

WAKE COUNTY, NORTH CAROLINA MANAGEMENT’S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED JUNE 30, 2013

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, 2013. 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 Introduction section of this report.

Financial Highlights for Wake County, North Carolina:

The County distinguishes itself by its strong financial management. In 2008 and throughout the recent recession, growth in the tax base was minimal and revenues declined year to year. In response to the downturn, the County froze hiring, postponed capital projects, and reduced spending in County government. As a result, the County weathered the economic downturn while maintaining its strong financial position. The local economy is steadily improving with increased real estate activity and new job announcements. The County is experiencing positive trends in significant revenues of property and sales taxes and continues strong financial management practices, funding key priorities of education and public safety while adhering to its financial policies. In the year ended June 30, 2013, the County achieved savings in departmental budgets, experienced continued growth in property tax and sales tax collections, and added over \$20 million to its combined general fund and debt service fund balances. In addition, to meet the needs of a growing community, the County began to implement new investments in capital infrastructure.

The County has maintained an “Aaa” bond rating from Moody’s Investors Service since 1973, an “AAA” rating from Standard & Poor’s Rating Services 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 allowing the County to receive lower interest rates on debt issued for capital expenditures, reducing the costs to taxpayers. These ratings were reaffirmed most recently in April 2013.

Wake County maintains a seven-year Community Improvement Plan (CIP) developed within the context of debt policies and targets necessary to maintain its triple-A bond rating from all three rating agencies. Capital projects are funded through dedicated revenue sources and the County targets a guideline of cash and debt funding of no more than 80 percent debt in any given year. The County models forecast revenues and expenditures to assure that the dedicated portions of property and sales tax revenues are sufficient for funding of planned capital projects and debt service requirements. The County’s repayment schedule meets the standards of triple-A rated counties and adheres to a policy to maintain a minimum Debt Service Fund balance of 19 percent of the subsequent year’s debt service expenditures.

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 2013 fiscal year, the fund balances for the County's General Fund and the Debt Service Fund were \$196.3 million and \$169.0 million, respectively; compared with both funds reporting fund balances of \$175.7 million and \$169.3 million respectively in the prior fiscal year. The total fund balances of both funds compared as a percentage of the subsequent year's budgeted appropriations in both funds was 29.80% as of the end of fiscal year 2013, compared with a combined total of 35.02% as of the end of the 2012 fiscal year. The percentage decrease is a result of both the General Fund and the Debt Service Fund budgets increasing by \$44.3 million and \$25 million, respectively, between fiscal year 2013 and the prior year. Thus, this percentage decreased despite the combined fund balances of these two funds increasing by more than \$20 million.

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 2013 was 53.4 cents, of which, 15.5 cents are dedicated to capital and debt service. For the fiscal year 2013, the County transferred \$187.7 million from the General Fund to fund the debt service and \$25.4 million to fund the capital projects. In fiscal year 2013 and in the months thereafter, two significant capital programs, funded by new debt issuances were implemented for Wake Technical Community College (Wake Tech) and the Wake County Public School System (WCPSS).

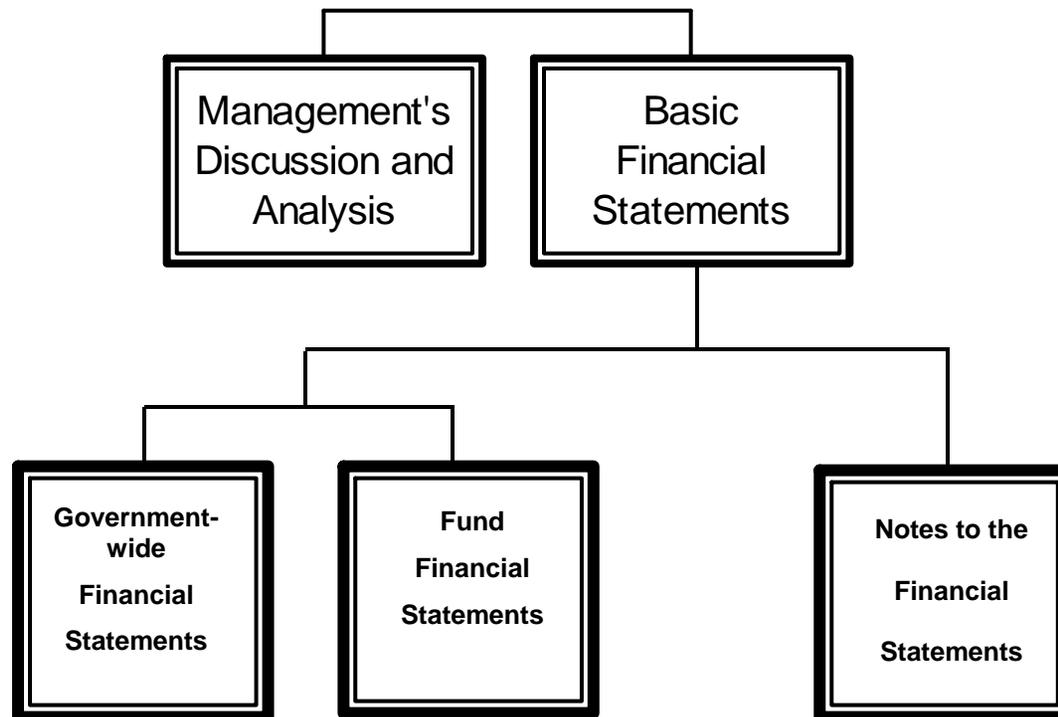
In November 2012, Wake County voters authorized \$200 million of general obligation bonds that, when combined with \$10.2 million of cash funding, will support Wake Technical Community College's 2012 Building Program. In April 2013, the County issued \$104.25 million in general obligation bonds that were authorized by the November 2012 referendum. These proceeds will be used for projects at the Wake Tech Northern Campus, the Main Campus, as well as at the Wake Tech Public Safety Center. In April 2013, the County sold \$21 million of Open Space general obligation bonds; this sale completed the issuance of the \$50 million of Open Space general obligation bonds authorized by the voters in the October 2007 referendum. Also in April 2013, Wake County competitively bid and sold \$51.16 million in fixed-rate general obligation bonds using the County's two-thirds authorization statutory authority under North Carolina state law. These funds will be used to construct the Vernon Malone College and Career Academy and for initial expenses associated with the Wake County Public School System's (WCPSS) 2013 building program.

On June 4, 2013, the WCPSS adopted a resolution requesting and petitioning the County Board of Commissioners to take all necessary steps by the issuance of bonds or otherwise to provide funding for WCPSS capital projects. The School System proposed a \$983.754 million program, comprised of \$43.8 million of current funds and \$939.9 of new capital funding. The County elected to finance the School System's request by a combination of \$129.9 million of cash and \$810.0 million of general obligation bonds. The bond order was adopted by the Wake County Board of Commissioners on July 15, 2013. The anticipated tax impact of the overall school building program is 5.53 cents; 4.86 cents is required for debt and capital needs and 0.67 cents is required to cover the operating impact of additional WCPSS facilities. With the

approval of the general obligation bonds referendum by Wake County voters on October 8, 2013, the County is currently planning the future bond issues in support of WCPSS' capital program with the first school bond issue anticipated in August 2014.

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 the 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 position and how it has changed. Net position, which is reported on the *statement of net position*, is calculated as total assets plus deferred outflows of resources, less total liabilities and deferred inflows of resources. *The statement of activities* presents information showing how the County's net position has changed during the fiscal year. All changes in net position 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 services 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 **20 - 22** 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 statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

The **fund financial statements** provide a more detailed look at the County's 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 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 the 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 Position 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 Statements** are 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. The County's Major Facilities Fund is also included with the basic financial statements as an annually-budgeted major special revenue fund.

Proprietary Funds – For the fiscal year ended June 30, 2013, 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. The County also reports the activities associated with the Corporate Fleet Fund within an Internal Service 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 Position 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 and other post-employment benefits to employees. 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 and deferred inflows of resources exceeded assets and deferred outflows of resources by \$705.2 million as of June 30, 2013. Net position is reported in three general categories: net investment in capital assets of \$494.7 million, restricted amounts totaling \$193.3 million, and unrestricted net deficit of \$(1,393.2) million.

One portion of Wake County’s net position 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 \$514.7 million as restated in the prior year to \$494.7 million at June 30, 2013. The largest portion of the decrease relates to the County’s governmental activities. The County’s school-related debt is not included in this calculation as it is not considered capital related debt for Wake County.

The largest category of net position is unrestricted net position. This balance may be used to meet the government’s ongoing obligations to citizens and creditors. At June 30, 2013, the unrestricted deficit of \$1,393.2 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 capital assets that are owned by the County. As a result, the school debt is reportable within the unrestricted category of net position rather than as part of the category invested in capital assets. The breakdown of the unrestricted portion of the total net position, reduced by school bond proceeds on hand at June 30 is defined as follows:

School System Debt	\$ (1,490,731,144)
All other unrestricted	<u>97,574,134</u>
Total unrestricted (Deficit)	<u>\$ (1,393,157,010)</u>

The amount reported in the total unrestricted category improved from \$(1,469.6) million as restated as of June 30, 2012 to \$(1,393.2) million as of June 30, 2013. This improvement is partially the result of decreases in School Capital Fund expenses, required by accounting standards to be treated as operating expenses, which decreased from \$135.0 million during fiscal year 2012 to \$77.2 million during fiscal year 2013. School-related 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 position.

Wake County's Net Position:

	June 30, 2013 Governmental Activities	June 30, 2012 Governmental Activities (as restated)	June 30, 2013 Business-type Activities	June 30, 2012 Business-type Activities (as restated)	June 30, 2013 Total	June 30, 2012 Total (as restated)
Current and other assets	\$ 922,636,921	\$ 866,310,925	\$ 54,594,091	\$ 54,099,316	\$ 977,231,012	\$ 920,410,241
Capital assets	865,279,696	826,328,221	13,026,721	13,633,543	878,306,417	839,961,764
Total assets	<u>1,787,916,617</u>	<u>1,692,639,146</u>	<u>67,620,812</u>	<u>67,732,859</u>	<u>1,855,537,429</u>	<u>1,760,372,005</u>
Deferred outflows of resources	64,942	128,531	-	-	64,942	128,531
Long-term liabilities/schools	1,641,549,119	1,693,249,642	-	-	1,641,549,119	1,693,249,642
Long-term liabilities/other	729,103,574	618,368,563	20,750,901	18,640,244	749,854,475	637,008,807
Other liabilities	97,100,778	107,503,544	3,060,487	4,201,497	100,161,265	111,705,041
Total liabilities	<u>2,467,753,471</u>	<u>2,419,121,749</u>	<u>23,811,388</u>	<u>22,841,741</u>	<u>2,491,564,859</u>	<u>2,441,963,490</u>
Deferred inflows of resources	69,279,646	75,124,872	380	380	69,280,026	75,125,252
Net position:						
Invested in capital assets	481,647,900	501,015,238	13,026,721	13,633,543	494,674,621	514,648,781
Restricted/various	188,697,751	194,344,857	4,542,124	4,034,015	193,239,875	198,378,872
Unrestricted	<u>(1,419,397,209)</u>	<u>(1,496,839,039)</u>	<u>26,240,199</u>	<u>27,223,180</u>	<u>(1,393,157,010)</u>	<u>(1,469,615,859)</u>
Total net position	<u>\$ (749,051,558)</u>	<u>\$ (801,478,944)</u>	<u>\$ 43,809,044</u>	<u>\$ 44,890,738</u>	<u>\$ (705,242,514)</u>	<u>\$ (756,588,206)</u>

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 an overall collection percentage of 99.11%.
- 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. General obligation bonds provide the County the lowest cost of debt to the tax payer and the County's triple-A bond rating allows the taxpayers to receive lower interest rates on debt issued for capital expenditures.

Wake County's Changes in Net Position:

	For the Year Ended		For the Year Ended		For the Year Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	Governmental	Governmental	Business-type	Business-type	Total	Total
	Activities	Activities	Activities	Activities	Total	Total
		(as restated)		(as restated)		(as restated)
Revenues:						
Program revenues:						
Charges for services	\$ 71,324,932	\$ 76,514,608	\$ 21,836,839	\$ 22,322,650	\$ 93,161,771	\$ 98,837,258
Operating grants and contributions	122,185,756	142,473,712	1,601,437	1,688,916	123,787,193	144,162,628
General revenues:						
Property taxes	675,565,832	666,196,637	-	-	675,565,832	666,196,637
Sales taxes	127,273,310	120,834,877	-	-	127,273,310	120,834,877
Grants and contributions not restricted to specific programs	5,294,595	9,500,462	-	-	5,294,595	9,500,462
Other general revenues	52,648,733	48,663,001	1,312,991	2,140,954	53,961,724	50,803,955
Total revenues	<u>1,054,293,158</u>	<u>1,064,183,297</u>	<u>24,751,267</u>	<u>26,152,520</u>	<u>1,079,044,425</u>	<u>1,090,335,817</u>
Expenses:						
General administration	57,447,794	59,589,399	-	-	57,447,794	59,589,399
Human services	210,045,271	235,191,515	-	-	210,045,271	235,191,515
Education	423,906,638	467,744,519	-	-	423,906,638	467,744,519
Community development and cultural	73,419,595	72,248,767	-	-	73,419,595	72,248,767
Environmental services	8,647,932	8,560,310	-	-	8,647,932	8,560,310
Public safety	139,372,822	143,349,347	-	-	139,372,822	143,349,347
General services administration	23,127,651	21,913,044	-	-	23,127,651	21,913,044
Interest on long-term debt	66,354,069	92,679,977	-	-	66,354,069	92,679,977
Solid waste		-	25,376,961	23,576,133	25,376,961	23,576,133
Total expenses	<u>1,002,321,772</u>	<u>1,101,276,878</u>	<u>25,376,961</u>	<u>23,576,133</u>	<u>1,027,698,733</u>	<u>1,124,853,011</u>
Increase (decrease) in net position before transfers	<u>51,971,386</u>	<u>(37,093,581)</u>	<u>(625,694)</u>	<u>2,576,387</u>	<u>51,345,692</u>	<u>(34,517,194)</u>
Transfers	456,000	404,000	(456,000)	(404,000)	-	-
Change in net position	<u>52,427,386</u>	<u>(36,689,581)</u>	<u>(1,081,694)</u>	<u>2,172,387</u>	<u>51,345,692</u>	<u>(34,517,194)</u>
Net position, beginning of year, restated	<u>(801,478,944)</u>	<u>(764,789,363)</u>	<u>44,890,738</u>	<u>42,718,351</u>	<u>(756,588,206)</u>	<u>(722,071,012)</u>
Net position, end of the year	<u>\$ (749,051,558)</u>	<u>\$ (801,478,944)</u>	<u>\$ 43,809,044</u>	<u>\$ 44,890,738</u>	<u>\$ (705,242,514)</u>	<u>\$ (756,588,206)</u>

Governmental activities. Governmental activities increased the County's beginning net position by \$52.4 million or more than 100% of the total increase in the net position of the County. The increase is partially due to reduced school capital spending compared to the prior year 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, 2013, these noncapital school capital expenditures incurred by the County in the School Capital Fund totaled \$77.2 million, compared to 135.0 million in the prior year.

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 nine major funds, as defined by GAAP for the fiscal year ended June 30, 2013, 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 Wake Community College Capital Projects Fund, the Solid Waste Operating Fund, and the South Wake Landfill Partnership Fund, the last two of which are enterprise funds. The Wake Community College Capital Projects Fund was reported with nonmajor capital funds in the prior fiscal year. During the fiscal year ended June 30, 2013, the County issued \$104.2 million in WTCC general obligation bonds, and the increased bond proceeds on hand at year end, as well as the increased level of operations during the year, required the County to define it as a major fund for fiscal year 2013. Since these bonds were issued under an ongoing building program that has been approved by the public, the Wake Community College Capital Projects Fund will probably continue to be reported as a major fund into the foreseeable future.

As of the close of the 2013 fiscal year, the County's total governmental funds reported combined ending fund balances of \$824.5 million, up \$65.0 million from the \$759.5 million for the prior fiscal year. The County's governmental fund balance increased primarily because, during the fiscal year ended June 30, 2013, the County issued a total of \$176.4 million in long-term bonds with \$26.7 million in associated premiums to finance \$77.2 million of capital expenditures for the school system and \$61.8 million of capital expenditures for the County capital program. A total of \$308.9 million of bond proceeds were still on hand at June 30, 2013, compared with \$286.0 million at the end of the prior fiscal year.

The fund balance of the County's General Fund increased by \$20.6 million during the fiscal year ended June 30, 2013, a substantial amount more than the amount of usage planned of (\$1.1) million. The largest portion of the \$21.7 million difference between planned usage of fund balance and the actual increase in the fund balance of the General Fund resulted from property tax, sales tax, and real property tax collections for the year being \$9.3 million higher than expected. In addition, the County collected \$2.2 million more in charges for services revenues than budgeted. These increases in revenues, when combined with positive expenditure budget variances for the general administration and human services departments of \$2.5 million and \$2.3 million, respectively, resulted in the \$20.6 million in the General Fund balance increase.

During the fiscal year, the County divested of the behavioral health function within the Human Services department, transferring these services to Alliance Behavioral Health as required by the State of North Carolina as part of continuing mental health reform. Also in fiscal 2013, the Wake Tech Community College Capital Projects Fund increased by a total amount of \$91.0 million as a result of Wake Tech general obligation bonds of \$104.3 million that were issued during the fiscal year. As of the end of June, \$115 million of the Wake Tech bond proceeds were still on hand from the bonds issued in 2013 and prior issues.

These increases in governmental fund balances were offset by reductions in governmental fund balances of the County Capital Projects Fund and the School Capital Fund of \$20.3 million and \$23.9 million, respectively. In the County Capital Projects Fund, expenditures exceeded transfers in and bonds issued, resulting in a \$20.3 million reduction in fund balance. For the School Capital Fund, the reduction in fund balance resulted primarily from school capital expenditures of \$77.2 million that exceeded general obligation bonds of \$51.2 million by \$26.0 million. A reduction in these funds is planned as appropriations made in prior years may be expended in subsequent years.

These changes in governmental fund balances were all made in accordance with the County's capital improvement plan, which provides for the 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 long-term capital and debt service needs. For the County Capital Project Fund, transfers from the General Fund were \$25.4 million, compared with \$25.6 million in the prior fiscal year. In practice, approximately 14% of the property tax dedicated to debt and capital is used for cash funding of County capital projects. Remaining funds are allocated between debt funding of County, Wake Tech, and WCPSS projects, adhering to the County's policy that the debt service fund will maintain a fund balance that is no less than 19% of the subsequent year's debt service expenditures and that the County will target a guideline of no more than 80% debt in any given year.

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 2013 fiscal year, the total fund balance of the General Fund was \$196.3 million, compared with \$175.7 million at the end of the prior year. The Board of County Commissioners has adopted a General Fund balance policy that requires 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, 2013, the General Fund balance was 19.97% of the adopted budget for fiscal year 2014, compared with 18.72% at the end of the prior fiscal year. For the fiscal year ended June 30, 2013, the amount committed to working capital on the General Fund Balance Sheet was \$124.0 million or 12.62% of the subsequent year's budget, compared to \$109.6 million or 11.68% of the next year's budget in the prior fiscal year. Clearly, the County solidly met both criteria associated with the adopted fund balance policy during the years presented.

Wake County's General Fund – Fund Balance Analysis:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Increase (Decrease)</u>
Non-spendable:			
Inventories/noncurrent receivables	\$ 660,291	\$ 680,079	\$ (19,788)
Restricted:			
Stabilization by State statute	60,378,072	61,577,460	(1,199,388)
Register of deeds automation	339,453	310,538	28,915
Committed:			-
Revaluation reserve	4,093,247	3,468,905	624,342
Future appropriations from excess ABC revenues	6,400,000	-	6,400,000
Working capital	124,040,311	109,629,660	14,410,651
Assigned:			
Planned expenditures	-	31,602	(31,602)
Future insurance claims	400,000	-	400,000
General fund balance	<u>196,311,374</u>	<u>175,698,244</u>	<u>20,613,130</u>
Subsequent Year's Adopted Budget	<u>982,800,000</u>	<u>938,520,000</u>	<u>44,280,000</u>
Fund Balance as a percentage of next year's budget	<u>19.97%</u>	<u>18.72%</u>	<u>1.25%</u>
Working Capital	<u>124,040,311</u>	<u>109,629,660</u>	<u>14,410,651</u>
Working Capital as a percentage of next year's budget	<u>12.62%</u>	<u>11.68%</u>	<u>0.94%</u>

General Fund Budgetary Highlights:

During the fiscal year ended June 30, 2013, 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 more than the amounts projected in the final budget by \$14.3 million for fiscal year 2013. The revenue overages occurred primarily in property taxes, sales taxes and real property transfer taxes as the Wake County economy continued to recover from the recent recession. Total taxes were greater than the final budgeted amount by \$9.3 million. A recovering housing market and improved consumer spending increased property tax collections by \$5.9 million more than budgeted and sales taxes more than \$2 million over the final amount budgeted. Actual fiscal year 2013 property tax collections exceeded the adopted budget by \$5.9 million, of which \$2.3 million or 39% is attributable to actual tax base growth over the estimated tax base used to develop the budget at the collection rate of 98.5%. The remaining \$3.6 million or 61% resulted from the actual overall collection rate of 99.11% exceeding the budgeted rate of 98.5%. Real property transfer taxes also showed signs of improvement with a \$1.3 million increase over the amount budgeted for the year.

Actual expenditures and transfers out in the General Fund were \$7.5 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 \$2.3 million budget difference primarily resulted from contracted services payments to providers for Social Services Economic Self Sufficiency and the coordinated transportation program being less than anticipated. These positive budget variances were offset by overexpenditures associated with the County's divestiture of the Behavioral Health Programs. During the fiscal year, the County divested of the behavioral health function within the Human Services department, transferring these services to Alliance Behavioral Health as required by the State of North Carolina as part of continuing mental health reform. The General Administration departments' budgets were also underspent by a total of \$2.5 million, with the largest amount being attributed to \$0.7 million of budgeted revaluation expenditures. North Carolina General Statutes require that the County build a reserve over time that will provide funding for the revaluation of property taxes that is completed every eight (8) years under NC law. These revaluation reserve amounts will need to be spent in subsequent years as the County prepares to complete that work in fiscal year 2015.

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 position in the proprietary fund statement of net position for the Solid Waste Operating Fund at the end of the fiscal year amounted to \$26.2 million, an increase of \$.5 million from the \$25.7 million reported at the end of fiscal year 2012. In addition, the South Wake Landfill Fund reported an unrestricted net position of (\$.24) million for the fiscal year 2013, a decrease of \$.5 million from the \$.481 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	
	2013	2012 (as restated)	2013	2012 (as restated)	2013	2012 (as restated)
Land	\$ 111,471,138	\$ 110,138,651	\$ 1,875,253	\$ 1,875,253	\$ 113,346,391	\$ 112,013,904
Landfills	-	-	7,781,927	8,226,645	7,781,927	8,226,645
Buildings	267,534,033	271,895,918	738,491	767,654	268,272,524	272,663,572
Machinery and equipment	2,706,361	3,314,414	385,396	530,525	3,091,757	3,844,939
Vehicles and motorized equipment	11,140,781	11,665,952	-	-	11,140,781	11,665,952
Improvements other than Buildings	18,012,943	18,610,167	343,567	357,150	18,356,510	18,967,317
Computer Software	10,774,274	9,978,797	-	-	10,774,274	9,978,797
Infrastructure	10,262,525	11,112,915	-	-	10,262,525	11,112,915
Construction in progress	433,377,641	389,611,407	1,902,087	1,876,316	435,279,728	391,487,723
Total	<u>\$ 865,279,696</u>	<u>\$ 826,328,221</u>	<u>\$ 13,026,721</u>	<u>\$ 13,633,543</u>	<u>\$ 878,306,417</u>	<u>\$ 839,961,764</u>

Capital assets. The County's investment in capital assets for its governmental and business-type activities as of June 30, 2013, totals \$878.3 million (net of amortization and depreciation). These assets include buildings, vehicles, software, equipment, infrastructure, as well as land and landfills.

Major capital asset transactions during 2013 fiscal year included continued construction of the Wake County Justice Center and the continuation of improvements to county buildings.

Additional information on the County's capital assets can be found in Note 6 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 7.3% (percent) at June 30, 2013, compared with 7.7% at the end of the previous fiscal year. Even with a growing population, Wake County has seen an improvement in the unemployment rate, which continues to decline.
- 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 2012 through fiscal year 2013, the total assessed value increased from \$120.5 billion to \$122.5 billion, an increase of 1.7%.
- Sales tax collections continued to increase during the fiscal year ended June 30, 2013 to \$127.3 million from \$120.8 million in the prior fiscal year, a 5% increase. Likewise, property tax collections were up for the fiscal year by 1.4% over last year's collections and exceeded the amount budgeted by the County by \$5.9 million. Occupancy and prepared food and beverage taxes collections increased from the 2012 fiscal year by \$2.4 million or 6.6%.
- Wake County continues to grow but at a slower rate than in the recent past, adding an estimated 18,974 during the fiscal year ended June 30, 2013, bringing the population to 965,833 people. The County's school system added 3,586 new children to its public school system rolls, with a total of \$149,508 overall enrolled.
- The average yield on investments was 0.59% for the fiscal year 2013, compared to 1.12% for the fiscal year 2012. As in the prior fiscal years, the County has continued to utilize detailed cash flow planning which has allowed us to keep funds invested until needed for expenditure, maximizing the maturity on our investments and our earnings on our portfolio. The County realized investment earnings on all funds of \$3.58 million for the fiscal year ended June 30, 2013, on an average portfolio balance of more than \$602 million. This compares to 2012 earnings of \$6.5 million on an average portfolio balance of more than \$583 million.
- While the yield on investments continued to fall significantly during fiscal year 2013, this low rate remained partially offset by historically low interest costs for the County's variable rate 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 0.05% to 0.22% during the period July 1, 2012 through June 30, 2013. Lower costs in this portion of the County's portfolio helped offset lower investment earnings because 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 2014 fiscal year.

Budget Highlights for the Fiscal Year Ending June 30, 2014

Governmental Activities: The County approved an original budget of \$982.8 million for the General Fund budget for fiscal year 2014, which represents a \$44.3 million increase over the original budget adopted for the fiscal year 2013 of \$938.5 million. The budget increases within the General Fund of \$44.3 million can be attributed primarily to four different areas; debt and capital, education, public safety, and employee-related costs. The education appropriation increased by \$9.2 million, reflecting a school board increase request of \$8.3 million operating funds and \$.9 million for an administration building lease. Public safety appropriations increased by \$9.1 million to fund a \$1.8 million costs associated with opening a new Justice Center, a \$3.8 million in additional costs within Sheriff's Office, and a \$3.5 million increase in Emergency Medical Services personnel and equipment. Finally, health care, retiree contributions, and other cost increase, some of which were dictated by the state, increased employee related costs budgeted amounts by \$4 million more than the prior year's budget. County employees received a performance pay increase averaging 2.75% of salary levels. These increased appropriations were largely funded with additional property tax revenues of \$20 million; sales taxes of \$11.3 million and increased register of deeds fees of \$7 million over the prior year. The recommended budget for fiscal year 2014 continued to maintain the current tax rate of 53.4 cents per \$100 of valuation and the 2014 original budget did not include any appropriation of fund balance.

Business – type Activities: For the 2014 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 2014 is substantially the same as the amount adopted for FY 2013.

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 Susan McCullen, Finance Director, Wake County, North Carolina, 301 S. McDowell Street, Raleigh, NC 27601. Additional information concerning Wake County can also be obtained by referring to the County's website at <http://www.wakegov.com>. Copies of financials statements and additional information concerning the Wake County Board of Alcoholic Control, a discretely presented component unit of the County, may be obtained at 1212 Wicker Drive, Raleigh, NC 27604.