



Comprehensive Annual Financial Report for the year ended June 30, 2014



***Wake County
North Carolina***

***Comprehensive Annual
Financial Report***

for the fiscal year ended June 30, 2014

Prepared by the Wake County Finance Department

Wake County Board of Commissioners



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District 2



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District 3



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District 1



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County Attorney
Clerk to the Board
Deputy County Manager
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Wake County North Carolina

Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014

Prepared by the Wake County Finance Department:

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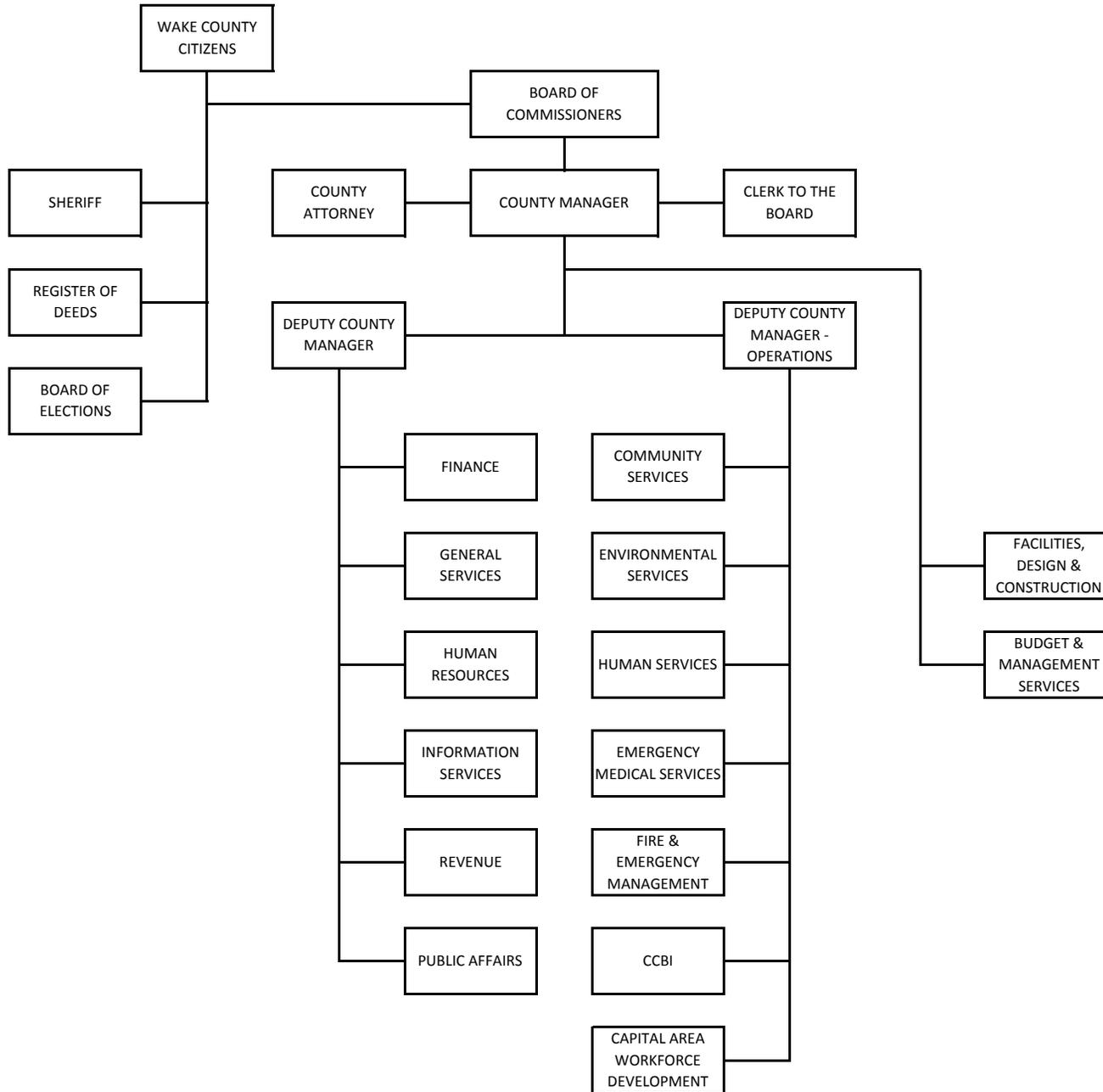
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WAKE COUNTY ORGANIZATION CHART





November 25, 2014

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

Continuing to exercise sound financial management and ensure Wake County's long term fiscal strength 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, 2014, reflects the County's progress towards that goal. The County, like all other local governments in the State, is required by state law to publish a complete set of financial statements. The financial statements must be presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Each year this document is prepared to fulfill that requirement, as well as to provide details about how the County receives, spends and accounts for its resources and provide 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. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the County's assets from loss, theft or misuse and help ensure that information is reliable for the preparation of this report. Because the cost of internal controls should not outweigh their benefits, the County's controls have been designed to provide reasonable, rather than absolute assurance that the financial statements are free of material misstatements. 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 Elliott Davis, PLLC, 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, 2014, 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 unmodified opinion that the County's financial statements for the fiscal year ended June 30, 2014 are fairly presented in conformity with generally accepted accounting principles. The report of independent auditor 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) as an introduction to the financial information. This analysis immediately follows the auditor's opinion and provides an overview and analysis of the County's significant transactions in fiscal year 2014, 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:

- **#5 Best City to Raise Children** (Raleigh, NC) MyLife.com, June 2014
- **#4 Best City to Start a Business** (Raleigh, NC) Nerd Wallet, May, 2014
- **#1 Best City for Raising a Family** (Raleigh, NC) Forbes, April 2014
- **#4 Best Big City for Jobs in 2014** (Raleigh, NC) Forbes, April 2014
- **#10 Most Optimistic Community** (Raleigh-Cary, NC) Gallup, April 2014

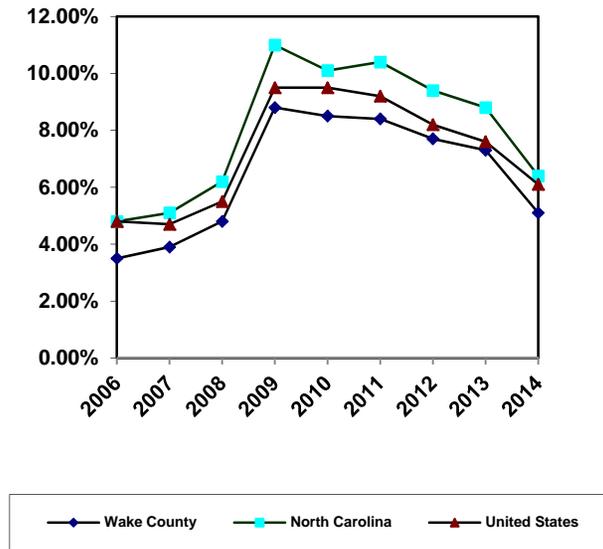
- **#10 Best Metro for Small Business** (Raleigh-Cary, NC) Bizjournals.com, April 2014
- **#4 Most Cost-Attractive Mid-Sized City for Business** (Raleigh, NC) KPMG, April 2014
- **#1 Healthiest County in NC** (Wake County, NC) CountyHealthRankings.org, March 2014
- **#3 Fastest Growing City** (Raleigh-Cary, NC) CNN Money, March 2014
- **#6 Most Affordable and Growing City in the U.S.** (Raleigh, NC) Cheapism.com, January 2014

Centrally located in the Triangle area of North Carolina, Wake County is one of the fastest growing areas in the nation and the second-most populous county in the state, with approximately 1,000,000 residents. 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

Unemployment Rates

On June 30, 2014, the unemployment rate was 5.1%, compared with 6.5% for the state and 6.1% for the nation. Even with a growing population, Wake County has seen improvement in the unemployment rate, and is at a rate below the state and the country.



Job Growth

Job growth has been strong. The number of jobs in Wake continues to increase. MetLife’s plan to bring 2,600 high-paying jobs by 2015 demonstrates our ability to continue attracting major businesses and grow jobs in Wake County. Wake County Economic Development reports that total announced jobs have grown by 45 percent between 2011 and 2013 and there has been a 71 percent increase in announced new companies and expansions from 2013.



Economic Diversity

The County’s economic profile is a mixture of manufacturing, service industries, health care, educational institutions, and State and local government. The principal executive, judicial and regulatory offices of State government and other State institutions are located in the County. Further, light manufacturing of telecommunications equipment, pharmaceuticals, electrical and machine parts, and electronic components contribute to a diversified economic base. The County is also a regional wholesale and retail trade center.

Major highlights of the County's commercial, industrial and institutional profile include:

- The Research Triangle Park (the "RTP"), a nationally recognized center for research and light manufacturing, is partially located in the County. The RTP's primary objective is to attract research-related institutions to the area, and currently consists of approximately 190 organizations including International Business Machines Corporation, GlaxoSmithKline, Cisco Systems, RTI International, Fidelity Investments, National Institute of Environmental Health Sciences, United States Environmental Protection Agency, Biogen IDEC and NetApp. The organizations in the RTP employ an estimated 39,000 employees. Source: Research Triangle Foundation of North Carolina website.
- Six public and private institutions of higher education are located within the County, including North Carolina State University (the "University") in Raleigh. The University has an enrollment of over 34,000 students and is engaged in graduate and undergraduate education, research and extension programs. It employs approximately 8,000 employees. The University's unique research park, Centennial Campus, hosts more than 60 companies, government agencies and research and academic units.
- The County is also home to Wake Technical Community College ("Wake Tech"), which is part of the North Carolina Community College System. The mission of Wake Tech is to provide education and training for the workforce. Calendar year 2013 enrollment at Wake Tech was 27,893 students in curriculum education and 41,121 students in continuing education, totaling 69,014 students.
- Three acute care hospital systems are located in the County and employ over 13,000 employees. Source: 2013 State Medical Facilities Plan; Department of Health and Human Services website, February 2013.
- The County's population is highly educated. According to the U.S. Census Bureau, in 2012 the percentage of the County's adult population with a high school degree or higher was 92% and the

percentage of the County's adult population with a B.A. degree or higher was 48%. Source: U.S. Census Bureau American Community Survey, U.S. Census website, December 2013

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.

On July 1, 2013, the Wake County Justice Center was officially open; however, some of the services in the Justice Center began operations in June 2013. The Justice Center is 577,000 square-feet and provides public meeting space for the Board of Commissioners and administrative space for the County Manager, County Attorney, Finance, Budget, Register of Deeds, Revenue/Assessor and other support functions. The high rise building has 19 new courtrooms and associated support spaces, with the capacity to add four additional courtrooms in the future. It houses all of Wake County's criminal courtrooms. Civil and Family Court proceedings continue to be held in the existing courthouse.

During fiscal year 2014, significant additions to the County's debt and capital program were approved. In October 2013, voters approved \$810 million of new general obligation debt, to be combined with \$129.9 million of cash funding, and \$43.8 million of existing funds to finance the new Wake County Public School System CIP 2013 building program. This program will provide funding to meet projected growth of 8,158 elementary students by 2017 and 11,740 middle and high school students by 2018. The program would construct 16 new schools by 2018 plus add an additional 1,343 seats in 6 major renovations. Dollars would be added for critical

items such as life cycle equipment replacement, technology, security, and land acquisition. The first appropriation for this program was made in the spring of 2014. The Board of Commissioners adopted a 4.4 cent property tax increase to finance the debt and capital for the school building program as part of the FY 2015 operating budget, and two months after the end of fiscal year 2014, the County issued \$334.2 million of general obligation bonds in support of CIP 2013 (along with \$11 million of library general obligation bonds). Future debt issuances for Wake Technical Community College's 2012 building program are planned in FY 2015 and FY 2016, along with additional debt issuances for libraries and WCPSS through FY 2017.

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.

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 from all three rating agencies 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, 2006, and 2013, referenda for Wake Technical Community College in 2004, 2007, and 2012, for Libraries in 2003 and 2007, and Open Space in 2000, 2003 and 2007.

For FY 2014, 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: transfers from other funds, such as the Fire Tax Fund and Major Facilities Fund, investment earnings, and fund balance appropriations.

In June 2013, Commissioners adopted a seven-year, \$457.9 million CIP for fiscal years 2014-2020 in connection with Wake County's capital planning.

The FY 2014 CIP totaled \$457.9 million of initiatives to improve the capital infrastructure of the County, of which \$115.5 million is dedicated to community college facilities. The remaining funds would be invested in several areas of capital need, including criminal justice (\$10.4 million), County building improvements (\$35.3 million), fire/rescue (\$25.1 million), economic development (\$12.9 million), open space (\$3.6 million), solid waste operations (\$19.5 million), investments in libraries (\$48.9 million), parks (\$3.6 million), public safety (\$49.2 million), and automation (\$49.0

million). The FY 2014-2020 CIP is a funded plan; the WCPSS CIP 2013 building program approved by the voters during FY 2014, supported by a 4.4 cent tax property increase implemented in FY 2015, is incorporated in the FY 2015-2021 CIP. The entire FY2014-20 CIP document can be viewed within the FY14 Budget Document at <http://www.wakegov.com/budget>.

OTHER ACCOMPLISHMENTS

Wake County has been named healthiest county in North Carolina for five straight years. In 2014, Wake County and partners launched an initiative to become the healthiest capital county in the United States.

The Emergency Medical Services (EMS) System celebrated 87 survivors of cardiac arrest in 2013, No other community in the United States benefits from a higher cardiac arrest survival rate. More ambulances are on roads at peak times to ensure the EMS system will continue to respond quickly to emergency calls in a growing county.

The County has begun work to open three Open Space properties, Robertson's Mill Pond, Turnipseed Assemblage, and Procter Farm for public access as nature preserves to be enjoyed for generations to come.

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, 2013. This marks the 30th 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, Elliott Davis, PLLC, 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,

Jim Hartmann
County Manager

Susan McCullen
Susan McCullen, CPA
Finance Director



Government Finance Officers Association

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, 2013

Executive Director/CEO