



As the management of Wake County, North Carolina, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with the letter of transmittal and the County's financial statements, which follow this overview.

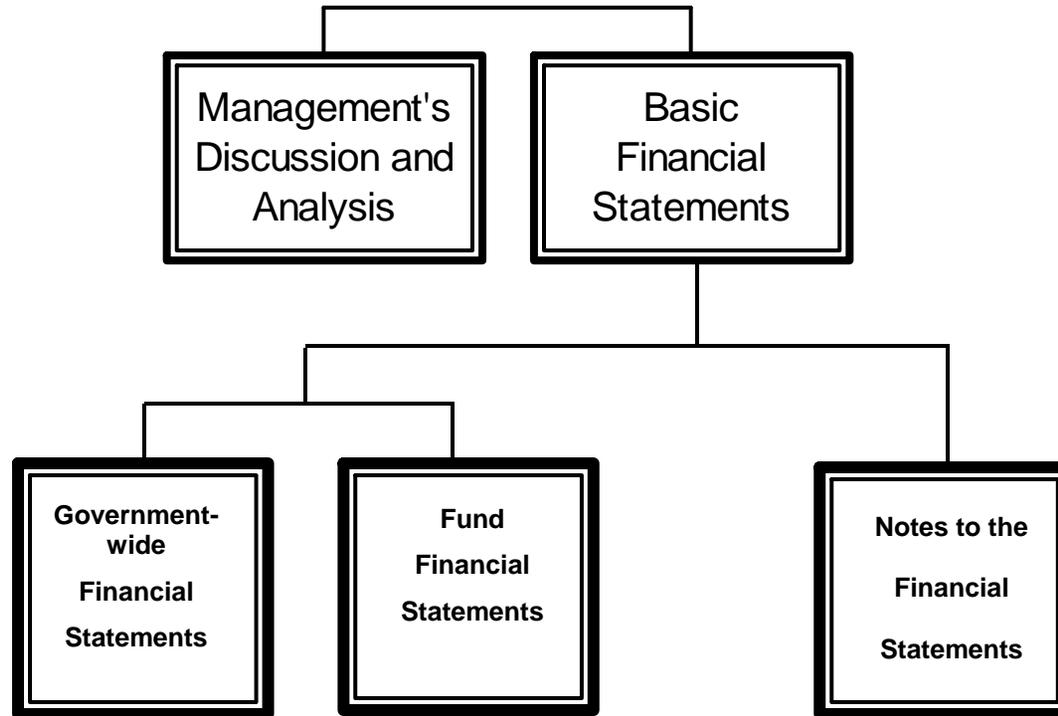
Financial Highlights for Wake County, North Carolina for the Year Ended June 30, 2014:

- As of June 30, 2014, the County's governmental funds reported combined ending fund balances of \$717.4 million, compared with \$824.5 million at the end of the prior fiscal year. All governmental fund balances were at least committed or assigned for specific purposes. There were no unassigned fund balances in the County's governmental funds as of June 30, 2014 or June 30, 2013.
- The fund balance of the County's General Fund increased by \$36.1 million during the year, compared with an increase of \$20.6 million in the prior year. This increase in the General Fund balance resulted from property tax collections that were \$29.8 million more than the property tax collections for the prior fiscal year. In addition, sales taxes collections were \$14 million more for the year ended June 30, 2014 when compared with for the prior year. The amount committed for working capital in the General Fund was \$137.8 million as of June 30, 2014, compared to \$124.0 million as of June 30, 2013.
- Wake 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 County's cost of debt to the taxpayers. These ratings were reaffirmed most recently in August 2014.
- The County measures its financial health and flexibility to meet capital needs as a ratio of fund balance as a percentage of revenues, transferring significant resources from the General Fund into the Debt Service Fund to meet future commitments. The combined General Fund and Debt Service Fund balances are measured together to assess the County's overall fiscal health. In May 2014, the Board of Commissioners adopted changes to the County's fund balance policy and debt service guidelines to formalize this measurement as part of the County's financial policies and to align its financial policies with revised rating agency criteria. These changes allowed the County to demonstrate successfully to the rating agencies the County's commitment to its triple-A credit rating and the County's due consideration of the revised rating criteria.

- The County uses a long-term financial planning model for capital budgeting purposes. The capital and debt component of the model helps to 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 2014 was 53.4 cents, of which, 15.5 cents were dedicated to capital and debt service. In addition, a portion of sales tax is transferred to the debt service fund for school capital debt service. For the fiscal year 2014, the County transferred \$193.84 million from the General Fund to fund debt service and \$37.85 million to fund capital projects.
- During fiscal year 2014, significant additions to the County's debt and capital program were approved by voters. 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 (WCPSS) CIP 2013 building program. The first appropriation for this program was made in the spring of 2014.
- The Board of Commissioners adopted a 4.40 cent property tax increase to finance the debt and capital for the school building program as part of the FY 2015 operating budget. 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 fiscal year 2017.

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 **21 - 23** 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, 2014, 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 \$644.6 million as of June 30, 2014. Net position is reported in three general categories: net investment in capital assets of \$527.2 million, restricted amounts totaling \$161.6 million, and unrestricted net deficit of \$(1,333.4) 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. The capital assets cannot be used to liquidate these liabilities. The amount reported as invested in total capital assets increased from \$494.7 million in the prior year to \$527.2 million at June 30, 2014. The largest portion of the increase 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 the County's net position is unrestricted net position. This balance is to be used to meet the government's ongoing obligations to citizens and creditors. At June 30, 2014, the unrestricted deficit of \$1,333.4 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 the debt 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.

Wake County, North Carolina
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

The breakdown of the unrestricted portion of the total net position, reduced by school bond proceeds and premiums on hand at June 30 of \$77.3 million, is defined as follows:

School System Debt	\$ (1,448,728,109)
All other unrestricted	<u>115,305,615</u>
Total unrestricted (Deficit)	<u>\$ (1,333,422,494)</u>

The amount reported in the total unrestricted category improved from \$(1,393.2) million as of June 30, 2013 to \$(1,333.4) million as of June 30, 2014, a total increase of \$59.8 million in the net position of the County. School-related debt and the associated capital expenses are not considered capital debt for the County since WCPSS, not the County, holds title to the assets purchased or constructed with the debt proceeds. Therefore, the school debt, the related capital expenses, and the associated bond proceeds are reported as part of the unrestricted component net position.

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Wake County's Net Position:

	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	Governmental	Governmental	Business-type	Business-type	Total	Total
	Activities	Activities	Activities	Activities		
Current and other assets	\$ 792,957,910	\$ 922,636,921	\$ 62,171,174	\$ 54,594,091	\$ 855,129,084	\$ 977,231,012
Capital assets	881,030,814	865,279,696	12,753,655	13,026,721	893,784,469	878,306,417
Total assets	<u>1,673,988,724</u>	<u>1,787,916,617</u>	<u>74,924,829</u>	<u>67,620,812</u>	<u>1,748,913,553</u>	<u>1,855,537,429</u>
Deferred outflows of resources	<u>21,602</u>	<u>64,942</u>	<u>-</u>	<u>-</u>	<u>21,602</u>	<u>64,942</u>
Long-term liabilities/schools	1,510,748,616	1,641,549,119	-	-	1,510,748,616	1,641,549,119
Long-term liabilities/other	709,406,668	729,103,574	24,497,509	20,750,901	733,904,177	749,854,475
Other liabilities	82,438,835	97,100,778	5,455,884	3,060,487	87,894,719	100,161,265
Total liabilities	<u>2,302,594,119</u>	<u>2,467,753,471</u>	<u>29,953,393</u>	<u>23,811,388</u>	<u>2,332,547,512</u>	<u>2,491,564,859</u>
Deferred inflows of resources	<u>61,016,088</u>	<u>69,279,646</u>	<u>100</u>	<u>380</u>	<u>61,016,188</u>	<u>69,280,026</u>
Net position:						
Invested in capital assets	514,397,874	481,647,900	12,753,655	13,026,721	527,151,529	494,674,621
Restricted/various	154,537,617	188,697,751	7,104,803	4,542,124	161,642,420	193,239,875
Unrestricted	<u>(1,358,535,372)</u>	<u>(1,419,397,209)</u>	<u>25,112,878</u>	<u>26,240,199</u>	<u>(1,333,422,494)</u>	<u>(1,393,157,010)</u>
Total net position	<u>\$ (689,599,881)</u>	<u>\$ (749,051,558)</u>	<u>\$ 44,971,336</u>	<u>\$ 43,809,044</u>	<u>\$ (644,628,545)</u>	<u>\$ (705,242,514)</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 99.47%.
- 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 triple-A 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 County to receive lower interest rates on debt issued for capital expenditures, reducing the cost of debt for the taxpayer.

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Wake County's Changes in Net Position:

	June 30, 2014 Governmental Activities	June 30, 2013 Governmental Activities	June 30, 2014 Business-type Activities	June 30, 2013 Business-type Activities	June 30, 2014 Total	June 30, 2013 Total
Revenues:						
Program revenues:						
Charges for services	\$ 67,458,014	\$ 71,324,932	\$ 22,641,326	\$ 21,836,839	\$ 90,099,340	\$ 93,161,771
Operating grants and contributions	124,810,587	122,185,756	1,638,999	1,601,437	126,449,586	123,787,193
General revenues:						
Property taxes	704,500,482	675,565,832	-	-	704,500,482	675,565,832
Sales taxes	141,340,059	127,273,310	-	-	141,340,059	127,273,310
Grants and contributions not restricted to specific programs	9,977,509	5,294,595	-	-	9,977,509	5,294,595
Other general revenues	57,137,462	52,648,733	4,560,230	1,312,991	61,697,692	53,961,724
Total revenues	1,105,224,113	1,054,293,158	28,840,555	24,751,267	1,134,064,668	1,079,044,425
Expenses:						
General government	61,161,278	57,447,794	-	-	61,161,278	57,447,794
Human services	199,440,132	210,045,271	-	-	199,440,132	210,045,271
Education	455,501,432	423,906,638	-	-	455,501,432	423,906,638
Community development and cultural	75,733,446	73,419,595	-	-	75,733,446	73,419,595
Environmental services	9,125,293	8,647,932	-	-	9,125,293	8,647,932
Public safety	152,696,724	139,372,822	-	-	152,696,724	139,372,822
General services administration	26,653,029	23,127,651	-	-	26,653,029	23,127,651
Interest on long-term debt	65,867,422	66,354,069	-	-	65,867,422	66,354,069
Solid waste	-	-	27,271,943	25,376,961	27,271,943	25,376,961
Total expenses	1,046,178,756	1,002,321,772	27,271,943	25,376,961	1,073,450,699	1,027,698,733
Increase (decrease) in net position before transfers	59,045,357	51,971,386	1,568,612	(625,694)	60,613,969	51,345,692
Transfers	406,320	456,000	(406,320)	(456,000)	-	-
Change in net position	59,451,677	52,427,386	1,162,292	(1,081,694)	60,613,969	51,345,692
Net position, beginning of year	(749,051,558)	(801,478,944)	43,809,044	44,890,738	(705,242,514)	(756,588,206)
Net position, end of the year	\$ (689,599,881)	\$ (749,051,558)	\$ 44,971,336	\$ 43,809,044	\$ (644,628,545)	\$ (705,242,514)

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, 2014, 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.

As of the close of the 2014 fiscal year, the County's total governmental funds reported combined ending fund balances of \$717.4 million, down \$107.1 million from the \$824.5 million for the prior fiscal year. The County's governmental fund balance decreased primarily because, during the fiscal year ended June 30, 2014, the County used \$94.9 million in School Capital fund balance in accordance with the County's debt and capital model. This reduction in fund balance resulted from school capital expenditures of \$100.9 million exceeding revenues of \$6.8 million. The primary funding source of the School Capital Fund is general obligation bond proceeds, and the County did not issue any school bonds during fiscal year 2014. A total of \$49.9 million of bond proceeds were still on hand at June 30, 2014, compared with \$132.7 million at the end of the prior fiscal year. In August 2014, the County issued \$345.2 million of general obligation bonds in support of the school and library capital programs. Of this amount, \$334.2 was for the school capital program.

The General Fund is the chief operating fund of the County; however, the combined General Fund and Debt Service Fund balances are measured together to assess the County's overall fiscal health. In 2011, the Board of County Commissioners adopted a fund balance policy that required the County to maintain a total General Fund balance of at least fifteen percent (15%) and an amount committed for working capital of at least ten percent (10%) of the following fiscal year's General Fund adopted budget in order to provide the County with adequate working capital and investment income. In May of this year, the Board of Commissioners amended the fund balance policy to also require that the County maintain combined General Fund and Debt Services Fund total fund balances of at least thirty percent (30%) of the combined revenues of both funds. The most recent policy change allows the County to demonstrate our commitment to maintaining our triple-A credit rating and our serious consideration of the revised rating criteria published by two of the three major credit rating agencies during fiscal year 2014.

At the end of the 2014 fiscal year, the fund balances for the County's General Fund and the Debt Service Fund were \$232.45 million and \$135.25 million, respectively; compared with both funds reporting fund balances of \$196.31 million and \$169.05 million respectively in the prior fiscal year. The total fund balances of both funds compared as a percentage of combined general fund and debt service fund combined revenues was 35.8% as of the end of fiscal year 2014, compared with a combined total of 36.3% as of the end of the 2013 fiscal year. The percentage decrease is a result of the use of \$33.8 million of fund balance in the debt service fund, which was a planned use of fund balance. The County's debt and capital model strategically uses fund balance in the debt service fund for debt service expenditures, but in an amount that will not exceed the County's debt service guideline of maintaining a minimum 19 percent fund balance in the debt service fund of

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subsequent year debt service expenditures and the maintenance of a combined general fund and debt service fund balance of at least 30 percent of general fund and debt service fund combined revenues.

The calculations below demonstrate the County's compliance with the updated fund balance policy.

Fund Balance Policy Compliance Analysis:

General Fund:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Increase (Decrease)</u>
Non-spendable:			
Inventories/noncurrent receivables	\$ 1,147,817	\$ 660,291	\$ 487,526
Restricted:			
Stabilization by State statute	81,561,725	60,378,072	21,183,653
Register of deeds automation	402,853	339,453	63,400
Committed:			
Revaluation reserve	3,120,450	4,093,247	(972,797)
Future appropriations from excess ABC revenues	2,650,000	6,400,000	(3,750,000)
Working capital	137,792,533	124,040,311	13,752,222
Assigned:			
Planned expenditures	5,372,283	-	5,372,283
Future insurance claims	400,000	400,000	-
	<u>232,447,661</u>	<u>196,311,374</u>	<u>36,136,287</u>
General fund balance			
	<u>1,066,422,000</u>	<u>982,800,000</u>	<u>83,622,000</u>
Subsequent Year's Adopted Budget			
	<u>21.80%</u>	<u>19.97%</u>	<u>1.82%</u>
Fund Balance as a percentage of next year's budget (15% minimum)			
Working Capital	<u>137,792,533</u>	<u>124,040,311</u>	<u>13,752,222</u>
Working Capital as a percentage of next year's budget (10% minimum)	<u>12.92%</u>	<u>12.62%</u>	<u>0.30%</u>

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General Fund and Debt Service:

	June 30, 2014	June 30, 2013	Increase (Decrease)
General Fund Revenue and transfers in	\$ 1,011,404,476	\$ 959,404,995	\$ 51,999,481
Debt Service Fund Revenue, transfers in, and premiums on bond issues	<u>208,772,460</u>	<u>235,339,980</u>	<u>(26,567,520)</u>
Combined revenue and transfers in	1,220,176,936	1,194,744,975	25,431,961
Less: General Fund transfers to Debt Service Fund	<u>(193,844,000)</u>	<u>(187,663,000)</u>	<u>(6,181,000)</u>
Combined General Fund and Debt Service Fund Revenue	\$ 1,026,332,936	\$ 1,007,081,975	\$ 19,250,961
 Fund Balance			
General Fund	\$ 232,447,661	\$ 196,311,374	\$ 36,136,287
Debt Service	<u>135,252,125</u>	<u>169,055,200</u>	<u>(33,803,075)</u>
Combined Fund Balance	<u>\$ 367,699,786</u>	<u>\$ 365,366,574</u>	<u>\$ 2,333,212</u>
 Fund Balance as a percentage of Current Year Revenues (30% minimum)	<u>35.8%</u>	<u>36.3%</u>	<u>-0.5%</u>

General Fund Budgetary Highlights:

During the fiscal year ended June 30, 2014, 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.

The fund balance of the County's General Fund increased by \$36.1 million during the fiscal year ended June 30, 2014, a substantial amount more than the amount of usage planned of (\$2.9) million. The most significant portion of the total \$39 million difference between planned usage of fund balance and the actual increase in the fund balance of the General Fund resulted from final actual revenues in the General Fund that were significantly more than the amounts projected in the final budget by \$26.1 million. Total taxes were greater than the final budgeted amount by \$12.4 million. Property tax collections exceeded the budgeted amount by \$2.6 million and improved consumer spending resulted in sales tax revenues of more than \$7.9 million over the final budgeted amount. The recovering housing market resulted in additional receipts of real property transfer taxes of \$1.7 million increase over the amount budgeted for the year. Intergovernmental revenues were greater than budgeted by \$11.2 million as a result of revenues from the Wake ABC Board totaling \$8.8 million, \$4.8 million more than budget. Also, the public health settlement from the state for the prior year was received during fiscal year 2014 at \$4.6 million, an amount greater than anticipated. Finally, the County collected \$1.6 million more in charges for services revenues for Medicaid billing than was budgeted. These increases in revenues, combined with positive expenditure budget variances totaling \$12.9 million accounted for most of the \$39 million General Fund balance increase.

Actual expenditures and transfers out in the General Fund were \$12.9 million less than budgeted amounts largely resulting from lower than projected spending by all of the County's departments, particularly Human Services, General Administration, and Public Safety. In the Human Services department, \$2.4 million of the \$6.6 million positive budget difference resulted from additional budgeted amounts that were provided for NC FAST (NC Families Accessing Services through Technology) related services as the County worked to implement new state systems for the SNAP and Medicaid programs during the fiscal year. The NC FAST system was intended to improve the business process for approving SNAP and Medicaid benefits applications which County staff are responsible for in North Carolina. However, Wake County Human Services required additional resources to manage the implementation of the system. The additional resources were committed by the Board of Commissioners prior to June 30, 2014 but expended subsequent to year end. Other Human Services programs were underspent because the transportation program expended less than the prior year. The County's general administration departments' budgets were also underspent by a total of \$2.9 million, with the largest amount being attributed to \$1.5 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 are currently being used to complete revaluation work

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for values that will be effective in calendar year 2016. In Public Safety, the largest portion of the \$1.8 million positive budget variance resulted primarily from savings in salaries and benefits and lowered operating costs.

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 \$25.2 million, a decrease of \$1.1 million from the \$26.3 million reported at the end of fiscal year 2013. In addition, the South Wake Landfill Fund reported an unrestricted net position of (\$.74) million for the fiscal year 2014, a decrease of \$.5 million from the (\$.24) million reported at the end of the prior fiscal year. The differences between the two fiscal years are minimal.

Capital Asset and Debt Administration

Wake County Capital Assets
(net of Amortization and Depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Land	\$ 123,411,409	\$ 111,471,138	\$ 382,327	\$ 1,875,253	\$ 123,793,736	\$ 113,346,391
Landfills	-	-	7,337,209	7,781,927	7,337,209	7,781,927
Buildings	589,497,768	267,534,033	709,320	738,491	590,207,088	268,272,524
Machinery and equipment	2,768,888	2,706,361	395,246	385,396	3,164,134	3,091,757
Vehicles and motorized equipment	12,097,313	11,140,781	-	-	12,097,313	11,140,781
Improvements other than Buildings	17,414,895	18,012,943	329,966	343,567	17,744,861	18,356,510
Computer Software	21,772,374	10,774,274	-	-	21,772,374	10,774,274
Infrastructure	9,940,660	10,262,525	-	-	9,940,660	10,262,525
Construction in progress	104,127,507	433,377,641	3,599,587	1,902,087	107,727,094	435,279,728
Total	\$ 881,030,814	\$ 865,279,696	\$ 12,753,655	\$ 13,026,721	\$ 893,784,469	\$ 878,306,417

Capital assets. The County's investment in capital assets for its governmental and business-type activities as of June 30, 2014, totals \$893.8 million (net of amortization and depreciation). These assets include buildings, vehicles, computer software, equipment, infrastructure, as well as land and landfills.

Wake County, North Carolina
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Major capital asset transactions during 2014 fiscal year included continued improvements to county buildings.

Additional information on the County's capital assets can be found in Note 6 of the Basic Financial Statements.

Long-term Debt

As of June 30, 2014, the County had total general obligation bonded debt outstanding of \$1.81 billion, \$1.51 billion of which was issued to help meet the capital outlay needs for the School System. In addition to general obligation bonded debt, the County also has outstanding limited obligation bonds, qualified zone academy bonds, capital leases, and installment purchases. A summary of total outstanding debt associated with governmental activities is shown below.

Wake County's Outstanding Debt - Governmental Activities

	2014	2013
General Obligation bonds (schools)	\$ 1,510,258,227	\$ 1,640,895,269
General Obligation bonds (other)	296,071,000	319,238,018
Capital leases	51,293	81,238
Limited obligation bonds	291,053,822	303,982,042
Qualified zoning academy bonds (schools)	490,389	653,850
Installment purchases	5,329,121	5,327,348
Total	<u>\$ 2,103,253,852</u>	<u>\$ 2,270,177,765</u>

Wake County's total general obligation debt decreased by \$153.8 million during the fiscal year ended June 30, 2014. This decrease occurred because \$153.8 million in general obligation bonds principal were retired and the County did not issue any additional general obligation bonds during the fiscal year. 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). All of these changes were made in accordance with the County's long-term capital planning model.

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

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate in the Raleigh-Cary Metropolitan area in which the county is located was 5.1% (percent) at June 30, 2014, compared with 7.3% at the end of the previous fiscal year. Over the past fiscal year, Wake County experienced continued improvement in the unemployment rate.
- The County has an eight year revaluation cycle for residential real 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 2013 through fiscal year 2014, the total assessed value increased from \$122.4 billion to \$127.4 billion, an increase of 4.1%. The County is currently revaluing real property for valuations that will be effective for the fiscal year beginning July 1, 2016.
- Total sales tax collections continued to increase during the fiscal year ended June 30, 2014 to \$141.3 million from \$127.3 million in the prior fiscal year, an 11% increase. Likewise, property tax collections increased from \$654.9 million in the prior fiscal year to \$684.7 in the year ended June 30, 2014, an increase of 4.5% and over last year's collections. Occupancy and prepared food and beverage taxes collections increased from the 2013 fiscal year by \$3.1 million or 8%.
- Wake County continues to grow, adding an estimated 18,735 during the fiscal year ended June 30, 2014, bringing the population to 984,568 people. The school system added an additional 3,176 students to the public school system rolls, with a total of 152,684 overall enrolled for the 2013-2014 school year.
- The average yield on investments was 0.27% for the fiscal year 2014, compared to .59% for the fiscal year 2013. 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 \$1.63 million for the fiscal year ended June 30, 2014, on an average portfolio balance of more than \$595 million. This compares to 2013 earnings of \$3.58 million on an average portfolio balance of more than \$602 million.
- While the yield on investments continued to fall significantly during fiscal year 2014, 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 0.03% to 0.12% during the period July 1, 2013 through June 30, 2014. 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 2015 fiscal year.

Budget Highlights for the Fiscal Year Ending June 30, 2015

Governmental Activities: The County approved an original budget of \$1.066 billion for the General Fund for fiscal year 2015, which represented an \$83.6 million increase compared to the original budget for the fiscal year 2014. For the fiscal year 2015, the General Fund budget included a property tax increase of 4.40 cents (4.04 cents per \$100 assessed valuation) which provided \$55.7 million in property tax revenues to support debt service and cash funding for the WCPSS CIP 2013 capital projects. Additionally, sales tax revenues were projected to increase by for an additional \$15.4 million. On the expenditure side in addition to the increased debt and capital expenditures to fund the WCPSS CIP 2013, the County also increased General Fund operating support for WCPSS by \$10.2 million. Along with a reserve of \$3.75 million for locally funded teacher salary supplements, the fiscal year 2015 budget includes increases of \$3.8 million for Community Health and Vitality and \$2.6 million for public safety. The 2015 budget also included an additional \$11.1 million for other County activities such as building inspections and plan review, use of the Revenue Department reserve funds for the upcoming property tax revaluation in 2016, employee merit increases, and health insurance premiums for employees.

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 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 financial statements and additional information concerning the Wake County Board of Alcoholic Control, a discretely presented component unit of the County, may be obtained at 1212 Wicker Drive, Raleigh, NC 27604.