

***Wake County
North Carolina***

***Comprehensive Annual
Financial Report***

for the fiscal year ended June 30, 2011

Prepared by the Wake County Finance Department

**Wake County Board of
Commissioners**



Paul Coble
Chair



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Phil Matthews
Vice Chair



Tony Gurley



Ervin Portman



James West



Betty Lou Ward

David Cooke
Scott W. Warren
Susan J. Banks
Johnna Rogers

Joe Durham

County Manager
County Attorney
Clerk to the Board
Deputy County Manager/
Chief Financial Officer
Deputy County Manager

Wake County North Carolina

Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011

Prepared by the Wake County Finance Department:

Johnna Rogers, *Deputy County Manager/
Chief Financial Officer*

Susan McCullen, CPA, *Financial Services Director*

Amy Strange, *Fiscal and Policy Analyst*
Angela Mason, *Information Technology Technician*
Ann Marshall, *Accounting Technician*
Ann Mattern, *Risk Management Specialist*
Chad Balke, *Fiscal and Policy Analyst*
Cindy Dean, *Senior Accounting Technician*
David Nowell, *Buyer*
Frances Gray, *Senior Accountant*
Gregory Useem, *Budget and Policy Director*
Jackie Forlines, CPP, *Financial Services Manager*
John Stephenson, CPA, *Internal Audit Director*
Karen Thiessen, *Senior Accountant*
Kay Radford, CPA, *Internal Auditor*
Kim Lorbacher, CPA, *Accounting & Reporting Manager*
Loretta Alston, *Executive Secretary*
Mark Matthews, *Fiscal and Policy Analyst*

Mary Anne McIntire, *Investment Analyst*
Melissa England Carroll, *Contracts Manager*
Michael Griffin, *Contracts Coordinator*
Michelle Venditto, *Fiscal and Policy Analyst*
Nicole Kreiser, *Debt and Capital Director*
Rebecca Linthicum, *Fiscal and Policy Analyst*
Sandy Carrington, *Senior Accounting Technician*
Sara Warren, *Fiscal and Policy Analyst*
Scott Hanner, *Buyer*
Sheila Hopkins, *ERP Systems Manager*
Sonya Hicks, *Senior Accounting Technician*
Tamara Williams, *Senior Accounting Technician*
Tom Wester, CLGPO, *Purchasing Director*
Tracey Aviles, *Senior Accounting Technician*
Velvadine Wallace, *Fiscal and Policy Analyst*
William Spencer Phillips, *Senior Accountant*

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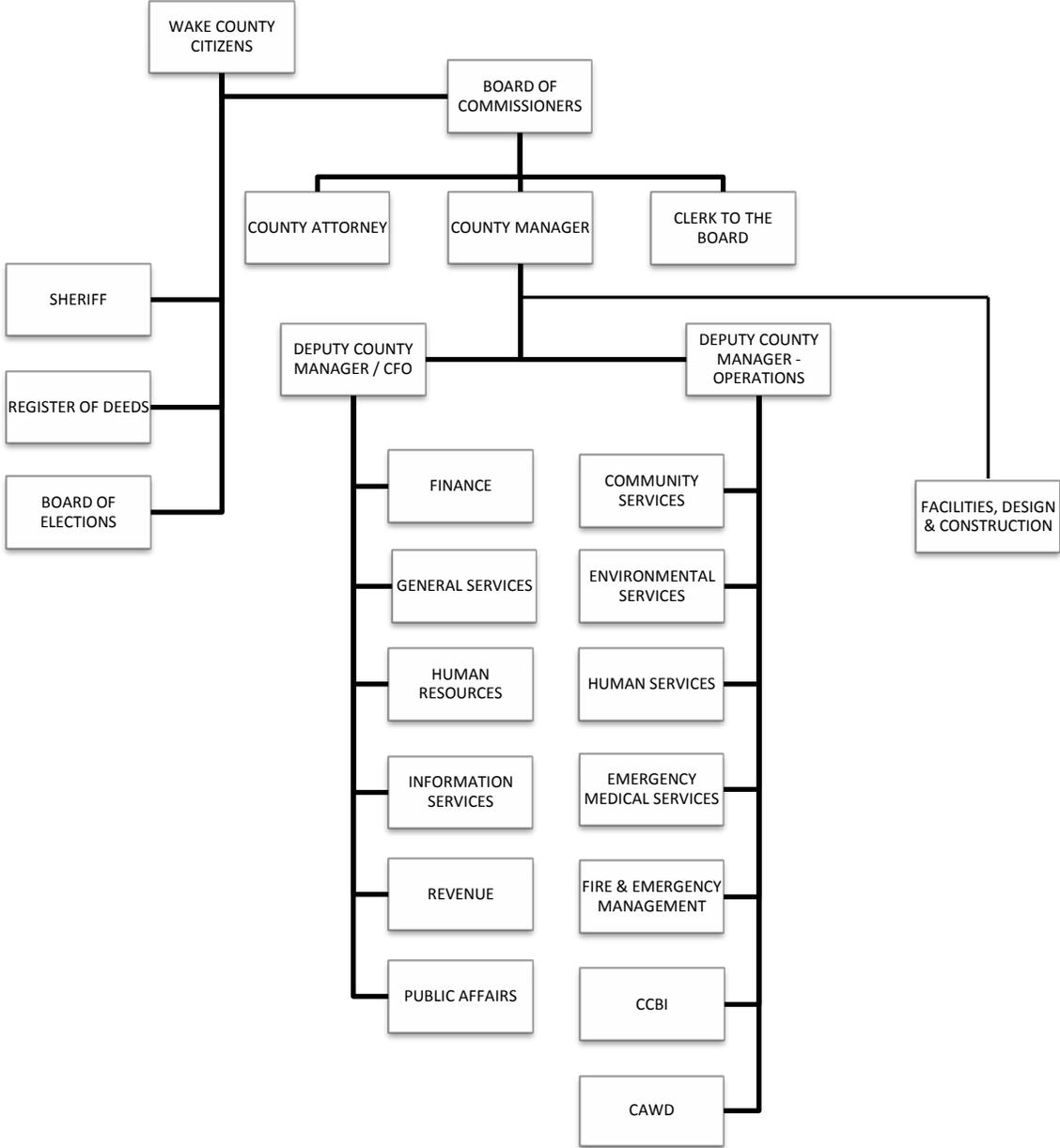
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WAKE COUNTY ORGANIZATION





November 18, 2011

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

Continuing Wake County's history as a county of fiscal strength and stability is a primary goal of the Wake County Board of Commissioners. This Comprehensive Annual Financial Report (financial statements) of Wake County, North Carolina, for the fiscal year ended June 30, 2011, reflects the achievement of that goal. Each year this document is prepared to provide details about how the County receives, spends and accounts for its money, as well as key indicators of its financial strength. The County's Finance Department prepares the financial statements and assumes all responsibility for the accuracy of the data, the completeness and fairness of the presentation, and all disclosures. Wake County officials believe the data and presentation are fair and accurate, and that everything necessary is included in this document to gain an understanding of the County's financial activities over the last fiscal year.

Wake County Government's financial statements have been audited by Cherry, Bekaert & Holland, L.L.P., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended June 30, 2011, are fairly presented in conformity with generally accepted accounting principles. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing single audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements. This is to be done with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the County's separately issued Single Audit Report.

Wake County is required to present a Management's Discussion and Analysis (MD&A) section as an introduction to the financial information. This section immediately follows the auditor's opinion and provides an overview and analysis of the County's significant transactions in fiscal year 2011, to aid readers in understanding the financial impact and the relationship to the financial statements and schedules provided. This letter of transmittal is written to complement the MD&A.

FINANCIAL REPORTING ENTITY

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

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

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

PROFILE OF WAKE COUNTY

Each year, thousands of people continue to move to Wake County to establish roots in one of the most desirable areas in the nation. Due to a combination of positive quality of life factors and abundant employment opportunities, Wake County is continually highlighted in the pages of national publications as one of the best places to call home. Some of those accolades include:

- **#4 Metro in 10-Year Job Growth (Raleigh-Cary, NC)**, Business First, February 2011
- **#1 Housing Market for 2011 (Raleigh, NC)**, Builder Magazine, March 2011
- **#1 City for Families (Raleigh, NC)**, Forbes.com, June 2011
- **#7 In Small Business (Raleigh, NC)**, Bizjournals.com, April 2011
- **#3 Cleanest City (Raleigh, NC)**, Forbes, March 2011
- **#1 Healthiest County (Wake County, NC)**, Countyhealthrankings.org, March 2011
- **#1 Best Place for Business and Careers (Raleigh, NC)**, Forbes.com, June 2011
- **#1 Most Sustainable Mid-Sized Community (Raleigh, NC)** U.S. Department of Commerce, April 2011
- **#4 For Young Adults to Start a Career (Raleigh, NC)** American City Business Journals, June 2011

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

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

FACTORS AFFECTING FINANCIAL CONDITION

Economic Diversity

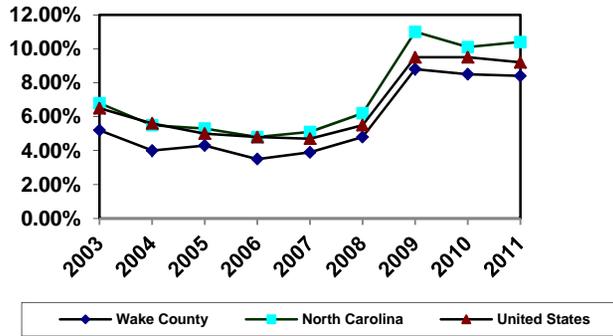
Wake County's economic diversity provides a strong foundation for the area's economy. On June 30, 2011, the unemployment rate was 8.4%, compared with 10.4% for the state and 9.2% for the nation. A sampling of the area's industry and services includes:

- manufacturing (including light manufacturing of pharmaceuticals, telecommunications equipment, electrical and machine parts, and electrical components)
- service industries
- many public and private institutions of higher education, including North Carolina State University, recognized as a national leader in research and technology
- state and local government, including the principal executive, legislative, judicial and regulatory offices of state government
- four general-care, not-for-profit hospitals with more than 1,450 patient beds.

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

To date, over 30 companies have located in the Wake County portion of RTP, occupying nearly 4.3 million sq. ft. of space for biotechnology and information technology purposes. Of the approximately 42,000 people currently employed in RTP, the Research Triangle Foundation estimates that 68 percent reside in Wake County, which adds significantly to the County's economy.

Unemployment Rates



Long-Term Planning

Like most counties and local governments throughout the U.S., Wake County is still experiencing the effects of a slower economy. However, the County continues to maintain a lower unemployment rate than the state and the nation, as well as its commitment to fiscal responsibility as the County determines how to best move forward on long-term planning projects. Wake County continues to work with its Economic Development Commission and contracts with the Greater Raleigh Chamber of Commerce to promote economic development throughout the County.

The County's economic development efforts are helping to keep the economy stable by continuing to bring new high-paying jobs, millions of dollars in investments and strong corporate citizens with global impact to Wake County.

Wake County broke ground on the new Justice Center in May 2010, one of five projects established in the County's long-term Justice Facilities Master Plan. The steel frame of the building was completed in February 2011. The Justice Center project is ahead of schedule and expected to be completed in the spring of 2013. The 577,000 square-foot facility is expected to meet the growing needs of the court system and other public services for the next 30 to 50 years. The last courthouse built in Wake County was completed in 1969. The Wake County Justice Center will efficiently accommodate growth in the County. It will have the capacity for 22 new criminal

courtrooms, two court hearing rooms, as well as more space for required court support. The Clerk of Superior Court, District Attorney, Public Defender, Superior and District Court Judges, and Community Corrections will be housed in the new building. It will also house all of Wake County's criminal courtrooms.

Wake County continued its commitment to mental health reform and began to accept new patients to the recently-opened WakeBrook facility in January 2011. The facility provides more space for the County's crisis and assessment services, continue in-patient substance abuse services in a state-of-the-art, 16-bed hospital and provides two intermediate levels of residential care: a 16-bed detox unit and a 16-bed crisis unit.

Public Safety is a priority for Wake County. The County continues its work on the Hammond Road Detention Center, receiving an American Recovery and Reinvestment Act energy grant to help in the facility become Leadership in Energy and Environmental Design (LEED) Certified, contributing to the positive effects of energy efficiency the facility for years to come. In addition, the City/County Bureau of Identification was awarded with international accreditation by the Commission on Accreditation for Law Enforcement Agencies (CALEA). To receive CALEA accreditation, CCBI complied with several hundred standards originating from best practices in the field of law enforcement, and verified through independent, objective and professional assessors appointed by CALEA. The accreditation process ensures that CCBI met an established set of professional standards, and will assist in increasing the effectiveness and efficiency in the delivery of services to Wake County citizens.

Wake County continues to serve citizens with programs to help those in need. The Capital Area Workforce Development Board opened four new employment assistance/JobLink Access centers in Wake County to provide facilities where job seekers can go in their own communities to look for jobs. These sites will increase the number of locations providing access to JobLink services. Additionally, Wake County Libraries' efforts to team up with a number of organizations to provide on-going job assistance programs at the libraries resulted in an Award of Excellence from the National Association of Counties (NACo). Each year NACo recognizes outstanding government programs and services at its annual conference. Programming ranges from resume writing, to using technology to search for jobs. Each

program is designed to help those who are unemployed to develop the skills necessary to find long-term employment.

Wake County opened the expansion of the County's Animal Center in June 2010. The shelter expansion allows Wake County to fulfill its agreement to house animals from the city of Raleigh, town of Garner and town of Cary, offering consolidated sheltering countywide and providing high-quality care for cats, dogs and other pets from all municipalities and the unincorporated areas in the County for several years into the future. The expansion is approximately 5,400 square feet and includes the addition of 84 new dog holding units, 75 new cat holding units and building system improvements for the existing dog holding areas. This gives the shelter a total capacity of 218 dog kennels and 175 cat kennels, or approximately 17,100 animals per year.

Community Improvement Plan

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

In June 2010, Commissioners adopted a seven-year, \$595.3 million CIP for fiscal years 2011-17 in connection with Wake County's capital planning.

The current CIP totals \$595.3 million of initiatives to improve the capital infrastructure of the County, of which \$210.6 million is dedicated to the Wake County Public School System. The remaining \$384.7 million would be invested in several areas of capital need, including criminal justice (\$37.3 million), County building improvements (\$28.6 million), community college facilities (\$51.7 million), fire/rescue (\$25.14 million), economic development (\$10.9 million), solid waste operations (\$21.7 million), investments in libraries (\$44.7 million), public safety (\$18.2 million), and automation (\$28.0 million). The entire FY2011-17 CIP can be viewed in the FY11 Budget Document at www.wakegov.com/budget/pastbudgets/fy11.

Several years ago, Wake County initiated a new capital funding program with an increased emphasis on debt financing to expand the County's ability to support capital projects. Two fundamental strategies are key to the success of the new program: 1) dedicating a funding stream specifically to capital, and 2) maintaining a financing ratio of 80% debt and 20% cash.

Dedicating annual revenue streams for a capital program requires a great deal of fiscal discipline. It also is essential for the success of the long-term capital program and to deliver quality services to the current and future residents of Wake County. This means setting aside a percentage of the property and sales tax proceeds each year to fund current and future capital payments. The dedicated stream of revenue is critical to the integrity of the capital financial model, as it ensures that funds are available to pay for additional debt service payments. Funding is set aside each year in debt service as it is incurred in the future years of the CIP planning period. A major part of the debt-based strategy was initiated when Wake County citizens passed bond referenda in November 2000 to support the use of general obligation bond funding for schools, jail facilities and open space. The support of this strategy continued when citizens passed bond referenda in October 2003 for schools and library construction. In 2006, voters again approved a record \$970 million bond for public school construction.

Bond referenda passed in 2004 supported Wake Technical Community College and open space. In July 2007 Wake Technical Community College opened the doors to its expansion site in North Raleigh. In August 2009, "Building D" was completed opened for classes as the third classroom building to be constructed on the 121-acre campus. The campus continued its expansion plans, breaking ground on "Building E" in September 2010, with plans to open in January 2012.

For FY2011 the two primary funding sources for the CIP are dedicated property tax revenue and a percentage of the sales tax receipts to the capital program. The sales tax percentage is based upon legislation codified in the North Carolina General Statutes.

Property Tax Revenues: One of the most significant aspects of the financial model is the commitment to dedicate a portion of the property tax to capital investments. This means that a percentage of the property tax revenues is specifically dedicated to debt service payments and pay-as-you-go funding as needed throughout the seven-year plan. As the largest single

source of revenues for the County, the dedication of property tax revenues represents a critical contribution to maintaining the integrity of the capital program.

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

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

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

Investment Earnings: Cash in the capital projects and debt service funds can be invested in money market securities. As bonds are sold, transfers from other funds occur, and actual expenditures occur at a slower pace than anticipated. The investment earnings in capital funds are used toward debt service. These earnings can be a viable funding source in the capital investment model as they pay for debt service projects funded by prior year CIPs. Beginning in fiscal year 2004, General Fund investment earnings were added to the model to leverage the variable-rate debt, as both are interest rate-sensitive.

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

Lottery: Lottery funds the County receives are used toward debt service payments that finance school building construction needs.

OTHER ACCOMPLISHMENTS

The County strives to achieve a healthy environment for its residents now and in the future. Construction began on a major reclaimed water distribution project in Research Triangle Park. This project is a partnership between Wake and Durham counties, the town of Cary and the United States Environmental Protection Agency. In addition, the 86it Anti-Litter Movement launched in January 2011 to engage citizen participation and support for a litter-free community. Learn more about the movement and how to become an 86er at www.86it.com. Wake County also completed the Landfill Gas Collection and Control System at the South Wake Landfill in 2011. The system captures methane gas, a byproduct of landfills, and generates power that will be sold back to Progress Energy. The system is projected to bring in \$17 million throughout the next 15 to 20 years.

In spring 2011, a wave of tornadoes impacted the State of North Carolina. One storm cell spawned a tornado that touched down in Wake County no less than eight times, caused four deaths and impacted over 3,100 homes and business in excess of \$115 million in damages. The storm left hundreds temporarily homeless. During and immediately after the storm the Raleigh/Wake 911 center dispatched more than 1,800 emergency calls and answered more than 3,400 calls from residents. The initial response to the storm required more than 350 personnel from multiple County departments, to work in coordination with the state, FEMA, local towns and private partners. In the weeks following the storm, Wake County worked on locating housing for the displaced, business recovery, property repair, road clearing, debris clearing and mental health counseling were high priorities. Through a collaborative effort and coordinated communications, all of these needs were addressed.

The Human Services and Environmental Services Board adopted obesity as its major health priority and gathered leaders from more than 125 organizations for a countywide summit. Utilizing the Centers for Disease Control and Prevention's Winnable Battles model, Summit participants generated 14 action items which are being incorporated into a strategic plan to address obesity in Wake County.

Wake County continued to expand its use of social media with YouTube, Facebook, Twitter and blogs. The County evaluated each type of social media and the benefits of communicating to citizens using these tools. The

County first piloted each tool, and later expanded their use to other departments by process. The County currently has two YouTube channels, 10 Facebook pages, eight twitter feeds and five external blogs, and will continue to pursue social media as a viable method of communication for both external and internal use.

AWARDS AND ACKNOWLEDGMENTS

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Wake County for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This marks the 27th consecutive year in which the County has received this recognition. To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. The GFOA award is valid for a period of one year.

Acknowledgments

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

Respectfully submitted,

David Cooke

David Cooke
County Manager

Johnna Rogers

Johnna Rogers
Deputy County Manager/
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Wake County
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director