



October 14, 2005

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

Maintaining the fiscal strength and stability of County government is a primary goal of the Wake County Board of Commissioners. This Comprehensive Annual Financial Report (Financial Statements) of Wake County, North Carolina, for the fiscal year ended June 30, 2005, reflects the achievement of that goal. Each year this document is prepared to provide you with details about how the County receives, spends and accounts for its money, as well as key indicators of its financial strength. The County's Finance Department prepares the Financial Statements and assumes all responsibility for the accuracy of the data, the completeness and fairness of the presentation, and all disclosures. We believe the data and presentation are fair and accurate and that you will find everything necessary in this document to gain an understanding of the County's financial activities over the last fiscal year.

Wake County Government's financial statements have been audited by Cherry, Bekaert & Holland, L.L.P., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended June 30, 2005, are fairly presented in conformity with generally accepted accounting principles. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair

presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the County's separately issued Single Audit Report.

We are required to present a Management's Discussion and Analysis (MD&A) section as an introduction to the financial information. This section immediately follows the auditor's opinion and provides an overview and analysis of the County's significant transactions in fiscal year 2005, to aid readers in understanding their financial impact and relationship to the Financial Statements and schedules provided. This letter of transmittal is written to complement the MD&A.

FINANCIAL REPORTING ENTITY

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

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

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

PROFILE OF WAKE COUNTY

The recurring publicity of Wake County as one of the most desirable places to live and work in the United States, as evidenced by recent surveys in

national magazines, has continued to turn the spotlight on the quality of life enjoyed by Wake County citizens. National accolades received recently by the Triangle include:

- **#2 Best Place for Business and Careers (Raleigh-Durham, NC)**, *Forbes*, May 2005
- **#2 Most Educated City (Raleigh, NC)**, *US Census Bureau-American Community Survey*, 2003 Survey (Released April 2005)
- **#2 Best Public Education System (Raleigh-Cary, NC)**, *Expansion Management*, April 2005
- **#1 Fastest Growing Life Science Workforce** *Milken Institute*, June 2005
- **#8 High-Tech City (Raleigh, NC)**, *Popular Science*, February 2005
- **#8 Most Wired City (Raleigh-Durham-Chapel Hill, NC)**, *Intel Annual Survey*, 2005 Survey
- **Top Five Most Innovation-Entrepreneurial Regions (Raleigh, NC)**, *US Small Business Administration*, April 2005
- **Top 50 5-Star City for Quality of Life (Raleigh-Cary, NC)**, *Expansion Management's Quality of Life Quotient*, March 2005

Wake County is the second most-populous County in the state. Its 12 municipalities include Raleigh, the County seat and state capital. A unique mix of urban and rural areas and small towns distinguishes Wake from other counties and provides something for every lifestyle. Located in the north central section of the state on the Piedmont Plateau, Wake County is on a major industrial corridor approximately halfway between Washington, D.C., and Atlanta. North Carolina's beautiful mountains and serene beaches are each within easy driving distance. The County's topography is characterized by low, rolling hills in the northwest, changing gradually to level land in the

southeast. The location, geography and climate make Wake County an enjoyable place to live, work, learn and play, while also contributing significantly to the economic viability of the region.

FACTORS AFFECTING FINANCIAL CONDITION

Economic Diversity

The County's economic diversity provides a strong foundation for the area's economy. On June 30, 2005, the unemployment rate stood at 4.4%, compared with 5.3% for the state and 5.0% for the nation. A sampling includes:

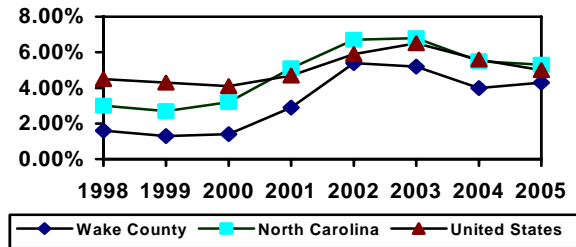
- manufacturing (including light manufacturing of telecommunications equipment, pharmaceuticals, electrical and machine parts, and electrical components)
- service industries
- seven public and private institutions of higher education, including North Carolina State University, recognized as a national leader in research and technology
- state and local government, including the principal executive, legislative, judicial and regulatory offices of state government
- three general-care hospitals, two of which are not-for-profit, providing a total of 1,330 patient beds.

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

To date, 11 companies have located in the Wake County portion, building nearly 2.5 million sq. ft. of space for biotechnology and information technology purposes. Another 1.1 million sq. ft. is under construction.

Of the approximately 38,000 people currently employed in RTP, the Research Triangle Foundation estimates that 58 percent reside in Wake County, evidence that it is very much a primary component of our economy.

Unemployment Rate Trends



Long-Term Planning

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



The County is working in partnership with the City of Raleigh on a new downtown convention center and hotel. Commissioners and the City Council have approved a design (shown at left), and construction is under way, with a slated opening of February 2008.

Wake County, in partnership with the Town of Cary, Durham County and the Soil and Water Conservation District Boards from Wake and Durham counties, secured \$1.4 million in grant funds to launch the Jordan Lake Water Reclamation and Reuse Project in May 2005. Reclaimed water use conserves water supplies and reduces wastewater discharges into our streams to increase water quality.

The County led a partnership with Cary, Apex, Morrisville, Fuquay-Varina and Holly Springs to develop regional solutions to meet the 25-year wastewater treatment needs of western Wake County. Governing boards of all partners approved the interlocal agreement, which commits them to design, build and construct a \$200-million regional wastewater treatment facility by 2011.

Wake County entered into a memorandum of agreement with the Society for the Prevention of Cruelty to Animals of Wake County to decrease the euthanasia of unwanted animals by reducing pet overpopulation and increasing adoptions. The County is working with N.C. State University College of Veterinary Medicine students to increase the level of on-site medical care of animals at the animal shelter and to assure that animals are neutered before being placed in adoptive homes.

Wake County has crafted a strong Environmental Stewardship Agenda to protect drinking water and ensure that citizens tomorrow enjoy the same quality of life we enjoy today. The Agenda focuses on water and air quality, open space preservation, solid waste disposal and recycling, and environmental health and education.

Major plans being implemented include:

- **Comprehensive Open Space Plan:** This "greenprint for the future" knits together the County's Open Space Plan with those of all 12 Wake County municipalities. This unique plan provides for open space protection in ways that are close to home, such as greenway linkages and neighborhood parks.
- **Watershed and Growth Management Plans:** These plans address growth issues, including the critical matter of watershed protection and setting priorities for purchases under the County's open space plan.

The County has worked with all municipalities, the Solid Waste Advisory Committee and the public to update the County's 10-Year Comprehensive Solid Waste Management Plan. The plan sets goals for recycling and waste reduction and for mulching and composting of food and yard waste, and outlines strategies for managing and disposing of solid waste, reducing litter and increasing public education efforts.

Beginning in fiscal year 2003, all departments prepared multi-year business plans. Just as the County plans for its capital projects over many years, we believe it is important to bring that mindset to the operational side of the County's business. This reflects our philosophy that the budget process – or the process of allocating scarce “taxpayer-derived” resources to seemingly boundless needs – is an ongoing process of management, not an annual event.

Capital Improvement Program

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

In connection with the County's capital planning, in June 2004 Commissioners adopted a seven-year, \$1.55 billion CIP for fiscal years 2005-11. Successful bond referenda in November 2004 added \$40 million for Wake Technical Community College and \$26 million for open space.

The current CIP totals \$1.55 billion of initiatives to improve the capital infrastructure of the County, of which \$1.062 billion is dedicated to the Wake County Public School System. The remaining \$488 million would be invested in several areas of capital need, including criminal justice (\$175.5 million); investments in libraries (\$42.4 million), Solid Waste operations (\$40.7 million), community college facilities (\$40 million) and other smaller areas; continuation of the open space preservation general obligation bond program approved by voters in 2000 and 2004 (\$26 million); along with projects for funding affordable housing, community-based projects and continued land acquisitions in the Little River area.

Four years ago, Wake County initiated a new capital funding program with an increased emphasis on debt financing in order to expand the County's ability to support capital projects. There are two fundamental strategies that are key to the success of the new program: 1) dedicating a funding stream specifically to capital, and 2) converting from a cash funding basis (pay-as-you-go) to a more debt-based financial plan.

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

At present, the two primary funding sources for the CIP are dedicated property tax revenue (16.5 cents) and a percentage of the sales tax receipts to the capital program. The sales tax percentage is based upon legislation codified in the North Carolina General Statutes. A third funding source is investment earnings from the General Fund. Since debt service payments and investment earnings are both interest rate sensitive, the two are linked together to leverage the variable debt portion of our portfolio.

Property Tax Revenues: One of the most significant aspects of the financial model is the commitment to dedicate a portion of the property tax to capital investments. This means that a percentage of the property tax revenues is specifically dedicated to the capital investment fund for debt service payments and pay-as-you-go funding as needed throughout the seven-year plan. As the largest single source of revenues for the County, the dedication of property tax revenues represents a critical contribution to maintaining the integrity of the capital program.

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

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

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

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

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

Donations: Finally, as the momentum from an innovative volunteer contributions campaign builds, donations are expected to supplement tax appropriations in the mid-to-late years of the capital investment plan. The donations are expected to contribute toward capital investments incurred in the Yates Mill Pond project, for example. Although not identified in the current plan, this has the potential of being an excellent source of revenue for future library capital needs, as well.

OTHER ACCOMPLISHMENTS

Wake County broke ground on a **new regional library** in northwestern Cary on a plot of land donated by the Town of Cary. Construction of the library is scheduled to be completed by the summer of 2006. This library was identified in the Capital Improvement Program as the first new facility to be developed with proceeds from the October 2003 \$35-million library bond.

The **County's newly updated Web site, WakeGOV.com**, provides citizens with 26 online services, including the ability to pay taxes online and to view sanitation scores for restaurants, schools, hospitals, nursing homes, day care centers and other state-regulated facilities.

Wake County has received a **\$60,000 adoptions bonus** from the state for exceeding the goal for adoptions of special needs foster children in fiscal 2004-05.

Wake County, the City of Raleigh and community partners have launched a **10-year plan to end homelessness**; its key objectives are prevention, engagement, housing, employment/ education and services/supports.

A regional partnership between Wake and Durham counties, their Soil and Water Conservation boards, the Town of Cary and the U.S. Environmental Protection Agency is providing \$3 million in grants to implement treatment of **wastewater for irrigation** and commercial uses in **Research Triangle Park (RTP)**. The Jordan Lake Water Reclamation and Reuse Project will reduce the demand for potable water, decrease wastewater discharges into Jordan Lake and boost economic development prospects in Wake County's portion of RTP.

The Animal Care, Control and Adoption Center has remodeled to accommodate a partnership with the N.C. State University College of Veterinary Medicine.

The County added **new ambulance units** along its Durant Road corridor and in Garner to improve emergency medical services in those areas; supported merging the Knightdale, Wendell and Zebulon squads to form the new Eastern Wake EMS; and realigned services to Brier Creek and downtown Raleigh to better meet demand.

The Sheriff's Office has **trained 250 detention staff to recognize potential gang members** incarcerated in the Wake County Jail; information about gang members, tattoos and colors is in a database that is shared with other agencies to track gang activity in the County.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Wake County for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the 21st consecutive year in which the County has received this recognition. To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. The GFOA award is valid for a period of one year.

Acknowledgements

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

Respectfully submitted,

David Cooke

David Cooke
County Manager

Melinda Canady

Melinda Canady
Finance Director