

# **WAKE COUNTY, NORTH CAROLINA MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011. 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 March 2011.

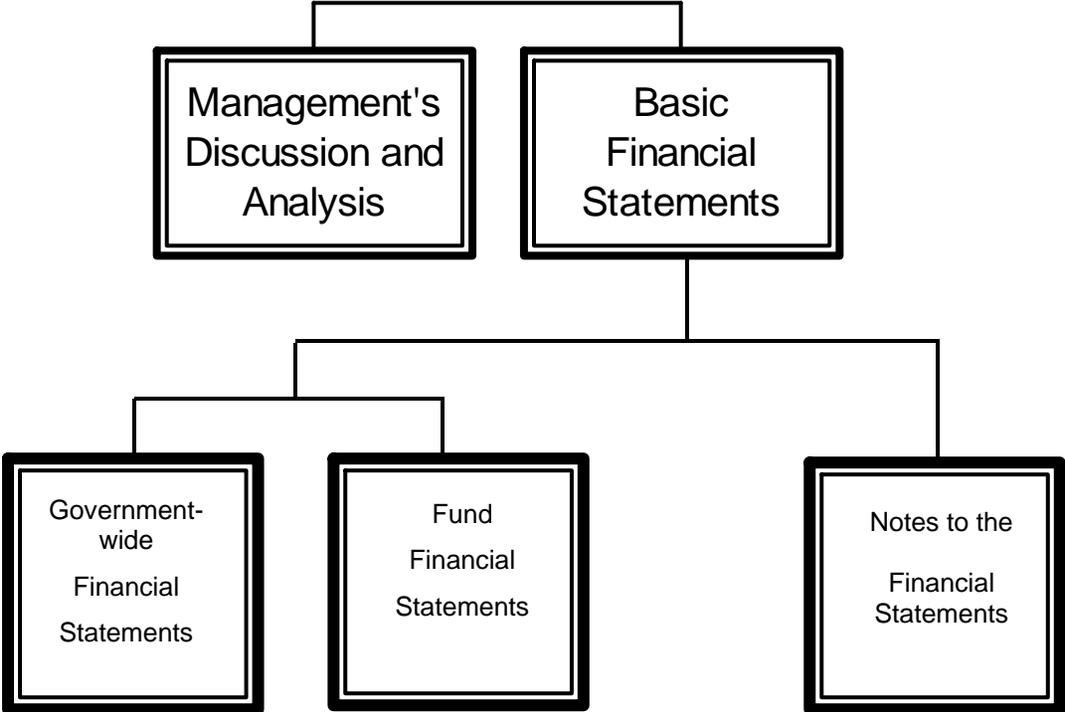
Subsequent to year end on August 4, 2011, Moody’s Investors Service notified the County that it had affirmed the County’s Aaa rating, but had placed the County on negative outlook. Moody’s stated that Wake County’s outlook was moved to negative with the group of issuers that Moody’s identified as indirectly linked to the US government rating based on identification of certain shared characteristics. Moody’s has contacted each unit to discuss the specific factors of the County’s credit profile and the County has provided Moody’s with additional information to substantiate reasons for the removal of the negative outlook placement. As of the date of this publication, the County has not received the results of this review. Wake County prides itself on its strong financial management and governance. The County maintains a seven-year capital plan developed within the context of debt policies and targets necessary to maintain its Aaa bond rating. The plan is funded through dedicated revenue sources and the County targets a ratio of 80 percent debt funding while 20 percent of capital projects are targeted as pay-as-you-go. The County also has a separate debt service fund. The County strictly adheres to its policy that the minimum fund balance in the debt service fund should be at least 19 percent of the following fiscal year’s debt service expenditures. The County’s repayment schedule meets the standards of Aaa rated counties. Wake County believes that it is clear that Wake County has relatively low linkages to the US sovereign credit rating and has requested that Moody’s affirm Wake County’s Aaa rating and change the County’s outlook from negative to stable.

- In August 2010, Wake County issued \$36 million in fixed-rate General Obligation Public Improvement Bonds, Series 2010E and 2010F for Wake Technical Community College construction.

- In March 2011, Wake County issued \$116.8 million in fixed-rate General Obligation Improvement Bonds, Series 2011. \$106.8 million was issued to fund public school construction and \$10 million was for open space.
- On the government-wide statements, the liabilities of the County's governmental activities exceeded its assets at the close of the fiscal year by \$854.4 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 \$1.763 billion dollars. In comparison, for fiscal year 2010, the Wake County Board of Education has total net assets of \$2.5 billion which reflects the capital assets of \$2.5 billion without the debt obligations for these assets.
- As of the close of the 2011 fiscal year, the County's governmental funds reported combined ending fund balances of \$898.2 million, down \$65.7 million from the \$963.9 million for the prior fiscal year. The County's governmental fund balance decreased because, during the fiscal year ended June 30, 2011, the County issued \$152.8 million in long-term bonds to finance capital expenditures for the school system and county capital programs, receiving premiums on the issuance of \$11.2 million, compared with total capital expenditures of \$277.3 million in the capital projects funds. A total of \$359.0 million of bond proceeds were still on hand at June 30, 2011, compared with \$472.8 million at the end of the prior fiscal year.
- 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 2011 fiscal year, the fund balances for the County's General Fund and the Debt Service Fund were \$159.4 million and \$166.2 million, respectively; compared with both funds reporting fund balance of \$152 million in the prior fiscal year. The total fund balances of both funds compared as a percentage of expenditures in both funds was 28.51% of expenditures and transfers at the end of fiscal 2011, compared with a combined total of 19.27% at the end of the 2010 fiscal year. The primary difference between the two fiscal years is the amount of refunding bonds issued during the prior 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 2011 was 53.4 cents and a portion of that is dedicated to capital and debt service. For the fiscal year 2011, the County transferred \$170.8 million from the General Fund to fund the Debt Service component of its capital model and a total of \$35.5 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, 2011, the County had three proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses 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. The enterprise funds are consolidated into the business-type activities that are presented in the Statement of Net Assets and the Statement of Activities. *Internal service funds* are used to account for goods or services provided to one department by another on a cost reimbursement basis. During the fiscal year ended June 30, 2011, the County began reporting the activities associated with the Corporate Fleet Fund within an Internal Service Fund. Prior to 2011, the Corporate Fleet Fund was reported within the General Fund. Because Corporate Fleet Fund activities are primarily related to governmental activities, it is consolidated primarily into the governmental 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 \$813.4 million as of June 30, 2011. Net assets are reported in three general categories: invested in capital assets, net of related debt of \$371.0 million, restricted amounts totaling \$316.8 million, and unrestricted net deficit of \$1,501.2 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 \$430.9 million in the prior year to \$370.9 million at June 30, 2011. The largest portion of the increase relates to the County's governmental activities. None of the County's school-related debt is included in this calculation as it is not considered capital related debt for Wake County.

The largest 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, 2011, the unrestricted deficit of \$1,501.2 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	\$ (1,609,181,966)
All other unrestricted	<u>107,960,825</u>
Total unrestricted (Deficit)	<u>\$ (1, 501,221,141)</u>

The amount reported in the total unrestricted category increased from \$(1,630.0) million as of June 30, 2010 to \$(1,501.2) million as of June 30, 2011. This increase School Capital Fund expenses, which are treated as operating expenses, declined from \$128.1 million in the prior year to \$95.4 million during fiscal year 2011. This school debt, and the associated capital expenses, 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, the debt, the capital expenses, and the associated bond proceeds are reported as part of the unrestricted component net assets.

**Wake County's Net Assets:**

	<b>June 30, 2011 Governmental Activities</b>	<b>June 30, 2010 Governmental Activities</b>	<b>June 30, 2011 Business-type Activities</b>	<b>June 30, 2010 Business-type Activities</b>	<b>June 30, 2011 Total</b>	<b>June 30, 2010 Total</b>
Current and other assets	\$ 1,015,801,608	\$ 1,075,384,125	\$ 51,818,593	\$ 48,543,819	\$ 1,067,620,201	\$ 1,123,927,944
Capital assets	638,356,699	576,168,526	11,980,636	12,613,805	650,337,335	588,782,331
Total assets	1,654,158,307	1,651,552,651	63,799,229	61,157,624	1,717,957,536	1,712,710,275
Long-term liabilities/schools	1,763,979,035	1,760,974,309	-	-	1,763,979,035	1,760,974,309
Long-term liabilities/other	626,168,391	575,210,446	5,683,238	15,593,795	631,851,629	590,804,241
Other liabilities	118,396,037	115,633,201	17,128,539	5,251,466	135,524,576	120,884,667
Total liabilities	2,508,543,463	2,451,817,956	22,811,777	20,845,261	2,531,355,240	2,472,663,217
Net assets:						
Invested in capital assets, net of related debt	359,018,373	430,924,496	11,980,636	12,613,805	370,999,009	443,538,301
Restricted/various	313,308,968	420,636,893	3,515,460	5,874,703	316,824,428	426,511,596
Unrestricted	(1,526,712,497)	(1,651,826,694)	25,491,356	21,823,855	(1,501,221,141)	(1,630,002,839)
Total net assets	\$ (854,385,156)	\$ (800,265,305)	\$ 40,987,452	\$ 40,312,363	\$ (813,397,704)	\$ (759,952,942)

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 98.83%.
- Planning and management of revenues and expenditures through the use of financial models for the capital, debt service, and various operating budgets.
- Continued low cost of bonded debt that is a direct result of the County's high bond rating by each of the three major rating agencies. As noted earlier, we consider this unique achievement to be a key factor in keeping the interest costs low on the County's general obligation debt outstanding of \$1.991 billion at June 30, 2011.

## Wake County's Changes in Net Assets:

	For the Year Ended		For the Year Ended		For the Year Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total	Total
Revenues:						
Program revenues:						
Charges for services	\$ 61,818,669	\$ 60,878,296	\$ 22,512,763	\$ 22,886,642	\$ 84,331,432	\$ 83,764,938
Operating grants and contributions	157,524,209	147,233,127	1,621,434	1,390,303	159,145,643	148,623,430
General revenues:						
Property taxes	658,044,349	651,480,015	-	-	658,044,349	651,480,015
Sales taxes	114,034,923	104,384,663	-	-	114,034,923	104,384,663
Grants and contributions not restricted to specific programs	8,179,519	4,410,678	-	-	8,179,519	4,410,678
Other general revenues	51,642,316	48,401,565	1,466,675	1,765,830	53,108,991	50,167,395
<b>Total revenues</b>	<b>1,051,243,985</b>	<b>1,016,788,344</b>	<b>25,600,872</b>	<b>26,042,775</b>	<b>1,076,844,857</b>	<b>1,042,831,119</b>
Expenses:						
General administration	61,575,688	54,937,881	-	-	61,575,688	54,937,881
Human services	225,731,230	224,307,656	-	-	225,731,230	224,307,656
Education	457,469,350	472,748,721	-	-	457,469,350	472,748,721
Community development and cultural	62,457,707	20,597,071	-	-	62,457,707	20,597,071
Environmental services	10,700,438	8,604,359	-	-	10,700,438	8,604,359
Public safety	186,460,283	161,889,743	-	-	186,460,283	161,889,743
General services administration	24,364,454	25,927,613	-	-	24,364,454	25,927,613
Interest on long-term debt	77,008,686	106,695,047	-	-	77,008,686	106,695,047
Solid waste	-	-	24,521,783	24,673,638	24,521,783	24,673,638
<b>Total expenses</b>	<b>1,105,767,836</b>	<b>1,075,708,091</b>	<b>24,521,783</b>	<b>24,673,638</b>	<b>1,130,289,619</b>	<b>1,100,381,729</b>
Increase (decrease) in net assets before transfers	(54,523,851)	(58,919,747)	1,079,089	1,369,137	(53,444,762)	(57,550,610)
Transfers	404,000	404,000	(404,000)	(404,000)	-	-
<b>Change in net assets</b>	<b>(54,119,851)</b>	<b>(58,515,747)</b>	<b>675,089</b>	<b>965,137</b>	<b>(53,444,762)</b>	<b>(57,550,610)</b>
Net assets, beginning of year	(800,265,305)	(741,749,558)	40,312,363	39,347,226	(759,952,942)	(702,402,332)
<b>Net assets, end of the year</b>	<b>\$ (854,385,156)</b>	<b>\$ (800,265,305)</b>	<b>\$ 40,987,452</b>	<b>\$ 40,312,363</b>	<b>\$ (813,397,704)</b>	<b>\$ (759,952,942)</b>

**Governmental activities.** Governmental activities decreased the County's beginning net assets by \$54.1 million or more than 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, 2011, these noncapital school capital expenditures incurred by the County in the School Capital Fund totaled \$95.4 million.

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

### **Financial Analysis of the County's Funds**

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, 2011, were the General Fund, the Affordable Housing Fund, the Major Facilities Fund, the Debt Service Fund, the County Capital Projects 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, 2011, the governmental funds of Wake County reported a consolidated fund balance of \$898.2 million, a decrease of \$65.7 million, from the prior fiscal year's balance of \$963.9 million. The fund balance of the County's General Fund increased by \$7.2 million during fiscal year 2011; this increase in the fund balance in the General Fund was substantially more than the amount planned of \$(4.3) million. The \$11.5 million difference between planned usage of fund balance and the increase in the fund balance of the General Fund resulted from property tax and sales tax collections for the year being higher than expected. Further, expenditures within the General Fund were less than anticipated due to the intentional effort to control all spending due to the uncertainty of sales tax revenues, this resulted in decreases of \$2.2 million in the Human Services department and \$2.1 million in the Public Safety departments. Within the General Administration departments, differences of \$2.8 million resulted from the County closing the Revaluation Reserve Fund into the General Fund from a non-major Special Revenue Fund as a result of accounting guidance changes.

The largest portion of the governmental fund balance decrease resulted from a net decrease in fund balance of \$(116.4) million in the County Capital Projects Fund. This decrease resulted primarily from bond proceeds that were spent down from \$260.8 million at the end of the fiscal year to \$140.9 million at the end of fiscal year 2011. These changes were 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 \$23.2 million, compared with \$22 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. The General Fund is the chief operating fund of the County. At the end of the 2011 fiscal year, the total fund balance of the General Fund was \$159.4 million, compared with \$152.2 million at the end of the prior year. During the fiscal year, the Board of County Commissioners adopted a General Fund balance policy that required the County to maintain a total General Fund balance of at least fifteen percent (15%) and an amount committed for working capital of at least ten percent (10%) of the following fiscal year's General Fund adopted budget in order to provide the County with adequate working capital and investment income. For the fiscal year ended June 30, 2011, the General Fund balance was 16.75% of the adopted budget for fiscal year 2012, compared with 16.01% at the end of the prior fiscal year. For the fiscal year ended June 30, 2011, the amount committed to working capital was \$102.3 million, compared to \$92.8 million in the prior fiscal year.

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

During the fiscal year ended June 30, 2011, 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.

Actual revenues in the General Fund were less than the amounts projected in the final budget by \$2.0 million for fiscal year 2011. The revenue shortfalls occurred primarily in real property transfer taxes, intergovernmental revenues, and real estate record fees. The intergovernmental revenues shortfalls of \$4.9 million were more than offset by reduced expenditures as the State continued to reduce its budget. Real property transfer taxes and real estate record fees shortfalls show signs of a continued weak housing market, consistent with the nation's economy as a whole. Total taxes were actually greater than the final budgeted amount by \$2.4 million. The largest portion of this increase, \$2 million, was attributable to property tax collections. Sales tax collections were consistent with the amount budgeted.

Actual expenditures and transfers out in the General Fund were \$13.5 million less than budgeted amounts largely resulting from lower than projected spending by all of the County's departments, particularly Human Services and General Administration. In the Human Services department, the \$7 million budget difference primarily resulted from contract Medicaid payments to providers for Mental Health Local Management Entity and other federal and State program spending being lower than budgeted. The General Administration departmental budget was underspent by \$4.8 million; \$2.6 million of this difference was due to a change in accounting standards that required a non-major special revenue fund, the Revaluation Reserve Fund, be reported as other than a special revenue fund for the fiscal year ended June 30, 2011. During 2011, the Revaluation Reserve Fund was closed into the General Fund.

**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 \$25.6 million, a decrease of \$1.9 million from the \$27.5 million reported at the end of fiscal year 2010. In addition, the

South Wake Landfill Fund, reported a fund deficit of \$(55.6) thousand for the fiscal year 2011, down from the \$.2 million reported at the end of the prior fiscal year.

### Capital Asset and Debt Administration

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

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 92,901,383	\$ 78,180,352	\$ 1,875,253	\$ 1,875,253	\$ 94,776,636	\$ 80,055,605
Landfills	-	-	8,674,134	6,197,758	8,674,134	6,197,758
Buildings	262,105,975	265,945,610	796,898	826,101	262,902,873	266,771,711
Machinery and equipment	3,958,689	2,792,770	263,581	335,130	4,222,270	3,127,900
Vehicles and motorized equipment	12,792,863	12,669,294	-	-	12,792,863	12,669,294
Improvements other than Buildings	18,650,011	17,393,197	370,770	384,371	19,020,781	17,777,568
Infrastructure	11,396,408	6,863,539	-	-	11,396,408	6,863,539
Construction in progress	236,551,370	192,323,764	-	2,995,192	236,551,370	195,318,956
<b>Total</b>	<b>\$ 638,356,699</b>	<b>\$ 576,168,526</b>	<b>\$ 11,980,636</b>	<b>\$ 12,613,805</b>	<b>\$ 650,337,335</b>	<b>\$ 588,782,331</b>

**Capital assets.** The County's investment in capital assets for its governmental and business-type activities as of June 30, 2011, totals \$650.3 million (net of accumulated depreciation). These assets include buildings, vehicles, equipment, infrastructure, as well as land and landfills.

Major capital asset transactions during 2011 fiscal year included continued construction of the justice center and the continuation of improvements to county buildings and 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, 2011, the County had total general obligation bonded debt outstanding of \$1.991 billion, \$1.763 billion of which was issued to help meet the capital outlay needs for the School System. In addition to general obligation bonded debt, the County also has outstanding limited obligation bonds, qualified zone academy bonds, capital leases, and installment purchases. A summary of total outstanding debt associated with governmental activities is shown below.

**Wake County's Outstanding Debt - Governmental Activities**

	2011	2010
General Obligation bonds (schools)	\$ 1,762,998,263	\$ 1,759,830,076
General Obligation bonds (other)	228,298,165	196,242,450
Capital leases	173,449	157,095
Notes payable	-	299,767
Limited obligation bonds	323,883,480	324,671,699
Qualified zoning academy bonds (schools)	980,772	1,144,233
Installment purchases	6,961,421	8,181,909
Total	\$ 2,323,295,550	\$ 2,290,527,229

Wake County's total general obligation debt increased by \$35.2 million or 1.8% during the fiscal year ended June 30, 2011. This planned increase occurred because the County issued additional general obligation bonds during the 2011 fiscal year in excess of debt service principal payments during the year.

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

## **Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate in the Raleigh-Cary Metropolitan area in which the county is located was 8.4% (percent) at June 30, 2011, compared with 8.5% 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 2010 through fiscal year 2011, the total assessed value increased from \$119.2 billion to \$119.5 billion, an increase of .3%.
- Sales tax collections increased to \$114.0 million for the fiscal year ended June 30, 2011 from \$104.4 million in the prior fiscal year, a 9% increase. Likewise, property tax collections were up for the fiscal year by 1% over last year's collections and were in line with the amount budgeted by the County. Overall, property tax revenue growth over the past two fiscal years combined has totaled less than 3%. In contrast, the County's growth in property taxes once averaged between 5 and 6% each year prior to fiscal 2009. Large reductions in revenues from the prior year were seen in federal and state intergovernmental revenue as the state further reduced its budget and the federal government stimulus funds were spent down. Further changes at the state and federal levels are expected in the subsequent year as they continue struggling to balance their own budgets. Occupancy and prepared food and beverage taxes collections increased from the 2010 fiscal year by \$3 million or 9%.
- Wake County continues to grow but at a much slower rate than in the recent past, adding an estimated 31,000 to its population over the past year and more than 3,400 new children to its public school system.
- The average yield on investments was 1.27% for fiscal year 2011, compared to 2.20% for fiscal year 2010. 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 \$7.3 million for the fiscal year ended June 30, 2011, on an average portfolio balance of more than \$564 million. This compares to 2010 earnings of \$10.8 million on an average portfolio balance of more than \$495 million.
- While the yield on investments fell significantly during fiscal year 2011, the County generally experienced a historically low interest rate on the variable rate portion of its debt portfolio. The variable rate is reset weekly by the remarketing agent based on the minimum rate of interest necessary to enable the remarketing agent to remarket all of the weekly rate bonds in the secondary market. The rate ranged from 0.06% to 0.34% during the period July 1, 2010 through June 30, 2011. 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 2012 fiscal year.

## **Budget Highlights for the Fiscal Year Ending June 30, 2012**

**Governmental Activities:** The County approved an original budget of \$952.1 million for the General Fund budget for fiscal year 2012, which represents a \$.9 million increase over the original budget adopted for the fiscal year 2011 of \$951.2 million. The recommended budget for fiscal year 2011 maintained the current tax rate of 53.4. The 2012 original budget did not include an appropriation of fund balance. In the General Fund, original budgeted expenditures for Education increased by .3% or \$.9 million from the prior fiscal year's adopted budget. The County also funded several new commitments already in place, such as an expanded jail facility, additional mental health beds at WakeBrook, and the merger of Emergency Management Services with the County. In addition, County employees received a merit pay increase for the first time in three years.

**Business – type Activities:** For the 2012 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 2012 is substantially the same as the amount adopted for FY 2011.

## **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 1212 Wicker Drive, Raleigh, NC 27604.