the Amended Agreement and the variable interest rate the counterparty pays to the County on the swap are based on the same calculation, the net interest rate is the 3.78% fixed swap rate and there is no interest rate or basis risk. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the County being required to make an unanticipated termination payment.

**NOTE 10. (Cont.)  
Long-term Debt**

**Interest Rate Swap (cont.):**

Swap payments and associated debt – Using the variable interest rate as of June 30, 2006 (4.21%) and assuming the rate remains the same for the following term of the agreement, debt service requirements of the Amended Agreement debt and net swap payments would be as follows:

	Amended Variable Rate Installment Purchase Agreement			
	Principal	Variable Rate Interest	Interest Rate Swaps, Net	Total
2007	\$ 708,891	\$ 314,200	\$ (32,092)	\$ 990,999
2008	736,320	283,652	(28,972)	991,000
2009	764,157	252,648	(25,805)	991,000
2010	794,377	218,991	(22,366)	991,002
2011	825,113	184,758	(18,871)	991,000
2012-2016	<u>3,709,663</u>	<u>371,446</u>	<u>(37,939)</u>	<u>4,043,170</u>
Total	<u>\$ 7,538,521</u>	<u>\$ 1,625,695</u>	<u>\$ (166,045)</u>	<u>\$ 8,998,171</u>

**NOTE 10. (Cont.)  
Long-term Debt**

**Changes In Long-Term Liabilities:**

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
<b>Governmental activities:</b>					
General obligation bonds	\$ 1,049,485,000	\$ 41,000,000	\$ 69,635,000	\$ 1,020,850,000	\$ 70,650,000
Plus: Premiums on issuance	26,484,512	1,358,620	2,188,558	25,654,574	N/A
Total general obligation bonds payable	1,075,969,512	42,358,620	71,823,558	1,046,504,574	70,650,000
Quality Zoning Academic Bonds	1,961,538	-	163,461	1,798,077	163,461
Installment Purchases	8,570,962	-	807,485	7,763,477	833,891
Capital leases	607,239	278,111	152,169	733,181	218,810
Clean water revolving loans	475,843	-	237,920	237,923	237,923
Compensated absences	9,183,141	9,473,024	8,401,105	10,255,060	10,255,060
Total Governmental Activities	<u>\$ 1,096,768,235</u>	<u>\$ 52,109,755</u>	<u>\$ 81,585,698</u>	<u>\$ 1,067,292,292</u>	<u>\$ 82,359,145</u>
<b>Business-type activities:</b>					
Landfill	\$ 13,270,038	\$ 828,338	\$ -	\$ 14,098,376	N/A
Compensated absences	44,609	40,765	47,043	38,331	38,331
Total Business-type Activities	<u>\$ 13,314,647</u>	<u>\$ 869,103</u>	<u>\$ 47,043</u>	<u>\$ 14,136,707</u>	<u>\$ 38,331</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At June 30, 2006, \$17,503 of the internal service funds compensated absences were included in ending compensated absences for governmental activities.

**NOTE 11.  
Additional Social Welfare  
Expenditures**

The following amount was paid on behalf of the County by the State from federal and State funds. The human services payments were disbursed directly to vendors and individual recipients. For the year ended June 30, 2006 this amount, which is not included in the financial statements because the County has no primary responsibility beyond making eligibility determinations, is approximately \$434.8 million.

**NOTE 12.  
Compliance Audits of Federal and  
State Assisted Programs**

The County participates in a number of federal and State grant programs which are subject to audit in accordance with Office of Management and Budget Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations", the Single Audit Act Amendments of 1996, and the State Single Audit Implementation Act. The County expects such expenditures, if any, which may be disallowed by the granting agencies to be immaterial.

**NOTE 13.  
Multiple-Employer Pension Plan  
Obligations**

**Local Governmental Employees' Retirement System**

Plan Description. Wake County contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and their beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. That report may be obtained by writing to the Office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The County is required to contribute at an actuarially determined rate. For the County, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.80% and 5.27%, respectively, of annual covered payroll. The contribution requirements of members and of Wake County are established and may be amended by the North Carolina General Assembly. The County's contributions to LGERS for the years ended June 30, 2004, 2005, and 2006 were \$6,241,446, \$6,635,941 and \$7,118,601, respectively. The contributions made by the County equaled the required contributions for each year.

**Supplemental Retirement Income Plan**

Plan Description. Wake County contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The plan provides retirement benefits to all employees of the County who are employed at least half time. Article 5 of the G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The County's total payroll in fiscal year 2006 was \$151,040,214. The County's contributions were calculated using the base salary amount of \$146,500,351. The County made contributions amounting to \$7,325,018. Employees made voluntary contributions of \$3,831,339.

Funding Policy. This Supplemental Retirement Income Plan is provided through the Local Government Employees' Retirement System. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. State legislation requires that the County contribute an amount equal to 5 percent of the employee's base salary each month for all law enforcement officers. Wake County also makes a 5 percent contribution for all other employees employed at least half time. All covered employees may make voluntary contributions to the plan. The County's contributions for each employee (and interest allocated to the employee's account) are fully vested immediately.

**NOTE 14.  
Law Enforcement Officers' Special  
Separation Allowance**

Plan Description. Wake County administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the County's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Separation Allowance is reported in the County's financial statements as a pension trust fund and a separate report is not issued.

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2005, the Separation Allowance's membership consisted of:

Retirees receiving benefits	42
Active plan members	<u>354</u>
Total	<u>396</u>

Basis of Accounting. Employer contributions to the plan are recognized when due and when the County has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Methods Used to Value Investments. Investments are reported at fair value. Short-term debt, deposits, repurchase agreements, and the North Carolina Capital Management Trust investments are reported at fair value. Certain longer-term United States Government and Agency securities are valued at the last reported sales price.

Contributions. The County is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the fiscal year ended June 30, 2006, the County contributed \$538,000, or 3.6% of annual covered payroll. There were no contributions made by employees. The County's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed by the General Fund.

The annual required contribution for the fiscal year ended June 30, 2006 was determined as part of the December 31, 2004 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 7.25% investment rate of return and (b) projected salary increases ranging from 5.9% per year to 9.8% per year. (B) Included an inflation component of 3.75%. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level percent of pay on an open basis. The remaining amortization period at December 31, 2004 was 20 years.

**NOTE 14. (Cont.)  
Law Enforcement Officers' Special  
Separation Allowance**

<b>Fiscal Year Ended</b>	<b>Annual Pension Cost (APC)</b>	<b>Trend Information</b>	
		<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation (asset)</b>
June 30, 2004	\$499,544	110.98%	(\$ 942,598)
June 30, 2005	\$494,511	131.65%	( 1,099,087)
June 30, 2006	\$594,826	90.45%	( 1,042,261)

The County's annual pension cost and net pension obligation (asset) to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 599,284
Interest on net pension obligation	(79,684)
Adjustment to annual required contribution	<u>75,226</u>
Annual pension cost	594,826
Contributions made	<u>538,000</u>
Decrease in net pension obligation	56,826
Net pension obligation (asset), beginning of year	<u>(1,099,087)</u>
Net pension asset, end of year	<u><u>\$ (1,042,261)</u></u>

**NOTE 15.  
Register of Deeds' Supplemental  
Pension Fund**

Plan Description. Wake County also contributes to the Registers of Deeds' Supplemental Pension Fund (FUND), a non-contributory, defined contribution plan administered by the North Carolina Department of State Treasurer. The Fund provides supplemental pension benefits to any county register of deeds who is retired under the Local Governmental Employees' Retirement System (LERS) or an equivalent locally sponsored plan. Article 3 of G.S. Chapter 161 assigns the authority to establish an amend benefit provisions to the North Carolina General Assembly.

Funding Policy. On a monthly basis, the County remits to the Department of State Treasurer an amount equal to four and one half percent (4.5%) of the monthly receipts collected pursuant to Article 1 of G.S. 161. Immediately following January 1 of each year, the Department of State Treasurer divides ninety-three (93%) of the amount in the fund at the end of the preceding calendar year into equal shares to be disbursed as monthly benefits. The remaining seven percent (7%) of the Funds assets may be used by the Department of State Treasurer in administering the Fund. For the fiscal year ended June 30, 2006 the county's actual and required contributions were \$304,192.

**NOTE 16.**  
**Post-Employment Benefits**

In addition to providing pension benefits, Wake County has elected to provide health care benefits to retirees of the County who participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least five to twenty years of continuous service with the County, depending on date of hire. The County pays the full cost of coverage for these benefits as incurred on a pay-as-you-go basis. Also, retirees can purchase coverage for their dependents at the County's group rates. Currently, 554 retirees are eligible for post-retirement health benefits. For the fiscal year ended June 30, 2006, the County made payments for post-retirement health benefit premiums of \$2,188,340. These premium costs are expended in the Risk Management Fund (an internal service fund) and are based on estimated annual medical claims per individual.

The County has elected to provide death benefits to employees through the Death Trust Plan for members of the Local Government Employees' Retirement System (Death Trust Plan), a multiple-employer State-administered cost-sharing plan funded on a one-year term cost basis. The beneficiaries of these employees' who die in active service after one year of contributing membership in the System, or who die within 180 days after termination of service or retirement and have at least one year of contributing membership in the system at the time of death are eligible to receive death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death; however, the benefit may not exceed \$50,000. All death benefit payments are made from the Death Benefit Plan. The County has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State of North Carolina.

Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the County, the County does not determine the number of eligible participants. For the fiscal year ended June 30, 2006 the County made contributions to the State for death benefits of \$113,420. The County's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .07 percent and .14 percent of covered payroll, respectively. The contributions to the Death Trust are not separated between the post-employment benefit amount and the other benefit amount, as the amounts cannot be reasonably estimated.

**NOTE 17.**  
**Commitments and Contingencies**

The County is involved in several pending lawsuits, which it intends to defend vigorously. The County Attorney estimates that the potential liability resulting from such litigation that is not covered by insurance is not material and would not have a material adverse effect on the financial position of the County at June 30, 2006.

**NOTE 18.**  
**Closure and Postclosure Landfill Costs**

The County owns five solid waste landfills which are accounted for in the enterprise fund. State and Federal laws and regulations require the County to place a final cover on its landfills when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The current estimate of postclosure maintenance and monitoring costs is approximately \$15 million. The landfill closure and postclosure liability of \$14,098,376 is included in accounts payable and accrued liabilities in the enterprise funds at June 30, 2006. The liability represents a cumulative amount reported to date based on the use of 100 percent of the North Wake unlined facility and the contract amount reserved for closure of the Feltonville Construction and Demolition facility. Both the North Wake and Feltonville Construction and Demolition facilities stopped accepting waste in fiscal year 2004. The North Wake Construction and Demolition facility reached capacity in August 2003. Bids were received and a contract was awarded for closure of the facility in late 2003. The closure construction was successfully completed in early 2004. Therefore no further post-closure funds need to be reserved in fiscal year 2005 or beyond. The closure contract for the Feltonville Construction and Demolition facility was bid and awarded in fiscal year 2004. The closure construction was completed in fiscal year 2005. No further post-closure funds need to be reserved in fiscal year 2005 or beyond. The North Wake Subtitle Design Facility is estimated to be 88.22% full and will close in or around October, 2007. The County will recognize the remaining estimated cost of closure and postclosure care costs of \$1,270,501 as the remaining estimated capacity is filled. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

**NOTE 19.**  
**Interest on Unpaid Motor Vehicle Property Taxes**

During the year the North Carolina General Assembly enacted House Bill 1779 which provides for the creation of a combined motor vehicle registration renewal and property tax collection system. The Bill called for an increase in the first month's interest on uncollected property taxes on registered motor vehicles. This applied to all property taxes levied on registered motor vehicles. The additional interest collected on behalf of the County was required to be remitted to the Department of State Treasurer and be used by the Division of Motor Vehicles to create a combined registration and collection system. Amounts collected by the County and disbursed to the Department of State Treasurer during the year ended June 30, 2006 was \$96,619 and \$73,763.

**NOTE 20.  
Comparative  
Data/Reclassifications**

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the County's financial position and operations. Comparative totals have not been included on the statements where their inclusion would not provide an enhanced understanding of the County's financial position or would cause the statements to be unduly complex or difficult to understand. Also, certain amounts presented in the prior year's data have been reclassified to be consistent with the current year's presentation.

**NOTE 21.  
Stewardship, Compliance  
and Accountability**

The Wake County Community College Capital Project fund had a deficit fund balance of (\$3,133,969) as of June 30, 2006. The fund issued commercial paper of \$3,598,331 during fiscal year 2006. Due to the nature of the financing arrangement, these proceeds were required to be classified as a short-term liability in the fund statements. The will be cured when the commercial paper notes payable are paid off with the issuance of long-term general obligation bonds. The County expects to issue long-term general obligation bonds and pay off the commercial paper notes payable during fiscal year 2007.

**NOTE 22.  
Discretely Presented Component  
Unit Disclosures**

The following significant component unit information and accounting policies are disclosed to allow for fair presentation and to supplement the financial data included in the combined financial statements.

(1) **Deposits and Investments**

The deposits and investments of the ABC Board are governed by the same North Carolina General Statutes and generally accepted accounting principles that are applicable to the County. These statutes and other reporting requirements are found in Note 4.

Deposits: At June 30 2006, the Board's deposits had a carrying amount of \$9,062,413 and a bank balance of \$10,534,205. All of the bank balance was either insured by federal depository insurance, or collateralized under the pooling method.

Investments: State law [G.S. 159-30(c)] authorized the Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances; and the North Carolina Capital Management Trust (NCCMT), an SEC registered (2a-7) money market mutual fund.

(2) **Risk Management**

The ABC Board 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 ABC Board has property, general liability, auto liability, workers' compensation and employee health coverage. The ABC Board also has liquor legal liability coverage.

There have been no significant reductions in insurance coverage from the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.