

***Wake County
North Carolina***

***Comprehensive Annual
Financial Report***

for the fiscal year ended June 30, 2012

Prepared by the Wake County Finance Department

**Wake County Board of
Commissioners**



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Chair



Joe Bryan



Phil Matthews
Vice Chair



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Deputy County Manager/
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Deputy County Manager

Wake County North Carolina

Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012

Prepared by the Wake County Finance Department:

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TABLE OF CONTENTS

INTRODUCTORY SECTION:

Title Page	I
Board of County Commissioners and County Officials	II
Wake County Finance Department	III
Table of Contents	IV
Organization Chart	VII
Letter of Transmittal	IX
GFOA Certificate of Achievement for Excellence in Financial Reporting	XV

FINANCIAL SECTION:

Independent Auditors' Report	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	19
Fund Financial Statements:	
Balance Sheet – Governmental Funds	20
Reconciliation of Balance Sheet to Statement of Net Assets	22
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	23
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – General Fund	26
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – Major Facilities Fund	27
Statement of Net Assets – Proprietary Funds	28
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	29
Statement of Cash Flows – Proprietary Funds	30
Statement of Fiduciary Net Assets	32
Statements of Changes in Fiduciary Net Assets – Fiduciary Funds	33
Notes to the Financial Statements	34
Required Supplementary Information:	
Required Supplementary Information-Law Enforcement Officers' Special Separation Allowance	70
Required Supplementary Information-Other Post-employment Benefits	71
General Fund:	
Comparative Balance Sheets	72
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	73
Statement of Revenues, Expenditures and Changes in Fund Balance - Detailed Budget and Actual	74

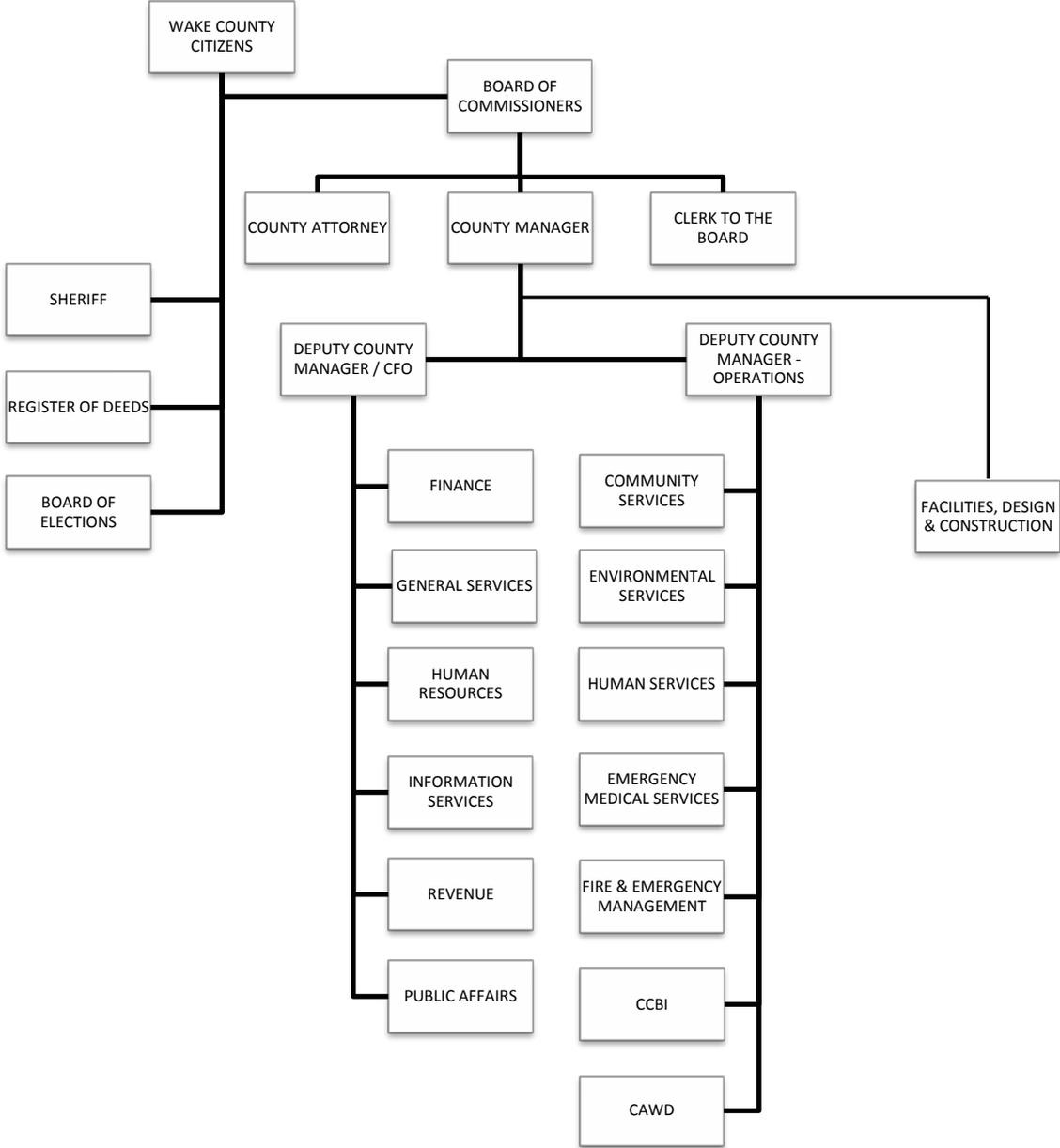
Schedules of Revenues, Expenditures and Changes in Fund Balances – Major Governmental Funds:	
Affordable Housing Fund, from Inception	81
Major Facilities Fund, Budget and Actual	82
Debt Service Fund, Budget and Actual	83
County Capital Projects Fund, from Inception	84
School Capital Fund, from Inception	85
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet - Nonmajor Governmental Funds	86
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	87
Combining Balance Sheet – Nonmajor Special Revenue Funds	88
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds	89
Combining Balance Sheet – Nonmajor Capital Project Funds	90
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Project Funds	91
Schedules of Revenues, Expenditures and Changes in Fund Balances	
Grants Fund, from Inception	92
Capital Area Workforce Development Fund, from Inception	93
Fire Tax District Fund, Budget and Actual	94
Wake Community College Capital Projects Fund, from Inception	95
Fire Capital Project Fund, from Inception	96
Major Facilities Capital Trust Fund, from Inception	97
Budgetary Combining Balance Sheet, Solid Waste Operating and Capital Project Funds (Non-GAAP)	98
Solid Waste Operating Fund, Budget and Actual	99
Solid Waste Construction Fund, from Inception	101
Budgetary Combining Balance Sheet, South Wake Landfill Partnership Fund (Non-GAAP)	102
South Wake Landfill Partnership Fund, Budget and Actual	103
Budgetary Balance Sheet, Corporate Fleet Fund (Non-GAAP)	104
Corporate Fleet Fund, Budget and Actual	105
Agency Funds:	
Combining Statement of Changes in Assets and Liabilities	106
Capital Assets:	
Schedule of Governmental Capital Assets by Function and Category	108
General Obligation Indebtedness:	
Schedule of Changes in Governmental Long-term Debt	109
Schedule of Long-Term Debt Maturities and Annual Debt	
Service Requirements for Governmental Activities	110

STATISTICAL SECTION:

Table 1 – Net Assets by Component – Last Ten Fiscal Years	111
Table 2 – Changes in Net Assets – Last Ten Fiscal Years	112
Table 3 – Fund Balance of Governmental Funds	
Last Ten Fiscal Years	114
Table 4 – Changes in Fund Balance of Governmental Funds	
Last Ten Fiscal Years	115

Table 5 – Assessed Value and Actual Value of Taxable Property Last Ten Fiscal Years	116
Table 6 – Direct and Overlapping Property Tax Rates Last Ten Fiscal Years	117
Table 7 – Principal Property Tax Payers Current Year and Nine Years Ago	118
Table 8 – Property Tax Levies and Collections Last Ten Fiscal Years	119
Table 9 – Schedule of Ad Valorem Taxes Receivable	120
Table 10 – Analysis of Current Tax Levy – Countywide Levy	121
Table 11 – Ratios of Outstanding Debt by Type Last Ten Fiscal Years	122
Table 12 – Ratios of General Bonded Debt Outstanding Last Ten Fiscal Years	123
Table 13 – Direct and Overlapping Governmental Activities Debt	124
Table 14 – Legal Debt Margin Information Last Ten Fiscal Years	125
Table 15 – Demographic and Economic Statistics Last Ten Fiscal Years	126
Table 16 – Principal Employers – Current Year and Nine Years Ago	127
Table 17 – Full-time Equivalent County Government Employees by Function Last Ten Fiscal Years	128
Table 18 – Operating Indicators by Function Last Ten Fiscal Years	129
Table 19 – Capital Asset Statistics by Function Last Ten Fiscal Years	130

WAKE COUNTY ORGANIZATION





November 30, 2012

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, 2012, 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, 2012, 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, 2012, 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 2012, 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:

- **#1 Best Place to Live** (Raleigh-Wake County, NC) Bloomberg-Businessweek.com America's Best Cities January 2012
- **#5 Best City for Raising a Family** (Raleigh, NC) Forbes, April 2012
- **#5 Most Cost-Attractive Business Location** (Raleigh, NC) KPMG, March 2012
- **#2 Best Place for Business and Careers** (Raleigh, NC) Forbes.com, June 2012
- **#1 Healthiest County in NC** (Wake County, NC) CountyHealthRankings.org, March 2012
- **#1 Real Estate Market to Watch in 2012** (Raleigh-Cary, NC) Inman News, February 2012
- **#7 Metro with Most College-Educated Residents** (Raleigh-Cary, NC) Brookings Metropolitan Policy Program, May 2012
- **#1 Healthiest City for Women** (Raleigh, NC) Women's Health, January 2012
- **#5 Most Eco-Friendly City** (Raleigh, NC) Thumbtack.com, July 2012
- **#6 Hottest American City of the Future** (Raleigh, NC) Yahoo Finance, June 2012

Wake County is the second-most populous county in the state, and poised to reach one million residents in the next two 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, 2012, the unemployment rate was 7.7%, compared with 9.4% for the state and 8.2% for the nation. A sampling of the area's industry and services includes:

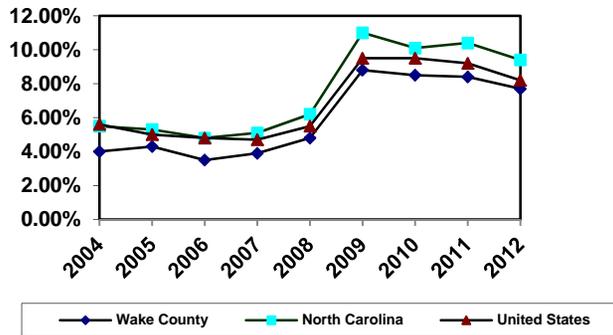
- manufacturing (including light manufacturing of pharmaceuticals, telecommunications equipment, electrical and machine parts, and electrical components)
- service industries
- many public and private institutions of higher education, including North Carolina State University, recognized as a national 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 summer 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 joined with Durham County to create Alliance Behavioral Healthcare to manage behavioral health services in Durham, Cumberland, Johnston and Wake counties. This transition requires Wake County to stop offering federally-funded behavioral health services currently provided by Wake County staff by January 2013. The partnership seeks to strengthen essential services, address service gaps, and optimize resources for efficient and effective delivery of services throughout the community, while ensuring continuity of service to consumers in Wake County.

Public Safety is a priority for Wake County. The County opened the Hammond Road Detention Center in April 2012. The new Wake County Detention Center provides services administered by three groups: the Wake County Sheriff's Office, the City-County Bureau of Identification and the Wake County Magistrate's Office. The project was completed at a cost of \$151 million, \$35 million less than the original project budget. Construction was completed three months ahead of schedule. The County facility is Leadership in Energy and Environmental Design (LEED) Certified.

The County is collaborating with municipal governments, Triangle Transit, regional transportation agencies and the business community to begin discussions about long-term transportation needs. In 2011, Wake County worked with partners to develop a draft plan for providing efficient and effective modes of transportation for our citizens. The county prepared the plan in partnership with regional transit and planning organizations and all municipalities.

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 capital assets, and provide new services when needed.

In June 2011, Commissioners adopted a seven-year, \$429.3 million CIP for fiscal years 2012-18 in connection with Wake County's capital planning.

The current CIP totals \$429.3 million of initiatives to improve the capital infrastructure of the County, of which \$96.8 million is dedicated to the Wake County Public School System. The remaining \$332.5 million would be invested in several areas of capital need, including criminal justice (\$31.7 million), County building improvements (\$28.0 million), community college facilities (\$10.5 million), fire/rescue (\$26.9 million), economic development (\$12.4 million), open space (\$34.6 million), solid waste operations (\$21.6 million), investments in libraries (\$44.7 million), public safety (\$17.1 million), and automation (\$35.1 million). The entire FY2012-18 CIP document can be viewed within the FY12 Budget Document at <http://www.wakegov.com/budget/past/Documents/Budget%20Fiscal%20Year%202012/Fiscal%20Year%202012%20Adopted%20Budget.pdf>.

Wake County's capital funding program leverages debt financing to expand the County's ability to support capital projects. The County's triple-A bond rating allows the County to receive lower interest rates on debt issued for capital expenditures. Two fundamental strategies are key to the success of the 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 debt and capital financial model, as it ensures that funds are available to pay

for additional debt service payments. Funding is set aside each year in the debt service fund as it is incurred in the future years of the CIP planning period. This strategy was a key component of bond referenda for schools, jail facilities, and open space passed in 2000. This key policy has continued as voters have approved additional referenda for schools in 2003 and 2006, referenda for Wake Technical Community College in 2004 and 2007, for Libraries in 2003 and 2007, and Open Space in 2003 and 2007.

At present, the two primary funding sources for the CIP are dedicated property tax revenue (policy to fund at 15.50 cents) 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

In January 2012, Wake became one of the North Carolina counties to be accredited by the North Carolina Local Health Department Accreditation Board. North Carolina is the first state in the country to mandate accreditation for its local health departments to assure a basic level of capacity and services essential to public health. The process included three major components – a self-assessment completed by the agency, a site visit by a multidisciplinary team of peers to review performance standards and determination of status by an independent Accreditation Board.

Every county in North Carolina is a member of the North Carolina Association of County Commissioners. Two large NCACC events were held in Wake County: the Clerks conference in early 2011 and the Annual Conference in the summer of 2012. Commissioner Joe Bryan served as President of the NCACC last year, and Commissioner Betty Lou Ward was one of seven members inducted into the inaugural class of the NCACC Hall of Fame.

The county worked with Wake Technical Community College, the Wake Economic Development Program, the Raleigh Chamber and other partners to attract new jobs. Red Hat moved its headquarters to downtown Raleigh, and will add 540 new positions in addition to the 750 that were created during the last few years. NetApp is expected to bring 460 new jobs over

the next four years to downtown Raleigh, while WakeMed brought 461 positions to three locations, Strategic Behavioral Health brought 250 positions, Biogen brought 300 positions and LORD Corporation brought 117 positions in the last year. To make it easier to do business in Wake County, commissioners amended the County Unified Development Ordinance, including sections dealing with the Group Homes and Airport District Regulations, commercial recreation facilities, accessory buildings, structures and breezeways, and residential watershed districts.

Wake County Human Services continued its transformation from a traditional social services model to a human capital development model – focusing on the human side of the economy. Based on these efforts, Wake County was presented with an Achievement Award from the National Association of Counties. The Human Services Academy is a virtual training model for staff development and training that maximizes the use of current staff's skills, talents and experience to provide training. The program received an achievement award from the National Association of Counties (NACo) for innovation. The Academy offers training opportunities and life coaching to Human Services staff, while assisting them in becoming self-sufficient; as well as lifestyle and behavioral training to staff.

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, 2011. This marks the 28th 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, 2011

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.



Linda C. Danson

President

Jeffrey R. Enos

Executive Director