

WAKE COUNTY, NORTH CAROLINA MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED JUNE 30, 2010

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, 2010. 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

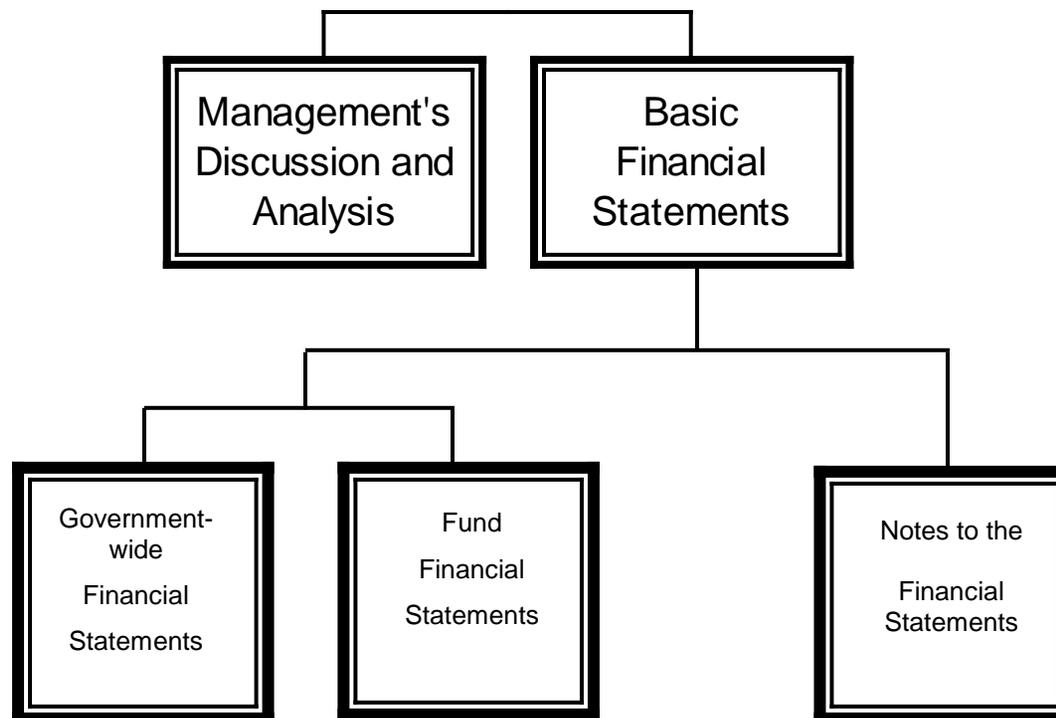
The County has maintained an “Aaa” bond rating from Moody’s Investors Service since 1973, an “AAA” rating from Standard & Poor’s Corporation since 1983, and an “AAA” rating from Fitch since 2000. These bond ratings are clear indications of the sound financial condition of The County. The County is one 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 most recently in July 2010.

- In April 2010 Wake County reduced the General Fund budget for the second fiscal year in a row in response to continued revenue shortfalls in federal and state revenues, sales taxes, charges for services, and development-related revenues. County departments identified expected savings, with a minimum of 2% to be saved by each department. The County chose not to request reductions from either Wake County Public School System or Wake Technical Community College. In total, the General Fund expenditure and revenue adjustments resulted in overall reductions of \$16.6 million, a 2% decrease from the originally adopted FY 2010 operating budget.
- The County issued \$154.62 million Limited Obligation Bonds, Series 2009, in July 2009. These bonds were issued pursuant to the County’s capital plan for criminal justice facilities and funded the construction of Phase II of the Hammond Road Detention Center. In January 2010, the County issued \$148.86 million Limited Obligation Bonds, Series 2010. These bonds were issued pursuant to the County’s capital plan for criminal justice and funded construction of a new courthouse and related facilities.
- Wake County issued \$125.8 million in fixed-rate general obligation bonds in March 2010. \$100 million was issued to fund public school construction and \$25.8 million was for community college funding. In June 2010, Wake County issued \$34.91 million GO Public Improvement Bonds, Series 2010D to fund public school construction.

- Wake County issued \$383.42 million 2010 GO Refunding Bonds in May 2010 to refund portions of the 2003A, 2003B, 2004, 2005, 2007, and 2009A general obligation bond issuances with total present value savings of \$18.8 million.
- Subsequent to year end in August 2010, Wake County issued \$36 million in General Obligation Public Improvement Bonds, Series, 2010E and 2010F, for public school construction.
- On the government-wide statements, the liabilities of the County's governmental activities exceeded its assets at the close of the fiscal year by \$800.3 million (*net deficit*). The County's net deficit results from 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, general obligation debt and various other debt instruments. 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 \$1.76 billion dollars.
- As of the close of the 2010 fiscal year, the County's governmental funds reported combined ending fund balances of \$963.9 million, up \$303.2 million from the \$660.7 million for the prior fiscal year. The County's governmental fund balance increased by such a large amount because, during the fiscal year ended June 30, 2010, the County issued long-term bonds to finance capital expenditures for the school system and county capital programs, receiving premiums on the issuance of \$97.3 million. A total of \$472.8 million of bond proceeds were still on hand at June 30, 2010.
- The County measures its financial health and flexibility to meet operating needs as a ratio of fund balance as a percentage 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 2010 fiscal year, the fund balances for the County's General Fund and the Debt Service Fund were both \$152 million; compared with \$156 million and \$151 million, respectively, in the prior fiscal year. The total fund balances of both funds compared as a percentage of expenditures in both funds was 19.27% of expenditures and transfers at the end of fiscal 2010, compared with a combined total of 22.43% at the end of the 2009 fiscal year.
- The County uses a long-term financial planning model for 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 2010 was 53.4 cents and a portion of that is dedicated to capital and debt service. For the fiscal year 2010, the County transferred \$156.6 million from the General Fund to fund the Debt Service component of its capital model and a total of \$49.2 million to County capital, school capital outlay, and Wake Technical Community College 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. The required components of annual financial report are below.



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 the ABC Board is 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, 2010, the County had 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 enterprise funds to account for solid waste operations that are County funded as well as the South Wake Landfill Partnership Fund that accounts for the activities associated with the South Wake landfill that is a partnership between the County and eleven 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.

Agency Funds – Agency funds are used to account for assets the County holds on behalf of others. Wake County has four 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, the Department of Motor Vehicles interest penalties collected on behalf of the State, and fines and forfeitures that are collected from citizens 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 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

The County's liabilities exceeded assets by \$760.0 million as of June 30, 2010. Net assets are reported in three categories: invested in capital assets, net of related debt of \$59.2 million, restricted for future capital needs of \$283.0 million, and unrestricted net deficit of \$(1,102.2) million.

One 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 decreased from \$330.0 million in the prior year to \$59.2 million at June 30, 2010. The largest portion of the decrease relates to the County's governmental activities. For the fiscal year ended June 30, 2010 the amount invested in capital assets, net of related debt for governmental activities decreased by \$270.7 million to \$46.6 million. This component of net assets decreased so dramatically because limited obligation bonds were issued during the year and those proceeds were still on hand at June 30, 2010. Under generally accepted accounting standards, these proceeds are deducted from this component's calculation. For a more complete discussion of debt administration activity and changes during the fiscal year, refer to the Debt Administration section of this Management Discussion and Analysis. None of the County's school-related debt is included in this calculation as it is not considered capital related debt for Wake County.

Another 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, 2010, the unrestricted deficit of \$(1,102.2) 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	\$(1,760,974,309)
All other unrestricted	<u>658,801,436</u>
Total unrestricted (Deficit)	<u>\$(1,102,172,873)</u>

The amount reported in the total unrestricted category further decreased from \$(1,034.9) million as of June 30, 2009 to \$(1,102.2) as of June 30, 2010. This decrease in the unrestricted category was primarily the result of an increase in the County's school system debt outstanding from \$1.68 billion as of June 30, 2009 to \$1.76 billion as of June 30, 2010. 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, 2010 Governmental Activities	June 30, 2009 Governmental Activities	June 30, 2010 Business-type Activities	June 30, 2009 Business-type Activities	June 30, 2010 Total	June 30, 2009 Total
Current and other assets	\$ 1,075,384,125	\$ 767,949,689	\$ 48,543,819	\$ 46,854,254	\$ 1,123,927,944	\$ 814,803,943
Capital assets	576,168,526	515,774,369	12,613,805	12,674,646	588,782,331	528,449,015
Total assets	1,651,552,651	1,283,724,058	61,157,624	59,528,900	1,712,710,275	1,343,252,958
Long-term liabilities/schools	1,760,974,309	1,679,944,768	-	-	1,760,974,309	1,679,944,768
Long-term liabilities/other	575,210,446	233,161,217	15,593,795	14,659,557	590,804,241	247,820,774
Other liabilities	115,633,201	112,367,632	5,251,466	5,522,117	120,884,667	117,889,749
Total liabilities	2,451,817,956	2,025,473,617	20,845,261	20,181,674	2,472,663,217	2,045,655,291
Net assets:						
Invested in capital assets, net of related debt	46,615,606	317,257,114	12,613,805	12,714,646	59,229,411	329,971,760
Restricted/Bonds	282,990,520	2,569,777	-	-	282,990,520	2,569,777
Unrestricted	(1,129,871,431)	(1,061,576,450)	27,698,558	26,632,580	(1,102,172,873)	(1,034,943,870)
Total net assets	\$ (800,265,305)	\$ (741,749,559)	\$ 40,312,363	\$ 39,347,226	\$ (759,952,942)	\$ (702,402,333)

Because the County funds the school capital needs but does not carry the resulting assets on our financial statements, we report a net deficit on our statement of net assets. In spite of this deficit reported in governmental activities, the County's finances are strong as evidenced by:

- Continued diligence in the collection of property taxes by maintaining a collection percentage of 98.69%.
- 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 \$2.3 Billion at June 30, 2010.

Wake County's Changes in Net Assets:

	For the Year Ended		For the Year Ended		For the Year Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total	Total
Revenues:						
Program revenues:						
Charges for services	\$ 60,878,296	\$ 62,783,508	\$ 22,886,642	\$ 23,530,328	\$ 83,764,938	\$ 86,313,836
Operating grants and contributions	147,233,127	167,770,447	1,390,303	1,146,661	148,623,430	168,917,108
General revenues:						
Property taxes	651,480,015	640,238,154	-	-	651,480,015	640,238,154
Sales taxes	104,384,663	127,210,118	-	-	104,384,663	127,210,118
Grants and contributions not restricted to specific programs	4,410,678	5,125,653	-	-	4,410,678	5,125,653
Other general revenues	48,401,565	51,240,992	1,765,830	2,090,927	50,167,395	53,331,919
Total revenues	1,016,788,344	1,054,368,872	26,042,775	26,767,916	1,042,831,119	1,081,136,788
Expenses:						
General administration	54,937,881	55,488,240	-	-	54,937,881	55,488,240
Human services	224,307,656	244,176,508	-	-	224,307,656	244,176,508
Education	472,748,721	661,548,515	-	-	472,748,721	661,548,515
Community development and cultural	20,597,071	59,885,379	-	-	20,597,071	59,885,379
Environmental services	8,604,359	11,978,164	-	-	8,604,359	11,978,164
Public safety	161,889,743	143,763,181	-	-	161,889,743	143,763,181
General services administration	25,927,613	26,444,850	-	-	25,927,613	26,444,850
Interest on long-term debt	106,695,047	73,811,478	-	-	106,695,047	73,811,478
Solid waste	-	-	24,673,638	26,455,882	24,673,638	26,455,882
Total expenses	1,075,708,091	1,277,096,315	24,673,638	26,455,882	1,100,381,729	1,303,552,197
Increase (decrease) in net assets before transfers	(58,919,747)	(222,727,443)	1,369,137	312,034	(57,550,610)	(222,415,409)
Transfers	404,000	312,000	(404,000)	(312,000)	-	-
Change in net assets	(58,515,747)	(222,415,443)	965,137	34	(57,550,610)	(222,415,409)
Net assets, beginning of year	(741,749,559)	(519,334,116)	39,347,226	39,347,192	(702,402,333)	(479,986,924)
Net assets, end of the year	\$ (800,265,306)	\$ (741,749,559)	\$ 40,312,363	\$ 39,347,226	\$ (759,952,943)	\$ (702,402,333)

Governmental activities. Governmental activities decreased the County's beginning net assets by \$58.5 million or 100% of the total decrease in the net assets of the County. As in prior fiscal years, the 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, 2010, these noncapital school capital expenditures incurred by the County in the School Capital Fund totaled \$128 million.

Business-type activities. Business-type activities remained consistent between the two fiscal years.

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 eight major funds, as defined by GAAP for the fiscal year ended June 30, 2010, were the General Fund, the Affordable Housing Fund, the Major Facilities Fund, the Debt Service Fund, the County Capital Improvements Fund, the School Capital Fund, the Solid Waste Operating Fund, and the South Wake Landfill Partnership Fund, the last two of which are enterprise funds.

At June 30, 2010, the governmental funds of Wake County reported a consolidated fund balance of \$963.9 million, an increase of \$303.2 million, from the prior fiscal year's balance of \$660.7 million. The fund balance of the General Fund decreased by \$3.8 million during fiscal year 2010. In the case of the General Fund, the actual use of fund balance was substantially equal to the amount planned of \$2.4 million for the annual encumbrance roll forward. This roll forward, which was completed at the end of the fiscal 2009, increases the appropriated fund balance in the subsequent year's operating budget for the amount of the roll forward. Most of the remaining decrease in the fund balance of the General Fund resulted from a \$1 million accrual for worker's compensation and vehicle property losses still open at the end of the fiscal year.

The largest portion of the governmental fund balance increase resulted from a net increase in fund balance of \$254.1 million in the County Capital Projects Fund. This increase resulted primarily from bond proceeds that were still on hand at the end of the fiscal year of \$260.8 million. Similarly, the Wake Community College Capital Projects Fund, a nonmajor capital fund, also reported an increase in ending fund balance of \$26 million as a result of bonds issued during fiscal year 2010 of \$25.8 million. These changes were all in accordance with the County's capital improvement 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 and debt service needs.

For the County Capital Project Fund, transfers into the fund from the General Fund were \$22 million, compared with \$25 million in the prior fiscal year. Of the total amount available for capital and debt service funding, the amount needed to maintain the County's target debt service balance at no less than 19% of the subsequent year's debt service is funded first with the remaining funds transferred to the capital fund for pay-as-you-go capital funding. As a result, the amount of transfers into the County's Capital Projects Fund can fluctuate from year to year as the Debt Service Fund's needs change.

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 2010 fiscal year, the total fund balance of the General Fund was \$152.3 million, compared with \$156.1 million at the end of the prior year. At June 30, 2010, the General Fund's fund balance of \$152.3 million includes \$53.1 million that has been reserved by State statute, \$2.7 million that has been reserved for encumbrances, \$.7 million that is reserved for register of deeds automation, \$2.0 million that has been designated for subsequent fiscal years expenditures and \$92.8 million that has been designated for working capital. As a result, there is no undesignated fund balance in the County's General Fund.

General Fund Budgetary Highlights:

During the fiscal year ended June 30, 2010, 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. As in the prior fiscal year, amendments to the General Fund in fiscal year 2010 were once again an exception as the County decreased budgeted revenues and expenditures by \$16.6 million or 2% in response to revenue shortfalls in the spring of 2010. County departments were asked to identify expected savings in response to revenue shortfalls. As the largest department with 46% of total county employees, Human Services took the largest dollar midyear reduction by far, reducing \$12.5 million or 5.3% from its amended 2010 budget.

Actual revenues in the General Fund were less than the amounts projected in the final budget by \$17 million for fiscal year 2010. The revenue shortfall occurred primarily in sales taxes and intergovernmental revenues. Total taxes were lower than the final budgeted amount by more than \$11 million. The largest portion of this reduction, \$9 million, was attributable to sales tax collections. In April 2010, the County reduced operating budgets because of the slowing economic recovery. Amid continued economic uncertainty, we reduced projected sales tax collections by \$9 million. In actuality, the fiscal year 2010 sales tax totals were ultimately \$18.2 million less than the amount originally adopted for fiscal year 2010. There were also revenue shortfalls of \$3 million in intergovernmental revenue resulting primarily from the State's budget reductions.

Actual expenditures and transfers out in the General Fund were \$16 million less than budgeted amounts largely resulting from lower than projected spending by all of the County's departments, particularly Human Services and General Services Administration. In the Human Services department, the underspent budget resulted in large part because of employee vacancies and temporary services which were eliminated between fiscal years 2009 and 2010. The General Services Administration departmental budget was underspent by \$2.4 million; this difference was due primarily to negotiated reductions in contracted services as a result of negotiated changes, some of which were related to decommissioned buildings.

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 .4 million from the \$27.1 million reported at the end of fiscal year 2009. In addition, the South Wake Landfill Fund, a new fund in fiscal 2008, reported a deficit of \$.5 million in fiscal year 2009, reported a fund balance of \$.2 million for the fiscal year 2010.

Capital Asset and Debt Administration

Wake County Capital Assets (net of Amortization and Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 78,180,352	\$ 60,761,317	\$ 1,875,253	\$ 1,875,253	\$ 80,055,605	\$ 62,636,570
Landfills	-	-	6,197,758	6,559,138	6,197,758	6,559,138
Buildings	265,945,610	240,414,105	826,101	855,304	266,771,711	241,269,409
Machinery and equipment	2,792,770	4,147,942	335,130	6,507	3,127,900	4,154,449
Vehicles and motorized equipment	12,669,294	13,785,545	-	-	12,669,294	13,785,545
Improvements other than Buildings	17,393,197	17,337,112	384,371	397,973	17,777,568	17,735,085
Infrastructure	6,863,539	7,086,208	-	-	6,863,539	7,086,208
Construction in progress	192,323,764	172,242,140	2,995,192	2,980,471	195,318,956	175,222,611
Total	<u>\$ 576,168,526</u>	<u>\$ 515,774,369</u>	<u>\$ 12,613,805</u>	<u>\$ 12,674,646</u>	<u>\$ 588,782,331</u>	<u>\$ 528,449,015</u>

Capital assets. The County’s investment in capital assets for its governmental and business-type activities as of June 30, 2010, totals \$588.8 million (net of accumulated depreciation). These assets include buildings, vehicles, equipment, infrastructure, as well as land and landfills.

Major capital asset transactions during 2010 fiscal year included continued improvements to county buildings and judicial facilities, construction for new judicial facilities and a mental health facility, and continuation of automation improvements for various county computerized systems.

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, 2010, the County had total general obligation bonded debt outstanding of \$1.956 billion, \$1.760 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 limited obligation bonds, qualified zone academy bonds, and installment purchases. A summary of total outstanding debt associated with governmental activities is shown below.

Wake County's Outstanding Debt - Governmental Activities

	<u>2010</u>	<u>2009</u>
General Obligation bonds (schools)	\$ 1,759,830,076	\$ 1,678,637,074
General Obligation bonds (other)	196,242,450	188,832,222
Capital leases	157,095	328,068
Notes payable	299,767	-
Limited obligation bonds	324,671,699	-
Qualified zoning academy bonds (schools)	1,144,233	1,307,694
Installment purchases	<u>8,181,909</u>	<u>9,356,965</u>
 Total	 <u>\$ 2,290,527,229</u>	 <u>\$ 1,878,462,023</u>

Wake County's total general obligation debt increased by \$88.6 million or 4.7% during the fiscal year ended June 30, 2010. This planned increase occurred because the County issued additional general obligation bonds during the 2010 fiscal year in excess of debt service principal payments during the year.

The County issued limited obligation bonds for the first time in fiscal year 2010 totaling \$324.7 million. Both the limited obligation issues the County completed during the year were for criminal justice facilities and were in accordance with the County's capital plan. Since these bonds are not general obligation bonds, the County's taxing power is not pledged for payment on the bonds; instead, the facilities constructed with the bonds were pledged as collateral for the debt.

At the end of fiscal year 2010, the County had a long term liability for other post-employment benefits (OPEB) of \$33.6 million, compared with \$22.2 million in the prior fiscal year. Wake County has chosen not to fund the OPEB liability, which represents a healthcare obligation to certain retirees, instead paying benefits on a pay as you go basis. During fiscal year 2010, the County contributed \$3.5 million to cover promised healthcare costs for retirees, compared to \$3.9 million in the prior year. For both fiscal year 2009 and 2010, the OPEB payments amounted to less than 1% of the General Fund's total expenditures and transfers. The pay as you go funding method chosen by the County meets the obligations made to employees without requiring additional funding sources.

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 Raleigh-Cary Metropolitan area in which the county is located was 8.5% (percent) at June 30, 2010, compared with 8.3% 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, although at a slower pace than experienced in the recent past. From fiscal year 2009 through fiscal year 2010, the total assessed value increased from \$116.6 billion to \$119.2 billion, an increase of 2.18%.
- As a result of the slowed economic growth, sales tax collections decreased to \$104.4 million for the fiscal year ended June 30, 2010 from \$127.2 million in the prior fiscal year, a 17.9% decrease. Other large reductions in revenues from the prior year were seen in federal and state intergovernmental revenue as the state reduced its budget. Further changes at the state level are expected in the subsequent year as the state continues struggling to balance its own budget. Changes in occupancy and prepared food and beverage taxes decreased from the 2009 fiscal year by \$.9 million or 2.85%.
- Wake County continues to grow but at a much slower rate than in the recent past, adding an estimated 43,000 to its population over the past year and more than 1,800 new children to its public school system.
- The average yield on investments was 2.20% for fiscal year 2010, compared to 1.70% for fiscal year 2009. Investment earnings were essentially flat between the two years. The County was able to maintain the same amount of interest earnings despite a lower portfolio balance because we were able to earn a slightly higher yield as a result of some of the competitive rates staff negotiated with depositories. 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 \$10.8 million for the fiscal year ended June 30, 2010, on an average portfolio balance of more than \$495 million. This compares to 2009 earnings of \$10.7 million on an average portfolio balance of \$633 million.
- While the yield on investments fell significantly during fiscal year 2010, the County generally experienced a historically low interest rate on the variable rate portion of its debt portfolio. Lower costs in this portion of the County's portfolio helped offset lower investment earnings as the County's unrestricted interest earnings are budgeted and posted in the Debt Service Fund.

Some of these factors and others were considered when management prepared Wake County's budget ordinance for the 2011 fiscal year.

Budget Highlights for the Fiscal Year Ending June 30, 2011

Governmental Activities: The County approved an original budget of \$951.2 million for the General Fund budget for fiscal year 2011, which represents a \$2.4 million or 2.00% decrease over the original budget adopted for the fiscal year 2010 of \$953.60 million. The recommended budget for fiscal year 2011 maintained the current tax rate of 53.4 cents and eliminated 58 positions, 33 of which were vacant. The 2011 budget includes an appropriation of fund balance of \$2 million.

In the General Fund, original budgeted expenditures for Human Services decreased by .5% or \$1.3 million from the prior fiscal year's adopted budget. Development related service departments such as the Register of Deeds, Planning and Inspections, Environmental Services, and Geographic Information Services continued to face cuts that correlate with the decline in the housing and development market. Various other County operating departments proposed expenditure reductions that ranged up to 4%. The operating funds appropriations for the public schools and the community college located within the county remained the same as the budgeted amount for fiscal year 2010.

Business – type Activities: For the 2011 fiscal year, the County's budgeted amounts were broken out into two funds, the Solid Waste Management Fund and the South Wake Landfill Partnership Fund. The total amount budgeted for business-type activities for fiscal year 2011 is substantially the same as the amount adopted for FY 2010.

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 Deputy County Manager/Chief Financial Officer, Wake County, North Carolina, 336 Fayetteville Street, 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 financial 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.