



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, 2015. 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, 2015:

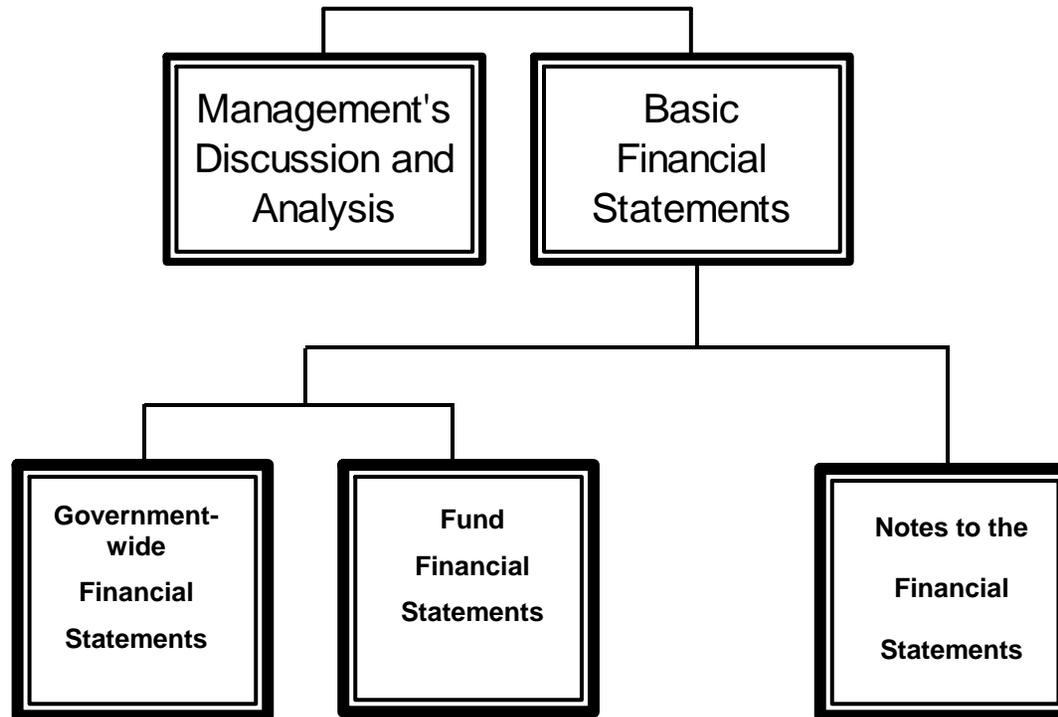
- As of June 30, 2015, the County's governmental funds reported combined ending fund balances of \$1.07 billion, compared with a restated \$737.4 million at the end of the prior fiscal year. All governmental fund balances were at least committed or assigned for specific purposes. There were no unassigned fund balances in the County's governmental funds as of June 30, 2015 or June 30, 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. At the end of the 2015 fiscal year, the fund balances for the County's General Fund and the Debt Service Fund were \$244.6 million and \$153.9 million, respectively; compared with both funds reporting fund balances of \$232.4 million and \$135.3 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 36.4% as of the end of fiscal year 2015, compared with a combined total of 35.8% as of the end of the 2014 fiscal year. The percentage increase resulted from an increase in fund balances as well as an increase in combined revenues.
- 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 2015 was 57.8 cents, of which, 19.9 cents were dedicated to capital and debt service, up from 15.5 cents in the prior fiscal year. In addition, a portion of sales tax is transferred to the debt service fund for school capital debt service. For the fiscal year 2015, the County transferred \$191.8 million from the General Fund to fund debt service, \$63.18 million for WCPSS capital projects, \$27.4 million to fund county capital projects and \$3.305 million for WTCC capital projects.

Wake County, North Carolina
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

- 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 March 2015 in conjunction with bond sales to support the County’s building programs for schools, community colleges and libraries.
- 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 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. In fiscal year 2015, the County issued \$370.2 million of general obligation bonds in support of CIP 2013, along with \$11 million of library bonds and \$58 million for Wake Technical Community College’s 2012 building program.

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. The ABC Board is legally separate from the County; however, the County exercises control over the Board by appointing its members. The ABC Board is also required to distribute its profits to the County.

The government-wide financial statements are on Pages **22 - 24** 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.

Wake County, North Carolina
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

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, 2015, 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 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 \$641.3 million as of June 30, 2015. Net position (deficit) is reported in three general categories: net investment in capital assets of \$529.4 million, restricted amounts totaling \$390.5 million, and unrestricted net deficit of \$(1,561.2) 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. The capital assets cannot be used to liquidate these liabilities. The amount reported as invested in total capital assets increased from \$527.2 million in the prior year to \$529.4 million at June 30, 2015. The largest portion of the increase relates to the County's governmental activities. The County's school and community college 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 (deficit) is unrestricted net position (deficit). This balance is to be used to meet the government's ongoing obligations to citizens and creditors. However, under North Carolina law, the County is responsible for providing capital funding for the Wake County Board of Education (WCPSS) and Wake Technical Community College (WTCC). The County has chosen to meet its legal obligation to provide WCPSS and WTCC capital funding by using a mixture of County funds and general obligation debt. The assets funded by the County are owned, utilized and maintained by WCPSS and WTCC. Since the County as the issuing government, acquires no capital assets, the County has incurred a debt liability without a corresponding increase in assets. At the end of the fiscal year, the outstanding balance of the school-related debt less unspent bond proceeds was \$1,387,400,233 and the outstanding balance of the community college - related debt less unspent bond proceeds was \$165,252,217. However, the entire amount of school and college debt

Wake County, North Carolina
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

outstanding is general obligation debt, which is collateralized by the full faith, credit, and taxing power of the County. The County is authorized and required by State law to levy ad valorem taxes, without limit as to rate or amount, as may be necessary to pay the debt service on its general obligation bonds. Principal and interest requirements will be provided by an appropriation in the year in which they become due.

Even though the debt issued has been issued to finance capital outlay and construction for the WCPSS and WTCC, 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 and community college debt is reportable within the unrestricted category of net position rather than as part of the category invested in capital assets.

During 2015, the County implemented Governmental Accounting Standard's Board (GASB) Statement Number 68, Accounting and Financial Reporting for Pensions. This required the County to change the reporting requirements of the Local Government Employees Retirement System (LGERS) and the Register Deeds' Supplemental Pension Plan (ROD). Both plans had a net pension asset at the end of fiscal year 2015; however, these were offset by deferred inflows of resources related to various plan differences. As a result, the net pension amounts are reportable within the unrestricted category of net position.

The breakdown of the unrestricted portion of the total net position is defined as follows:

School System Debt	\$ (1,387,400,233)
Community College Debt	(165,252,217)
Net pension items	(10,879,261)
All other unrestricted	<u>2,316,421</u>
Total unrestricted (Deficit)	<u>\$ (1,561,215,290)</u>

Wake County, North Carolina
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

Wake County's Net Position:

	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	Governmental	Governmental	Business-type	Business-type	Total	Total
	Activities	Activities	Activities	Activities	Total	Total
		(as restated)		(as restated)		(as restated)
Current and other assets	\$ 1,196,396,848	\$ 777,903,988	\$ 63,754,917	\$ 61,937,519	\$ 1,260,151,765	\$ 839,841,507
Capital assets	878,536,398	881,030,814	13,034,939	12,753,655	891,571,337	893,784,469
Total assets	<u>2,074,933,246</u>	<u>1,658,934,802</u>	<u>76,789,856</u>	<u>74,691,174</u>	<u>2,151,723,102</u>	<u>1,733,625,976</u>
Deferred outflows of resources	<u>12,991,385</u>	<u>12,210,938</u>	<u>79,995</u>	<u>75,815</u>	<u>13,071,380</u>	<u>12,286,753</u>
Long-term liabilities/schools	1,761,727,388	1,510,748,616	-	-	1,761,727,388	1,510,748,616
Long-term liabilities/community colleges	279,095,309	206,068,223	-	-	279,095,309	206,068,223
Long-term liabilities/other	517,966,767	503,338,445	24,519,497	24,497,509	542,486,264	527,835,954
Other liabilities	<u>118,552,841</u>	<u>82,438,835</u>	<u>5,112,386</u>	<u>5,455,884</u>	<u>123,665,227</u>	<u>87,894,719</u>
Total liabilities	<u>2,677,342,305</u>	<u>2,302,594,119</u>	<u>29,631,883</u>	<u>29,953,393</u>	<u>2,706,974,188</u>	<u>2,332,547,512</u>
Deferred inflows of resources	<u>98,827,089</u>	<u>61,016,088</u>	<u>272,985</u>	<u>100</u>	<u>99,100,074</u>	<u>61,016,188</u>
Net position:						
Invested in capital assets	516,347,191	514,397,874	13,031,162	12,753,655	529,378,353	527,151,529
Restricted/various	384,569,749	174,547,627	5,987,408	7,104,803	390,557,157	181,652,430
Unrestricted	<u>(1,589,161,703)</u>	<u>(1,381,361,055)</u>	<u>27,946,413</u>	<u>24,955,038</u>	<u>(1,561,215,290)</u>	<u>(1,356,406,017)</u>
Total net position	<u>\$ (688,244,763)</u>	<u>\$ (692,415,554)</u>	<u>\$ 46,964,983</u>	<u>\$ 44,813,496</u>	<u>\$ (641,279,780)</u>	<u>\$ (647,602,058)</u>

The County funds the capital needs for both WCPSS and for Wake Tech Community College, but does not carry the resulting assets on our financial statements; therefore, our statement of net position reports a net deficit. Despite this deficit reported in governmental activities, the County's finances continue to be strong. Our property tax collection rate is high with an overall collection percentage of 99.71%. We plan and manage revenues and expenditures through the use of financial models for the capital, debt service, and various operating budgets. Finally, the low cost of our bonded debt is a direct result of the County's triple-A bond rating by each of the three major rating agencies. 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.

Wake County, North Carolina
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

Wake County's Changes in Net Position (deficit):

	For the Year Ended		For the Year Ended		For the Year Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	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	\$ 72,251,229	\$ 67,458,014	\$ 23,981,146	\$ 22,641,326	\$ 96,232,375	\$ 90,099,340
Operating grants and contributions	121,633,351	123,659,561	1,760,881	1,638,999	123,394,232	125,298,560
General revenues:						
Property taxes	763,304,541	704,500,482	-	-	763,304,541	704,500,482
Sales taxes	154,509,781	141,340,059	-	-	154,509,781	141,340,059
Grants and contributions not restricted to specific programs	7,510,466	9,977,509	-	-	7,510,466	9,977,509
Other general revenues	63,084,499	57,137,462	1,812,220	4,560,230	64,896,719	61,697,692
Total revenues	1,182,293,867	1,104,073,087	27,554,247	28,840,555	1,209,848,114	1,132,913,642
Expenses:						
General government	67,697,095	60,865,049	-	-	67,697,095	60,865,049
Human services	211,150,777	205,788,808	-	-	211,150,777	205,788,808
Education	555,325,661	455,501,432	-	-	555,325,661	455,501,432
Community development and cultural	82,956,045	77,962,399	-	-	82,956,045	77,962,399
Environmental services	8,376,306	9,853,941	-	-	8,376,306	9,853,941
Public safety	156,223,861	161,670,728	-	-	156,223,861	161,670,728
General services administration	26,171,169	27,622,029	-	-	26,171,169	27,622,029
Interest on long-term debt	70,672,162	65,867,422	-	-	70,672,162	65,867,422
Solid waste	-	-	24,952,760	27,429,783	24,952,760	27,429,783
Total expenses	1,178,573,076	1,065,131,808	24,952,760	27,429,783	1,203,525,836	1,092,561,591
Increase (decrease) in net position before transfers	3,720,791	38,941,279	2,601,487	1,410,772	6,322,278	40,352,051
Transfers	450,000	406,320	(450,000)	(406,320)	-	-
Change in net position	4,170,791	39,347,599	2,151,487	1,004,452	6,322,278	40,352,051
Net position (deficit), beginning of year	(692,415,554)	(749,051,558)	44,813,496	43,809,044	(647,602,058)	(705,242,514)
Prior period adjustment	-	17,288,405	-	-	-	17,288,405
Net position (deficit), beginning of year, as restated	(692,415,554)	(731,763,153)	44,813,496	43,809,044	(647,602,058)	(687,954,109)
Net position, end of the year	\$ (688,244,763)	\$ (692,415,554)	\$ 46,964,983	\$ 44,813,496	\$ (641,279,780)	\$ (647,602,058)

Change in Accounting Principles, Restatements, and Prior Period Adjustments

The County implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the County to record beginning net pension liability and the effects on net position of contributions made by the County during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by (\$22,825,683) and (\$157,840), respectively.

The County implemented a change in accounting principle for its long-term revolving loan program accounted for in the Affordable Housing Fund, in the fiscal year ending June 30, 2015. The change in accounting principle was prompted by memorandum #2016-02 by the North Carolina Local Government Commission on August 3, 2015. The change impacted how the loans are presented in the financial statements.

Prior to the change, North Carolina law required the loans to be budgeted as expenditures in the year the loan is made and budgeted as revenue in the years the repayments are received. With the issuance of the memorandum, the County now uses revenue and expenditure contra-accounts to eliminate the effect of revenues and expenditures reported for budgetary purposes in conjunction with the issuance and collection of long-term loans receivable in the governmental funds. As a result, fund balance for the Affordable Housing Fund and net position for the governmental activities increased by \$20,010,010. \$17,288,405 of this adjustment related to years prior to 2014.

The decrease in net position for the governmental activities as a result of implementing GASB 68 of (\$22,825,683) and the increase in the net position for the prior period adjustment of \$20,010,010 offset each other to result in an increase in net position (deficit) of \$2,815,673 from the amount reported in governmental activities for the fiscal year ended June 30, 2014.

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, 2015, 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 2015 fiscal year, the County's total governmental funds reported combined ending fund balances of \$1.069 billion, up \$331.5 million from a restated \$737.4 million for the prior fiscal year. The County's governmental fund balance increased primarily because, during the fiscal year ended June 30, 2015, the County issued \$439.2 million in general obligation bonds in accordance with the County's debt and capital model. Premiums of \$51.3 million were associated with the 2015 bond sales. A total of \$511.7 million of bond proceeds were still on hand at June 30, 2015, compared with \$49.4 million at the end of the prior fiscal year.

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 2014, 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 2015 fiscal year, the fund balances for the County's General Fund and the Debt Service Fund were \$244.6 million and \$153.9 million, respectively; compared with both funds reporting fund balances of \$232.4 million and \$135.3 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 36.4% as of the end of fiscal year 2015, compared with a combined total of 35.8% as of the end of the 2014 fiscal year. The percentage increase resulted from an increase in and an increase in fund balances. 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 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.

Wake County, North Carolina
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

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

Fund Balance Policy Compliance Analysis: General Fund

	June 30, 2015	June 30, 2014	Increase (Decrease)
Non-spendable:			
Inventories/noncurrent receivables	\$ 1,141,838	\$ 1,147,817	\$ (5,979)
Restricted:			
Stabilization by State statute	71,764,144	81,561,725	(9,797,581)
Register of deeds automation	483,897	402,853	81,044
Committed:			
Revaluation reserve	3,684,154	3,120,450	563,704
Future appropriations from excess ABC revenues	2,650,000	2,650,000	-
Working capital	162,195,239	137,792,533	24,402,706
Assigned:			
Planned expenditures	2,279,506	5,372,283	(3,092,777)
Future insurance claims	400,000	400,000	-
General fund balance	<u>244,598,778</u>	<u>232,447,661</u>	<u>12,151,117</u>
Subsequent Year's Adopted Budget	<u>1,142,963,000</u>	<u>1,066,422,000</u>	<u>76,541,000</u>
Fund Balance as a percentage of next year's budget (15% minimum)	<u>21.40%</u>	<u>21.80%</u>	<u>-0.40%</u>
Working Capital	<u>162,195,239</u>	<u>137,792,533</u>	<u>24,402,706</u>
Working Capital as a percentage of next year's budget (10% minimum)	<u>14.19%</u>	<u>12.92%</u>	<u>1.27%</u>

Wake County, North Carolina
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

General Fund and Debt Service:

	June 30, 2015	June 30, 2014	Increase (Decrease)
General Fund Revenue and transfers in	\$ 1,079,563,019	\$ 1,011,404,476	\$ 68,158,543
Debt Service Fund Revenue, transfers in, and premiums on bond issues	<u>262,062,018</u>	<u>208,772,460</u>	<u>53,289,558</u>
Combined revenue and transfers in	1,341,625,037	1,220,176,936	121,448,101
Less: General Fund transfers to Debt Service Fund	<u>(191,774,000)</u>	<u>(193,844,000)</u>	<u>2,070,000</u>
Combined General Fund and Debt Service Fund Revenue	\$ 1,149,851,037	\$ 1,026,332,936	\$ 123,518,101
 Fund Balance			
General Fund	\$ 244,598,778	\$ 232,447,661	\$ 12,151,117
Debt Service	<u>153,873,846</u>	<u>135,252,125</u>	<u>18,621,721</u>
Combined Fund Balance	<u>\$ 398,472,624</u>	<u>\$ 367,699,786</u>	<u>\$ 30,772,838</u>
 Fund Balance as a percentage of Current Year Revenues (30% minimum)	<u>34.7%</u>	<u>35.8%</u>	<u>-1.2%</u>

General Fund Budgetary Highlights:

During the fiscal year ended June 30, 2015, 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 \$12.2 million during the fiscal year ended June 30, 2015, a substantial amount more than the amount of usage planned of \$(10.6) million. A significant portion of the total \$22.8 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 \$10.1 million. Total taxes were greater than the final budgeted amount by \$13.2 million. Property tax collections exceeded the budgeted amount by \$5.1 million. Improved consumer spending and changes in North Carolina's sales tax laws that expanded the base resulted in sales tax revenues that exceeded budgeted amounts by more than \$6.6 million. The housing market continued to improve with additional receipts of real property transfer taxes of \$1.5 million increase over the amount budgeted for the year. Charges for services revenues were less than the amount budgeted by \$3.6 million due to a dispute with the state of North Carolina over the calculations for Medicaid settlements costs that are owed to Wake County. The County is working with the State and other local governments to resolve these differences and receive the settlement amounts.

Actual expenditures and transfers out in the General Fund were \$12.6 million less than budgeted amounts 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, \$1.6 million of the \$6.5 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 continued to implement the new state system 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. Behavioral Health - Managed Care and Transportation were also underspent by \$1.6 million and \$1.9 million, respectively, during the year.

The County's general administration departments' budgets were also underspent by a total of \$2.5 million, with the largest amount being attributed to \$1.3 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 for values that will be effective in calendar year 2016. The revaluation activities occur over more than one fiscal year and budgeted amounts tend to vary more widely during this revaluation period. In

Wake County, North Carolina
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

Public Safety, the largest portion of the \$1.7 million positive budget variance resulted primarily from savings in salaries and benefits and lowered operating costs within Emergency Medical Services.

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 \$27.9 million, an increase of \$2.8 million from the \$25.1 million reported at the end of fiscal year 2014. In addition, the South Wake Landfill Fund reported no unrestricted net position for the fiscal year 2015, an increase of \$.74 million from the amount 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			
	2015	2014	2015	2014	2015	2014
Land	\$ 126,784,717	\$ 123,411,409	\$ 382,327	\$ 382,327	\$ 127,167,044	\$ 123,793,736
Landfills	-	-	6,895,261	7,337,209	6,895,261	7,337,209
Buildings	592,022,332	589,497,768	680,115	709,320	592,702,447	590,207,088
Machinery and equipment	3,201,198	2,768,888	350,693	395,246	3,551,891	3,164,134
Vehicles and motorized equipment	13,142,062	12,097,313	-	-	13,142,062	12,097,313
Improvements other than Buildings	16,809,835	17,414,895	316,365	329,966	17,126,200	17,744,861
Computer Software	19,238,446	21,772,374	-	-	19,238,446	21,772,374
Infrastructure	9,881,824	9,940,660	-	-	9,881,824	9,940,660
Construction in progress	97,455,984	104,127,507	4,410,178	3,599,587	101,866,162	107,727,094
Total	\$ 878,536,398	\$ 881,030,814	\$ 13,034,939	\$ 12,753,655	\$ 891,571,337	\$ 893,784,469

Wake County, North Carolina
 Management's Discussion and Analysis
 Fiscal Year Ended June 30, 2015

Capital assets. The County's investment in capital assets for its governmental and business-type activities as of June 30, 2015, totals \$891.6 million (net of amortization and depreciation). These assets include buildings, vehicles, computer software, equipment, infrastructure, as well as land and landfills.

Major capital asset transactions during 2015 fiscal year included improvements to county buildings and land for the open space preservation program.

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, 2015, the County had total general obligation bonded debt outstanding of \$2.14 billion, of which \$1.76 billion and \$279 million was issued to help meet the capital outlay needs for the Wake County Public School System (WCPSS) and the Wake Technical Community College, respectively. 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

	2015	2014
General Obligation bonds (schools)	\$ 1,761,400,460	\$ 1,510,258,227
General Obligation bonds (community college)	279,095,309	206,068,223
General Obligation bonds (other)	101,858,999	90,002,777
Capital leases	763,502	51,293
Limited obligation bonds	278,125,603	291,053,822
Qualified zoning academy bonds (schools)	326,928	490,389
Installment purchases	4,922,510	5,329,121
	<hr/>	<hr/>
Total	<u>\$ 2,426,493,311</u>	<u>\$ 2,103,253,852</u>

Wake County's total general obligation debt increased by \$302.7 million during the fiscal year ended June 30, 2015. This increase occurred because the County issued \$439.2 million in general obligation bonds and general obligation bonds of \$136.5 million were retired during the fiscal year. 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 5.0% (percent) at June 30, 2015, compared with 5.1% at the end of the previous fiscal year. At June 30, 2013, the county's unemployment rate was 7.3%. Over the past two fiscal years, Wake County has experienced 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 2014 through fiscal year 2015, the total assessed value increased from \$127.4 billion to \$127.9 billion, an increase of less than 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, 2015 to \$154.5 million from \$141.3 million in the prior fiscal year, a 9.3% increase. Likewise, property tax collections increased from \$684.7 million in the prior fiscal year to \$742.6 in the year ended June 30, 2015, an increase of 8.3% over last year's collections. Occupancy and prepared food and beverage taxes collections increased from the 2014 fiscal year by \$4.3 million or 10.3%.
- Wake County continues to grow, with a population to 1,005,385 people at June 30, 2015, reaching a population of 1 million people this year for the first time in history. The school system added an additional 2,500 students to the public school system rolls, with a total of 155,184 overall enrolled for the 2014-2015 school year.
- The average yield on investments was 0.30% for the fiscal year 2015, compared to .27% for the fiscal year 2014. 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 \$2.01 million for the fiscal year ended June 30, 2015, on an average portfolio balance of more than \$670 million. This compares to 2014 earnings of \$1.63 million on an average portfolio balance of more than \$595 million.

- While the yield on investments remained low during fiscal year 2015, 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. Lower costs in this portion of the County's debt 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 2016 fiscal year.

Budget Highlights for the Fiscal Year Ending June 30, 2016

Governmental Activities: The County approved an original budget of \$1.143 billion for the General Fund for fiscal year 2016, which represented a \$76.5 million increase compared to the original budget for the fiscal year 2015. For the fiscal year 2016, the General Fund budget included a property tax increase of 3.65 cents (3.65 cents per \$100 assessed valuation) which provided additional funds to support our highest priorities of education, public safety, and human services. Additionally, sales tax revenues were projected to increase by 10.6% for an additional \$15.7 million. On the expenditure side, the County increased General Fund operating support for WCPSS by \$44.6 million to \$386 million. The fiscal year 2016 budget also includes increases of \$3.4 million for Wake Technical Community College and \$25.8 additional funds for various departmental expansion requests and employee merit increases.

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 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.