

# **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, 2005. 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**

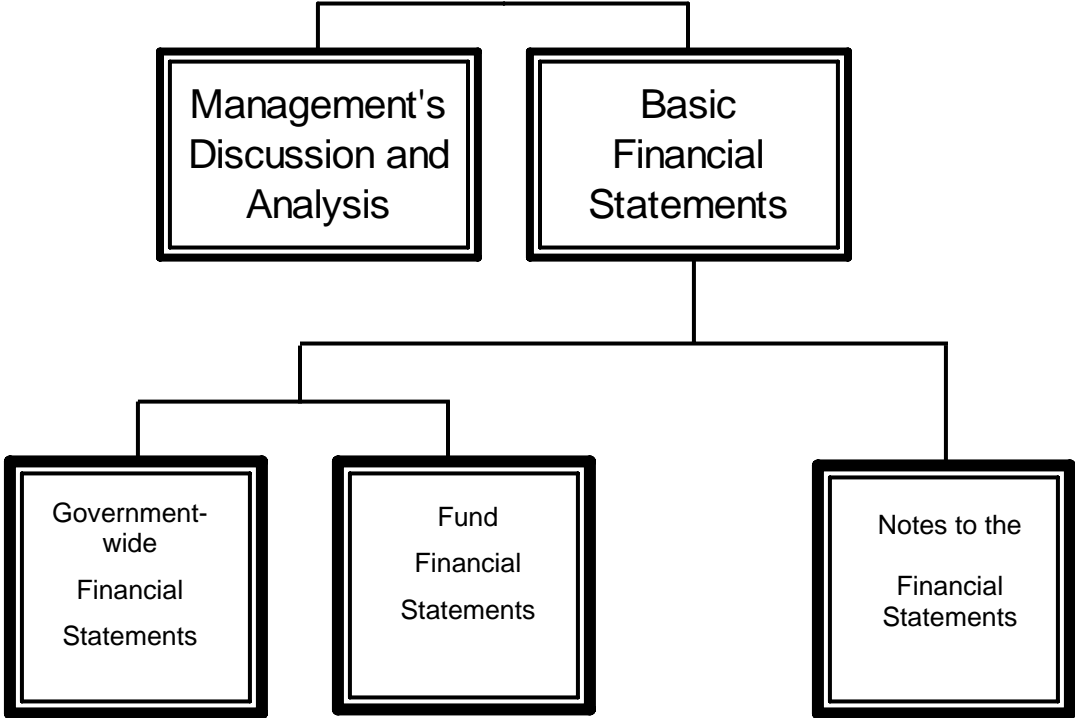
- The County has maintained an “Aaa” bond rating from Moody’s Investors Service since 1973, an “AAA” rating from Standard & Poor’s Corporation since 1983, and an “AAA” rating from Fitch for the sixth year in a row. This bond rating is a clear indication of the sound financial condition of The County. 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 November 2004 and April 2005.
- During the fiscal year ended June 30, 2005, the County issued \$114,380,000 and \$33,020,000 of general obligation bonds in November 2004 and April 2005, respectively. The proceeds of these issuances were placed in an irrevocable trust for generating the resources needed to cover all future debt service payments associated with the total \$151,425,000 in outstanding debt that was refunded. Wake County undertook the refundings to reduce the total amount of debt service payments due over the life of the debt. The net present value savings from the November 2004 refunding will amount to \$4,823,995 over the next ten years; the April 2005 refunding will result in a net present value savings of \$1,044,257 over the next twelve years.
- On the government-wide statements, the liabilities of the County exceeded its assets at the close of the fiscal year by \$108 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 \$991 million dollars.

- As of the close of the 2005 fiscal year, the County's governmental funds reported combined ending fund balances of \$604 million, down from \$743 million, restated amount for the prior fiscal year. The County has continued to spend down bond proceeds in fund balance which resulted in the \$139 million decrease. This decrease also resulted in a \$176 million decrease in the amount designated for subsequent year's expenditures, a \$17 million decrease in the amount designated for future capital needs, a \$6 million decrease in the amount Reserved by state statute, a \$50 million increase in the reserve for encumbrances, a \$6 million increase in the amount designated for subsequent years' debt service, and a \$5 million increase in the amount designated for working capital. These changes were planned in accordance with the County's seven-year capital financial model to build schools as well as County projects such as libraries, public safety, and parks.
- At the end of the 2005 fiscal year, the unreserved fund balance for the General Fund was \$102.6 million or 13.60% (percent) of total General Fund expenditures and transfers out for the fiscal year. Of this amount, \$10.9 million has been designated for subsequent year expenditures and \$78.0 million has been designated for working capital, resulting in \$13.7 million being reported as unreserved and undesignated. This is the amount that is considered available for spending at the government's discretion.

## **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, Wake County ABC Board is important to the County because 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** – The County has only two 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 its solid waste landfill operations. This fund is the same as the function shown in the business-type activities 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 has been included within the governmental activities in the government-wide financial statements.

**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

As noted earlier, the County's liabilities exceeded assets by \$108 million as of June 30, 2005. Net assets are reported in three categories: invested in capital assets, net of related debt of \$284 million, restricted net assets of \$118 million, and unrestricted net deficit of (\$510).

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 is 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 capital assets increased to \$283 million from \$259 in the prior fiscal year. The increase is within the governmental activities. The primary reasons for this increase are the offsetting decrease in general obligation debt-other outstanding from \$95.4 million as of June 30, 2004 to \$86.8 million as of June 30, 2005 and a corresponding increase in capital assets because of the infrastructure capitalization. For the fiscal year ended June 30, 2005, infrastructure assets were capitalized for the first time in accordance with requirements set forth by the Governmental Accounting Standards Board.

The second largest category of net assets is restricted net assets. This category represents resources that are subject to specific external legal restrictions that limit the County's ability to access and use these funds beyond the purpose for which they were provided. Unexpended school bond proceeds of \$118 million are typical of the types of amounts usually included within this category. The amount reported in this category of net assets decreased from \$235.4 million as of June 30, 2004 to \$118 million as of June 30, 2005. This decrease resulted from a reduction in the amount of unexpended bond proceeds as of June 30, 2005.

The final 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, 2005, the unrestricted deficit of \$(510) 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	\$ (991,084,852)
All other unrestricted	<u>481,414,968</u>
Total unrestricted (Deficit)	<u>\$ (509,669,884)</u>

The amount reported in the total unrestricted category increased from \$(588.7) as restated June 30, 2004 to \$(510) as of June 30, 2005. This decrease was due primarily to a decrease in the amount of school system debt outstanding from \$1,050.4 million as of June 30, 2004 to \$991.0 million as of June 30, 2005.

### Wake County's Net Assets

	June 30, 2005 Governmental Activities	June 30, 2004 Governmental Activities (as restated)	June 30, 2005 Business-type Activities	June 30, 2004 Business-type Activities	June 30, 2005 Total	June 30, 2004 Total (as restated)
Current and other assets	\$ 710,072,045	\$ 843,376,265	\$ 32,662,433	\$ 32,912,158	\$ 742,734,478	\$ 876,288,423
Capital assets	350,156,570	315,021,217	12,531,246	14,704,876	362,687,816	329,726,093
Total assets	1,060,228,615	1,158,397,482	45,193,679	47,617,034	1,105,422,294	1,206,014,516
Long-term liabilities/schools	991,084,852	1,050,415,373	-	-	991,084,852	1,050,415,373
Long-term liabilities/other	105,683,383	107,950,761	-	-	105,683,383	107,950,761
Other liabilities	99,798,640	100,636,839	16,627,595	18,662,948	116,426,235	119,299,787
Total liabilities	1,196,566,875	1,259,002,973	16,627,595	18,662,948	1,213,194,470	1,277,665,921
Net assets:						
Invested in capital assets, net of related debt	271,213,100	252,666,373	12,531,246	14,704,876	283,744,346	267,371,249
Restricted/Bonds	118,153,362	235,402,786	-	-	118,153,362	235,402,786
Unrestricted	(525,704,722)	(588,674,650)	16,034,838	14,249,210	(509,669,884)	(574,425,440)
Total net assets	\$ (136,338,260)	\$ (100,605,491)	\$ 28,566,084	\$ 28,954,086	\$ (107,772,176)	\$ (71,651,405)

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 98.86%.

- Planning and management of revenues and expenditures through the use of financial models for the capital, debt service, and the 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 on the County's general obligation debt outstanding of \$1,049 million at June 30, 2005.

# Wake County's Changes in Net Assets

	For the Year Ended		For the Year Ended		For the Year Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
	Governmental Activities	Governmental Activities (as restated)	Business-type Activities	Business-type Activities	Total	Total (as restated)
Revenues:						
Program revenues:						
Charges for services	\$ 89,755,068	\$ 79,409,994	\$ 19,390,570	\$ 18,221,208	\$ 109,145,638	\$ 97,631,202
Operating grants and contributions	115,401,175	109,186,555	969,896	720,972	116,371,071	109,907,527
General revenues:						
Property taxes	446,187,553	429,529,325	-	-	446,187,553	429,529,325
Sales and use taxes	124,603,942	116,532,025	-	-	124,603,942	116,532,025
Grants and contributions not restricted to specific programs	4,038,667	5,586,138	-	-	4,038,667	5,586,138
Other general revenues	55,235,080	42,725,331	1,038,874	719,019	56,273,954	43,444,350
<b>Total revenues</b>	<b>835,221,485</b>	<b>782,969,368</b>	<b>21,399,340</b>	<b>19,661,199</b>	<b>856,620,825</b>	<b>802,630,567</b>
Expenses:						
General administration	53,512,005	54,195,594	-	-	53,512,005	54,195,594
Human services	242,823,255	220,415,369	-	-	242,823,255	220,415,369
Education	389,668,265	404,812,302	-	-	389,668,265	404,812,302
Community development and cultural	45,969,169	46,675,103	-	-	45,969,169	46,675,103
Environmental services	8,233,369	7,627,531	-	-	8,233,369	7,627,531
Public safety	85,983,497	83,790,986	-	-	85,983,497	83,790,986
Interest on long-term debt	44,964,694	41,558,609	-	-	44,964,694	41,558,609
Solid waste	-	-	21,587,342	19,646,419	21,587,342	19,646,419
<b>Total expenses</b>	<b>871,154,254</b>	<b>859,075,494</b>	<b>21,587,342</b>	<b>19,646,419</b>	<b>892,741,596</b>	<b>878,721,913</b>
Increase (decrease) in net assets before transfers	(35,932,769)	(76,106,126)	(188,002)	14,780	(36,120,771)	(76,091,346)
Transfers	200,000	200,000	(200,000)	(200,000)	-	-
<b>Change in net assets</b>	<b>(35,732,769)</b>	<b>(75,906,126)</b>	<b>(388,002)</b>	<b>(185,220)</b>	<b>(36,120,771)</b>	<b>(76,091,346)</b>
Net assets, beginning of year (as restated)	(100,605,491)	(24,699,365)	28,954,086	29,139,306	(71,651,405)	4,439,941
<b>Net assets, end of the year</b>	<b>\$ (136,338,260)</b>	<b>\$ (100,605,491)</b>	<b>\$ 28,566,084</b>	<b>\$ 28,954,086</b>	<b>\$ (107,772,176)</b>	<b>\$ (71,651,405)</b>

**Governmental activities.** Governmental activities decreased the County's beginning net assets (adjusted for prior period adjustments) by \$35.7 million or 99% of the total decrease in the net assets of the County. As in the prior fiscal year, the \$35.7 million decrease is due primarily to 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 for the education function.

**Business-type activities.** Business-type activities decreased the County's beginning net assets by \$388,002.

### **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 six major funds, as defined by GAAP for the fiscal year ended June 30, 2005, were the General Fund, the Affordable Housing Fund, the Debt Service Fund, the Capital Improvements Fund, the School Fund, and the Solid Waste Fund.

At June 30, 2005, the governmental funds of Wake County reported a combined fund balance of \$604 million, a decrease of \$139 million, after the restatement of prior year's fund balance. During the year, the Debt Service Fund balance increased by \$7.4 million in total. The Debt Service Fund balance will be used to fund future debt service payments. The Capital Improvements Fund and the School Fund decreased by \$25 million and \$132 million respectively. This decrease resulted because capital building programs are ongoing; however, the County did not issue any new bonds during fiscal year 2005, in accordance with its capital planning models. These decreases were 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 2005 fiscal year, the total fund balance of the General Fund was \$165 million, while the unreserved fund balance of the General Fund was \$102.6 million, of which \$13.7 million was undesignated.

### **General Fund Budgetary Highlights:**

During the fiscal year ended June 30, 2005, 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 \$18 million or 2.4%. \$15 million of the \$18 million increase resulted from County Human Services taking advantage of additional revenues from outside sources, including charges for services and intergovernmental revenues. An additional \$2 million was also allocated to the Wake County School System midyear to cover additional students not anticipated at the time the budget was prepared. Remaining budget amendments generally covered various grant awards received throughout the year.

Actual revenues and transfers in exceeded the amounts projected in the final budget by \$7.9 million in fiscal year 2005. The favorable variance is due mainly to higher than expected sales tax revenue, which was \$5.9 million over the budgeted projection. Revenues from other taxes, including property taxes on real estate, business property and vehicles were also favorable, \$6.7 million better than expected. There was also a favorable variance of \$1.2 million in building permits and inspection fees charged by the County. Charges for services, investment earnings and miscellaneous revenues made up an additional \$.5 million favorable variance. These favorable variances were offset in large part by unfavorable budget variances for grants from federal, state and local sources, which received a combined \$6.4 million less than budgeted projections.

Actual expenditures and transfers out were \$16.3 less than budget, due in large part to below projected spending in Public Safety, which was \$8.5 million below budget because of some timing differences related to various Homeland Security grants. Other departments that contributed to the favorable variance in costs were Human Services, \$1.9 million below budget due almost entirely to various grant activity; General Services, \$1.7 million below budget; Community Development and Cultural, \$.6 million favorable; and non-departmental costs were \$1.2 million favorable. All other operating departments were a combined \$2.4 million favorable to budget in their expenditures.

**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 Landfill Fund at the end of the fiscal year amounted to \$15.9 million, an increase of \$1.7 million or 12.5%.

## Capital Asset and Debt Administration

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

	Governmental		Business-type		Total	
	Activities		Activities			
	2005	2004, As restated	2005	2004	2005	2004
Land	\$ 25,173,538	\$ 22,628,626	\$ 1,817,850	\$ 1,817,850	\$ 26,991,388	\$ 24,446,476
Landfills	-	-	9,377,830	9,785,362	9,377,830	9,785,362
Buildings	172,556,270	177,439,126	1,024,965	1,040,721	173,581,235	178,479,847
Machinery and equipment	4,904,955	4,762,042	6,971	-	4,911,926	4,762,042
Vehicles and motorized equipment	8,966,953	7,587,916	-	-	8,966,953	7,587,916
Improvements	6,168,480	6,045,686	246,227	259,826	6,414,707	6,305,512
Infrastructure	7,753,659	7,455,392	-	-	7,753,659	7,455,392
Construction in progress	124,632,715	89,102,429	57,403	1,801,117	124,690,118	90,903,546
Total	<u>\$ 350,156,570</u>	<u>\$ 315,021,217</u>	<u>\$ 12,531,246</u>	<u>\$ 14,704,876</u>	<u>\$ 362,687,816</u>	<u>\$ 329,726,093</u>

**Capital assets.** The County's investment in capital assets for its governmental and business-type activities as of June 30, 2005, totals \$363 million (net of accumulated depreciation). These assets include buildings, vehicles, equipment, as well as land and landfills. For the fiscal year ended June 30, 2005, these amounts included infrastructure for the first time as the County capitalized its infrastructure in accordance with requirements mandated by the Governmental Accounting Standards Board in GASB Statement 34.

Major capital asset transactions during the 2005 fiscal year included a detention facility expansion slated for opening during fiscal year 2006, continued acquisitions of land for the Open Space Preservation Program, a new library in the northern area of the County along with continued renovations at other libraries, as well as continued development and installations related to an 800 MHZ communications system and improvements to 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, 2005, The County had total general obligation bonded debt outstanding of \$1.0 billion, \$991 million 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 clean water loans, qualified zone academy bonds, and installment purchases. A summary of total long-term debt is shown below.

**Wake County's Outstanding Debt**  
**General obligation, capital leases, clean water revolving loans, qualified zoning academy bonds, and installment purchases**

	<b>Governmental Activities</b>	
	2005	2004
General Obligation bonds - school system	\$ 989,123,314	\$1,050,415,373
General Obligation bonds - other	86,846,198	95,436,332
Capital leases	607,239	200,710
Clean water revolving loans	475,843	713,763
Qualified zoning academy bonds (school system)	1,961,538	2,124,999
Installment purchases	8,570,962	9,474,957
 Total	 \$1,087,585,094	 \$1,158,366,134

Wake County's total general obligation debt decreased by \$69.8 million or 6% during the fiscal year ended June 30, 2005. This planned decrease occurred because the County did not issue any new general obligation bonds during the 2005 fiscal year in accordance with its debt and capital model that the County uses to provide and fund the long-term capital needs of the County.

In November 2004 and in April 2005, the County issued \$114,380,000 and \$33,020,000, respectively, of general obligation refunding bonds to take advantage of favorable market conditions for reducing interest amounts over the life of the outstanding debt. These advance refundings resulted in a net present value savings over the next ten years by a total of \$4,823,995 for the November 2004 refunding and by \$1,044,257 over the next twelve years for the April 2005 refunding. The proceeds for these bonds were placed in an irrevocable trust for generating resources for all future debt service payments. As a result, the refunded bonds are considered to be defeased and the related liabilities have been removed from the County's Statement of Net Assets.

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 4.4% (percent) at June 30, 2005, compared with seasonally adjusted federal and State rates of 5.0% and 5.3%, respectively.
- Residential building permits issued for new construction increased from 8,748 in the prior year to 10,314 for the calendar year ended December 31, 2004. There was 17.9% increase during the fiscal year ended June 30, 2005.
- Sales tax collections increased to \$125 million for the fiscal year ended June 30, 2005 from \$117 million in the prior fiscal year, a 6.9% increase. Also, prepared food and beverage taxes increased to \$24 million from a total of \$22 million in the prior fiscal year, a 9% increase.
- Wake County continues to grow, adding over 20,000 persons a year to its population and more than 5,000 new children to its public school system.
- The average yield on investments was 2.30% for fiscal year 2005, compared to 1.43% for fiscal year 2004. Investment earnings increased significantly by 33% in fiscal year 2005. 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 \$14.2 million for the fiscal year ended June 30, 2005, on an average portfolio balance of more than \$549.4 million. This compares to 2004 earnings of \$9 million on an average portfolio balance on \$624.2 million.

Some of these factors and others were considered when management prepared Wake County's budget ordinance for the 2005 fiscal year.

## **Budget Highlights for the Fiscal Year Ending June 30, 2006**

**Governmental Activities:** The County has approved an \$809 million General Fund budget for fiscal year 2006, which represents a \$62 million or 8.3% increase over the original budget adopted for the fiscal year 2005. This increase was primarily attributable to a steady growth in property taxes (\$18 million), sales taxes (\$20 million), federal and state intergovernmental revenues (\$6.8 million), and charges for services (\$10 million).

Budgeted expenditures for operating public schools is expected to increase \$13.9 million (5.9%) from the original budget adopted for fiscal year 2005 as a result of growth of 5% in student enrollment from the previous fiscal year and continued construction and opening of new schools.

Other General Fund increases resulted from increased budgeting of \$20 million in Human Services that resulted from increases in child daycare and Medicaid programs that will be funded with state intergovernmental revenues and charges for services, \$7.1 million in increased capital funding for County and School capital projects, \$5 million in Sheriff and Law Enforcement that is the result of a new facility opening on Hammond Road, \$4.5 million in Public Safety that is largely to result of various Homeland security grant activities, \$2 million in increased funding to for the County's Risk Management Program, \$1.3 million for the community college located with the County, and \$1.2 million for increases in debt service payments.

**Business – type Activities:** The County has not budgeted any increases in charges for services related to the solid waste function.

### **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.co.wake.nc.us/>. 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.