

WAKE COUNTY, NORTH CAROLINA MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of Wake County, North Carolina, we offer readers of our financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2008. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages **IX – XIV** in the Introductory section of this report.

Financial Highlights for Wake County, North Carolina

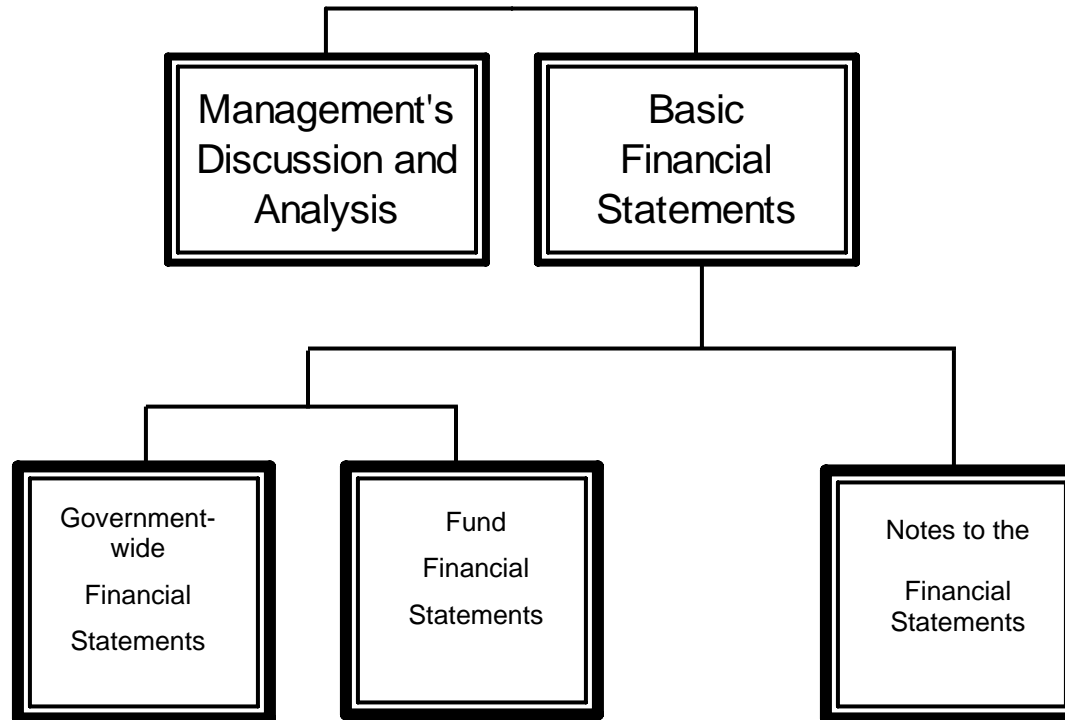
- The County has maintained an “Aaa” bond rating from Moody’s Investors Service since 1973, an “AAA” rating from Standard & Poor’s Corporation since 1983, and an “AAA” rating from Fitch for the eighth year in a row. This bond rating is a clear indication of the sound financial condition of The County. The County is one of the few counties in the country that maintains the highest financial rating from all three major rating agencies. This achievement is a key factor in keeping interest costs low on the County’s outstanding general obligation debt. These ratings were reaffirmed in October 2008.
- On the government-wide statements, the liabilities of the County’s governmental activities exceeded its assets at the close of the fiscal year by \$519 million (*net deficit*). The County’s net deficit is impacted considerably by the general obligation debt the County has issued on the behalf of the school system to fund school capital outlay. Under North Carolina law, the County is responsible for providing capital funding for the School System. The County has chosen to meet its legal obligation to provide school capital funding by leveraging taxpayer dollars 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 school 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 exceeded \$1.36 billion dollars.
- As of the close of the 2008 fiscal year, the County’s governmental funds reported combined ending fund balances of \$509.7 million, down \$259.8 million from the restated \$769.5 million for the prior fiscal year. The County’s governmental fund balance decreased by such a large amount because, during the fiscal year ended June 30, 2008, the County did not issue any additional long-term bonds to finance capital expenditures for the school system and county capital programs. Instead, the County chose to postpone issuing long-term bonds until existing bond proceeds were spent down in all capital funds.

- As of June 30, 2008, the governmental funds balance decreased \$259.8 million to \$509.7 million. The various components of this decrease included a \$130.5 million decrease in the amount reserved for encumbrances, a \$12.4 million increase in the amount Reserved by State Statute, a \$123.4 million decrease in the amount designated for subsequent year's expenditures, a \$8.3 million decrease in the amount designated for working capital, a \$10.2 million decrease in the total undesignated amount of fund balance and a \$.2 million dollar increase in other minor other minor components of fund balance. These changes were anticipated in accordance with the County's operating and seven-year capital financial models to build schools as well as County projects such as libraries, public safety, and parks.
- The County measures its financial health and flexibility to meet operating needs as a ratio of fund balance as a % of expenditures, transferring significant resources from its General Fund into the Debt Service Fund to meet those future commitments. As a result, the combined General Fund and Debt Service Fund balances are measured together to assess the County's overall fiscal health. At the end of the 2008 fiscal year, the fund balance for the County's General Fund was \$169 million while the Debt Service Fund balance was \$100 million; compared with \$169 million and \$99.4 million in the prior fiscal year. The total fund balance of both funds compared as a % of expenditures was 25.47% of expenditures at the end of fiscal 2008, compared with a combined total of 28.04% at the end of the 2007 fiscal year. Of the General Fund's fund balance of \$169 million as of June 30, 2008, \$9 million has been designated for subsequent year expenditures in the budget for the fiscal year ending June 30, 2009 and \$79 million has been designated for working capital, resulting in no undesignated fund balance in the County's General Fund.
- The County uses a long-term financial planning model for operating and capital budgeting purposes. The capital and debt component of the model help evaluate the impact of capital funding decisions on the County's financial condition and to ensure policy targets are maintained. In accordance with its financial model, the County allocates a portion of property taxes specifically for debt service and cash funding for its capital program. The tax rate for fiscal year 2008 was 67.8 cents with 19.2 cents of that dedicated to capital and debt. For the fiscal year 2008, the County transferred \$124 million from the General Fund to fund the Debt Service component of it model and \$58.2 million to County capital and school capital outlay to fund those allocations.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three components: 1) the government-wide financial statements, 2) the fund financial statements, and 3) the notes to the financial statements. The basic financial statements present two different views of the County through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the County.

Required Components of Annual Financial Report



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. The statements provide both short and long-term information about the County's financial status, using the full-accrual basis of accounting, in a manner similar to a private-sector business.

The two government-wide statements report the County's net assets and how they have changed. Net assets reported on the *statement of net assets* are the difference between the County's total assets and total liabilities. *The statement of activities* presents information showing how the County's net assets have changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The two government-wide statements are each divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the County's basic services such as education, human services, public safety, environmental services, community development and cultural services, and general government services. Property and other taxes as well as state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. For Wake County, only the Solid Waste function is reported as a business-type activity. The final category is the component units. Although legally separate from the County, the County exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the County.

The government-wide financial statements are on Pages **17 - 19** of this report.

The next statements within the basic financial statements are the **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government at a more detailed level than the government-wide statements. There are four parts to the fund financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statement; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

The **fund financial statements** provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the County's budget ordinance. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Governmental funds are used to account for those same functions reported as governmental activities in the government-wide financial statements. Most of the County's basic services are accounted for in governmental funds. Governmental funds financial statements focus on the near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a current financial resources focus. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The **Budgetary Comparison Statement** is the next part of the fund financial statements that is presented. The County adopts an annual budget for its General Fund, as required by the North Carolina General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County has provided the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the Statement of Revenues, Expenditures and Changes in Fund Balance. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the

board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the variance between the final budget and the actual results.

Proprietary Funds – For the fiscal year ended June 30, 2008, the County had three proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for solid waste operations that are County funded as well as the South Wake Enterprise Fund that accounts for the activities associated with the South Wake landfill that is operated by the County and various municipalities within the County. These funds are consolidated into the business-type activities that are presented in the Statement of Net Assets and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of the County. The County uses an internal service fund to account for its risk management activity. Because this operation benefits predominately governmental rather than business-type activities, the internal service fund had been included within the governmental activities in the government-wide financial statements. As of July 1, 2008, the County began accounting for all its risk management activities in the General Fund; therefore, the primary operating transaction for the Risk Management Fund in fiscal year 2008 was the transfer moving the beginning fund balance to the General Fund.

Agency Funds – Agency funds are used to account for assets the County holds on behalf of others. Wake County has three agency funds that are used to account for taxes collected for and remitted to other municipalities within the County, funds held by Wake County Human Services on behalf of clients, and fines and forfeitures that are collected from citizen's and disbursed to the School System under North Carolina law.

The final section of the basic financial statements is the **notes to the financial statements**. The notes are essential to a full understanding of the data provided in the government-wide and fund financial statements because they explain in detail some of the data contained in those statements.

After the notes, this report presents certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to law enforcement personnel. Finally, combining statements are provided to show details about the County's non-major governmental funds, as well as enterprise and internal service funds. Budgetary information for each fund as required by the North Carolina General Statutes and detailed comparison statements, including encumbrances reported for internal reporting purposes for the County's General Fund and annually budgeted funds, can also be found in this section.

Government-wide Financial Analysis

In the government-wide statements the County's total liabilities exceeded total assets by \$480 million as of June 30, 2008. Net assets are reported in three categories: invested in capital assets, net of related debt of \$368.6 million, restricted for future capital needs of \$2.4 million, and unrestricted net deficit of (\$851) million.

The largest portion of Wake County’s net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt still outstanding that was issued to acquire those assets that are still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County’s investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The amount reported as invested in total capital assets increased to \$369 million from \$320 in the prior fiscal year. The largest portion of the increase relates to the County’s governmental activities. For the fiscal year ended the amount invested in capital assets, net of related debt for governmental activities increased by \$46 million to \$356 million. The components of this increase of \$46 million are the decrease in general obligation debt-other outstanding by \$7.7 million and an increase in capital assets for governmental activities of \$38.6 million during fiscal year 2008.

The other category of net assets is unrestricted net assets. This balance may be used to meet the government’s ongoing obligations to citizens and creditors. At June 30, 2008, the unrestricted deficit of \$(851) million is attributable primarily to the general obligation bonds issued by Wake County for the school system within the governmental activities. Even though the debt issued has been issued to finance capital outlay and construction for the School System, the Governmental Accounting Standards Board has determined that it is not capital debt for the County since it is not financing assets that are owned by the County. As a result, the school debt is reportable within the unrestricted category of net assets rather than as part of the category invested in capital assets, net of related debt. The breakdown of the unrestricted portion of net equity is defined as follows:

School System Debt	\$(1,360,271,880)
All other unrestricted	<u>509,350,392</u>
Total unrestricted (Deficit)	<u>\$(850,921,488)</u>

The amount reported in the total unrestricted category changed from \$(641.4) million as of June 30, 2007 to \$(850.9) as of June 30, 2008. This change was the result of a reduction in the County’s school system debt outstanding from \$1.427 billion as of June 30, 2007 to \$1.360 billion as of June 30, 2008, along with continued school capital expenses of \$281 million in the 2008 fiscal year that were not capitalized by the County. The All Other Unrestricted amount decreased from \$786 million in the prior fiscal year to \$509 million in the current fiscal year. That decrease primarily resulted from general obligation school bond proceeds on hand at the end of the prior fiscal year of \$233 million which were only \$11 million at the end of the 2008 fiscal year, \$9 million of which is school bond proceeds. This school debt is not considered capital debt for the County since the School System, not the County, holds title to the assets purchased or constructed with the debt proceeds. Therefore, both the debt and the associated bond proceeds are reported as part of the unrestricted component net assets.

Wake County's Net Assets:

	June 30, 2008 Governmental Activities	June 30, 2007 Governmental Activities	June 30, 2008 Business-type Activities	June 30, 2007 Business-type Activities	June 30, 2008 Total	June 30, 2007 Total
		(as restated)				(as restated)
Current and other assets	\$ 648,606,943	\$ 887,544,201	\$ 47,429,549	\$ 45,199,976	\$ 696,036,492	\$ 932,744,177
Capital assets	485,513,672	446,957,164	13,000,011	10,740,531	498,513,683	457,697,695
Total assets	1,134,120,615	1,334,501,365	60,429,560	55,940,507	1,194,550,175	1,390,441,872
Long-term liabilities/schools	1,360,271,880	1,426,948,583	-	-	1,360,271,880	1,426,948,583
Long-term liabilities/other	153,225,485	148,121,451	17,293,634	15,804,147	170,519,119	163,925,598
Other liabilities	139,957,366	114,892,958	3,788,734	3,184,486	143,746,100	118,077,444
Total liabilities	1,653,454,731	1,689,962,992	21,082,368	18,988,633	1,674,537,099	1,708,951,625
Net assets:						
Invested in capital assets, net of related debt	355,571,204	309,808,523	13,000,011	10,740,531	368,571,215	320,549,054
Restricted/Bonds	2,363,349	4,765,007	-	-	2,363,349	4,765,007
Unrestricted	(877,268,669)	(670,035,157)	26,347,181	26,211,343	(850,921,488)	(643,823,814)
Total net assets	\$ (519,334,116)	\$ (355,461,627)	\$ 39,347,192	\$ 36,951,874	\$ (479,986,924)	\$ (318,509,753)

The impact of the inclusion of the school system debt, without the corresponding assets, continues to be offset by the following positive operational initiatives and results:

- Continued diligence in the collection of property taxes by maintaining a collection percentage of 98.70%.

- Planning and management of revenues and expenditures through the use of financial models for the capital, debt service, and various operating budgets.
- Continued low cost of bonded debt that is a direct result of the County's high bond rating by each of the three major rating agencies. As noted earlier, we consider this unique achievement to be a key factor in keeping the interest costs low on the County's general obligation debt outstanding of \$1.4 billion at June 30, 2008.

Wake County's Changes in Net Assets:

	For the Year Ended		For the Year Ended		For the Year Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total	Total
		(as restated)				(as restated)
Revenues:						
Program revenues:						
Charges for services	\$ 69,028,878	\$ 69,863,683	\$ 20,548,146	\$ 20,624,752	\$ 89,577,024	\$ 90,488,435
Operating grants and contributions	150,308,118	126,739,477	1,199,844	1,102,733	151,507,962	127,842,210
General revenues:						
Property taxes	579,083,019	514,897,471	-	-	579,083,019	514,897,471
Sales taxes	156,037,557	149,755,646	-	-	156,037,557	149,755,646
Grants and contributions not restricted to specific programs	6,066,813	5,433,654	-	-	6,066,813	5,433,654
Other general revenues	78,216,933	82,585,327	2,892,418	2,749,030	81,109,351	85,334,357
Total revenues	1,038,741,318	949,275,258	24,640,408	24,476,515	1,063,381,726	973,751,773
Expenses:						
General administration	47,969,041	63,145,856	-	-	47,969,041	63,145,856
Human services	240,798,504	237,600,544	-	-	240,798,504	237,600,544
Education	620,118,123	523,605,091	-	-	620,118,123	523,605,091
Community development and cultural	76,626,538	48,468,336	-	-	76,626,538	48,468,336
Environmental services	11,527,956	11,976,377	-	-	11,527,956	11,976,377
Public safety	121,072,942	104,453,165	-	-	121,072,942	104,453,165
General services administration	24,167,418	-	-	-	24,167,418	-
Interest on long-term debt	60,639,285	56,300,238	-	-	60,639,285	56,300,238
Solid waste	-	-	21,939,090	19,495,080	21,939,090	19,495,080
Total expenses	1,202,919,807	1,045,549,607	21,939,090	19,495,080	1,224,858,897	1,065,044,687
Increase (decrease) in net assets before transfers	(164,178,489)	(96,274,349)	2,701,318	4,981,435	(161,477,171)	(91,292,914)
Transfers	306,000	298,200	(306,000)	(298,200)	-	-
Change in net assets	(163,872,489)	(95,976,149)	2,395,318	4,683,235	(161,477,171)	(91,292,914)
Net assets, beginning of year	(355,461,627)	(259,485,478)	36,951,874	32,268,639	(318,509,753)	(227,216,839)
Net assets, end of the year	\$ (519,334,116)	\$ (355,461,627)	\$ 39,347,192	\$ 36,951,874	\$ (479,986,924)	\$ (318,509,753)

Governmental activities. Governmental activities decreased the County's beginning net assets by \$163.9 million or 101.01% of the total decrease in the net assets of the County. As in prior fiscal years, the \$163.9 million decrease is due primarily to increasing and continued capital spending in the school construction program. Since the School System, not the County, capitalizes these construction costs, they are included in the County's statement of changes as operating expenses within the education function. For the fiscal year ended June 30, 2008, these school capital expenditures out of the School Capital Fund that the County could not capitalize totaled \$281 million.

Business-type activities. Business-type activities increased the County's beginning net assets by \$2.4 million; this decrease of \$2.3 million from the \$4.7 million reported in the prior year was primarily the result of an additional \$2.4 million in increased expenses while revenues for the activity remained relatively unchanged. These increased costs were associated with closure/postclosure care costs for the South Wake Landfill that opened in February 2008, just as old North Wake landfill closed. Since the North Wake landfill closed so late in fiscal year, almost none of the closure costs were incurred in fiscal 2008.

Financial Analysis of the County's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The County's seven major funds, as defined by GAAP for the fiscal year ended June 30, 2008, were the General Fund, the Affordable Housing Fund, the Major Facilities Fund, the Debt Service Fund, the Capital Improvements Fund, the School Capital Fund, and the Solid Waste Operating Fund, which is an enterprise funds.

At June 30, 2008, the governmental funds of Wake County reported a combined fund balance of \$509.7 million, a decrease of \$260 million, from the prior fiscal year, as restated at \$769.5 million. The largest portion of this decrease resulted from a net decrease in fund balance of \$232 million in the School Capital Fund. This decrease in the School Capital Fund resulted primarily from the school capital expenditures during the fiscal year. Bond proceeds on hand of \$272 million at June 30, 2007 were spent down during the 2008 fiscal year and no additional bonds were issued in this year, resulting in a reduction in fund balance. In addition, the County Capital Projects Fund and the Wake Community College Capital Projects Fund's fund balance decreased by \$15 million and 13 million, respectively. These decreases were also due, in part, to capital expenditures of prior years' bond proceeds of \$5 million and 4 million, respectively which were not restored by bond issues in fiscal 2008. These decreases were all in accordance with the County's seven-year financial plan, which provides for capital needs for the county, the school system and the community college system by dedicating revenue sources to provide a stable financial model by which the County can meet its capital needs.

Governmental Funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the County's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the County. At the end of the 2008 fiscal year, the total fund balance of the General Fund was \$169 million, compared with \$169 million, as restated, at the end of the prior year. Of that \$169 million, \$88 million was unreserved fund balance. None of the unreserved amount was undesignated, which was unchanged from the prior fiscal year.

General Fund Budgetary Highlights:

During the fiscal year ended June 30, 2008, the County revised its General Fund budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased budgeted revenues and expenditures by \$15.9 million or 1.7%. Approximately \$7 million of this increase resulted from Wake County's decision on July 1, 2008 to close Risk Management Internal Service Fund and transfer the ending fund balance of \$7 million in the General Fund, which assumed responsibility for those risk management functions in fiscal 2008. Remaining budget amendments generally covered various grant awards received throughout the year.

Actual revenues in the General Fund were less than the amounts projected in the final budget by \$7.6 million during fiscal year 2008. The negative variance is the result of lower than expected revenue sources in Intergovernmental and Charges for Services. The Charges for Services actual revenues were underrealized by \$4.2 million. Much of this negative variance was due to \$3.4 million in unrealized Medicaid Fees that can be attributed to a lower than anticipated demand for services within the Human Services – Local Management Entity (LME) Purchase of Services Division. The balance of the decrease in General Fund Charges for services can be attributed to real estate recording fees that were the result of a significant slowdown in the local housing market. The intergovernmental revenue shortfall was primarily due to unrealized State mental health revenues in fiscal year 2008 that are offset by equivalent reductions in Human Services expenditures.

Actual expenditures and transfers out were \$17 million less than budget, due in large part to below projected spending in Human Services and General Services Administration. Underspending of approximately \$10 million in Human Services was due in large part to overbudgeting in the LME purchase of service division which underspent on various contract services related to Medicaid which had a lower than anticipated demand for services as noted earlier. The General Services Department was under budget by \$4.0 million largely as a result of a lower number of replacement fleet being replaced than anticipated.

Proprietary Funds. The County’s proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets in the proprietary fund statement of net assets for the Solid Waste Operating Fund at the end of the fiscal year amounted to \$27.5 million, an increase of \$1.4 million over the \$26.1 million reported at the end of fiscal year 2007.

Capital Asset and Debt Administration

**Wake County Capital Assets
(Net of Amortization and Depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 40,931,187	\$ 24,924,836	\$ 1,875,253	\$ 1,875,253	\$ 42,806,440	\$ 26,800,089
Landfills	-	-	5,964,190	6,324,482	5,964,190	6,324,482
Buildings	195,703,862	164,361,874	884,468	993,453	196,588,330	165,355,327
Machinery and equipment	4,203,619	3,338,294	-	1,575	4,203,619	3,339,869
Vehicles and motorized equipment	10,995,433	8,711,031	-	-	10,995,433	8,711,031
Improvements other than Buildings	12,288,308	6,295,482	411,555	219,029	12,699,863	6,514,511
Infrastructure	7,308,570	7,531,535	-	-	7,308,570	7,531,535
Construction in progress	214,082,693	231,794,112	3,864,545	1,326,739	217,947,238	233,120,851
Total	\$ 485,513,672	\$ 446,957,164	\$ 13,000,011	\$ 10,740,531	\$ 498,513,683	\$ 457,697,695

Capital assets. The County’s investment in capital assets for its governmental and business-type activities as of June 30, 2008, totals \$498.5 million (net of accumulated depreciation). These assets include buildings, vehicles, equipment, infrastructure, as well as land and landfills.

Major capital asset transactions during 2008 fiscal year included the continuation of a new system automation project for Finance/Human Resources/Budgeting processes, continuation of land acquisitions for the County’s Open Space Preservation Program, renovations to other libraries and continued improvements to county buildings and judicial facilities.

Additional information on the County’s capital assets can be found in Note 6. of the Basic Financial Statements.

Long-term Debt. As of June 30, 2008, the County had total general obligation bonded debt outstanding of \$1.435 billion, \$1.314 billion of which was issued to help meet the capital outlay needs for the School System. In addition to capital leases, the County also has outstanding qualified zone academy bonds, and installment purchases. A summary of total outstanding debt is shown below.

Wake County's Outstanding Debt - Governmental Activities

	2008	2007
General Obligation bonds (schools)	\$ 1,358,800,725	\$ 1,425,313,967
General Obligation bonds (other)	121,050,550	128,798,579
Capital leases	419,418	571,090
Qualified zone academy bonds (schools)	1,471,155	1,634,616
Installment purchases	8,472,500	7,778,972
 Total	 \$ 1,490,214,348	 \$ 1,564,097,224

Wake County's total general obligation debt decreased by \$73.9 million or 4.72% during the fiscal year ended June 30, 2008. This planned decrease occurred because the County did not issue any additional general obligation bonds during the 2008 fiscal year.

Additional information regarding the County's long-term debt can be found in Note 10. of the Basic Financial statements.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate in the County was 4.8% (percent) at June 30, 2008, compared with 3.9% at the end of the previous fiscal year.
- The County has an eight year revaluation cycle for residential property. In the most recent revaluation at January 1, 2008 that was effective for fiscal year 2009, the total assessed value of property in the County continued to increase. From fiscal year 2007 through fiscal year 2008 the total assessed value increased from \$78.8 billion to \$83.1 billion, an increase of 5.5%.
- Sales tax collections increased to \$156 million for the fiscal year ended June 30, 2008 from \$150 million in the prior fiscal year, a 4.2% increase. However, this increase is less than the increase in sales tax in recent years. Occupancy and prepared food and beverage taxes increased to \$31.7 million from a total of \$29.4 million in the prior fiscal year, a 7.8% increase, again less of an increase than in the prior fiscal year.
- Wake County continues to grow but at a slower rate than in the recent past, adding an estimated 46,000 to its population over the past year and more than 5,900 new children to its public school system.
- The average yield on investments was 4.40% for fiscal year 2008, compared to 4.79% for fiscal year 2007. Investment earnings increased slightly in fiscal year 2008 due to a higher average portfolio balance even as interest rates in the market place declined. As in prior years, the County has continued to utilize detailed cash flow planning which has allowed us to keep cash invested until it was needed for expenditure, maximizing the maturity on our investments and our earnings on our portfolio. The County realized investment earnings on all funds of \$33.6 million for the fiscal year ended June 30, 2008, on an average portfolio balance of more than \$764 million. This compares to 2007 earnings of \$35 million on an average portfolio balance of \$530.2 million.

Some of these factors and others were considered when management prepared Wake County's budget ordinance for the 2009 fiscal year.

Budget Highlights for the Fiscal Year Ending June 30, 2009

Governmental Activities: The County approved an original budget of \$984.4 million for the General Fund budget for fiscal year 2009, which represents a \$64.4 million or 7.00% increase over the original budget adopted for the fiscal year 2008 of \$920 million. To fund commitments and priorities, the fiscal year 2009 included a tax increase of 2.5 cents. The increased tax revenues will help fund operational increases in new schools coming online in the Wake County Public School System as well as other priorities of public safety and service levels throughout the County.

Original budgeted expenditures for operating public schools increased \$15.5 million (5.2%) from the final budget adopted for fiscal year 2008 and \$14 million for school capital. Additionally, the amounts off General Fund transfers to the Debt Service Fund increased \$20.7 million, the major portion of which funds debt issued for school capital outlay expenditures. Community Services budgetary increases included \$1.8 million in costs of staffing and operate and additional library set to open in spring 2009 and an additional \$9 million budgeted for Human Services reflects decreases in Medicaid spending that were partially offset by an increase in State support.

As a result of the current economic situation, the County estimates a revenue budgetary shortfall in fiscal year 2009. As a result, County management is currently in the process of identifying budget reductions in fiscal 2009 that will offset these estimated shortfalls.

Business – type Activities: For the 2009 fiscal year, the County’s budget changed substantially as the County opened the South Wake Landfill in February of 2008. The total amount budgeted for business-type activities for fiscal year 2009 increased from \$25.9 million in fiscal year 2008 to \$28.9 million in fiscal year 2009. The expenditure increase was funded with an offsetting increase in charges for services and decreases in interest earnings and licenses and permits.

Requests for Information

This report is designed to provide a general overview of the County’s finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Wake County, North Carolina, 336 Fayetteville Street Mall, Raleigh, NC 27602. Additional information concerning Wake County can also be obtained by referring to the County’s website at <http://www.wakegov.com>. Copies of financials statements and additional information concerning the Wake County Board of Alcoholic Control, a discretely presented component unit of the County, may be obtained at 225 Hillsborough St., Raleigh, NC 27602.