

Letter of Transmittal

November 28, 2007

To the Board of County Commissioners, and the Citizens of Buncombe County, North Carolina

We are pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007. Laws of the State of North Carolina, along with policies and procedures of the North Carolina Local Government Commission, require that all local governments in the state publish a complete set of financial statements annually.

Management of Buncombe County assumes responsibility for the completeness and reliability of all the information presented in this report based upon a comprehensive framework of internal control that it has established for this purpose. This report consists of management's representations concerning the financial position and results of operations for the fiscal year ended June 30, 2007.

Gould Killian CPA Group, P.A., Certified Public Accountants, have audited the financial statements in accordance with generally accepted auditing standards. The cost of internal control should not exceed anticipated benefits; therefore, the auditor's review is to provide reasonable rather than absolute assurance that the financial statements are free from material misstatements. The independent auditors concluded the financial statements are presented in conformity with generally accepted accounting principles and there was a reasonable basis for issuing an unqualified opinion on the Buncombe County financial statements for the year ended June 30, 2007. The independent auditor's report is located at the front of the financial section of this report.

The independent audit of the financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special need of federal grantor agencies. Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the County's internal controls and compliance with legal requirements, with emphasis on administration of federal grants.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides an introduction, overview, and analysis of the basic financial statements. The discussion and analysis complements this letter of transmittal and should be read in combination with it.

Profile of Buncombe County, North Carolina

Buncombe County was established in 1791 and is located in the southwestern portion of North Carolina. It has a total land and water area of 660 square miles and an estimated population of 222,174 at June 30, 2006. There are six municipalities within the County, the largest being the City of Asheville (population of 69,045 or approximately 31.1 percent of the County), which lies at the geographic center of the County and serves as the County seat. The County of Buncombe is approximately 240 miles west of the state capital, Raleigh, North Carolina; 205 miles north of Atlanta, Georgia; and 120 miles east of Knoxville, Tennessee. Seventy-five percent of the United States population is within a day's drive of Buncombe County.

The County operates under a commissioner/manager form of government with one commissioner elected by the voters to serve as Chair of the Board. A five-member Board of County Commissioners governs Buncombe County. The Board of Commissioners is chosen every four years in partisan elections during presidential election years. Commissioners hold policy-making and legislative authority. They are also responsible for adopting the budget and appointing the County Manager, Finance Director, County Attorney, and Clerk to the Board. The County Manager is the chief administrative officer and prepares and recommends the annual budget in addition to being responsible for implementing policies, managing daily operations, and appointing department heads.

The County provides its citizens with a wide range of services including human services, public safety, economic and physical development, environmental protection, cultural and recreational activities and others. However, the majority of the annual budget consists of public safety, human services and education. The County also extends financial support to certain boards, agencies, and commissions to assist their efforts in serving citizens. Among these are the Asheville City Board of Education, the Buncombe County Board of Education, the Asheville-Buncombe Technical Community College, the Tourism Development Authority, the Land-of-Sky Regional Council and the Western Highlands Area Authority.

The annual budget serves as the base for the County's financial planning and control. Budgets are developed on a departmental basis by expenditure function within a fund. The budgets display all of the County's financial operations including funding for various agencies outside the County's organizational structure. The Board of Commissioners adopted a Strategic Plan for Buncombe County, and in order to implement the Strategic Plan, each County department and intergovernmental agency receiving County funds was asked to address the strategies in its requested budget documents. The County Manager submits the annual balanced budget to the Board of Commissioners before June each year. A public hearing on the budget is held in the

middle of June with an expected budget adoption by June 30. In accordance with North Carolina statutes, the governing board shall adopt a budget not earlier than ten days after the budget is presented to the Board and no later than July 1.

Economic Condition of Buncombe County, North Carolina

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

The Local Economy

Buncombe County is part of the Asheville metropolitan area including Buncombe, Haywood, Henderson, and Madison counties. The area has a regional labor draw of nine Counties in Western North Carolina and through the second quarter of 2007, the area had undergone 40 straight months of record-setting job levels. During this same period, 2,100 net new jobs were added and employment grew at a rate of 1.2 percent. The average unemployment rate held at 3.7 percent over the fiscal year, well below the rate for both the state and nation. The Asheville metro area has developed a distinctive and balanced economy. As discussed below, historically there are four major economic drivers which are centered around the area's quality of life amenities. In the past, it has been proven that the action of each driver supports the other drivers. This was evident in the recent growth of the health services industry to overcome the transition from manufacturing. Beyond the four major economic drivers, a new growth industry has emerged over the last fiscal year that of professional and business services.

Health Services Industry

Health services are one of the area's major job creators employing nearly 27,000 workers. Now the largest industry sector in the Asheville metro, the gain in well-paying health care jobs helped offset the losses in traditional manufacturing jobs. The sector added 700 new jobs over the last year and has added employment in every month for more than fifteen years.

Manufacturing Industries

The local manufacturing employment level, which had experienced a decade of decline, has stabilized and restructured itself around an advanced group of machinery, plastics and electronics manufacturers. At the end of the first quarter of 2007 the industry employs approximately 21,000 workers.

Leisure and Hospitality Industry

The Asheville metro area is a popular travel destination, and the sector continues to be a major contributor to the area's economy. Hotel sales, occupancy and average room rates continue to increase. Overnight accommodation sales are up 9.6 percent over the fiscal year and the industry employs over 21,000 workers.

Population Growth

Population growth in the Asheville metro area has increased for the last thirty-five years. Estimates indicate moderate growth patterns will continue between 1.5 – 2.0 percent per year. More than ninety percent of the local population growth is from in-migration largely from other North Carolina communities and Florida. Mild population increases, stable job growth, and the quality-of-life attraction, have kept the residential housing relatively secure. Unlike other communities, the Asheville market has avoided dramatic price swings and the threat of steep falling prices. Home appreciation is up 10.9 percent, placing the area 10th in the nation when ranked among other metros.

Professional and Business Services

The professional and business services sector has added 300 new jobs, growing to a total employment size of 16,500. This sector includes many highly technical and well-paid services such as engineering and computer design along with a sizeable section providing temporary employment services. Temporary employment is an indication of the growth phase of many local firms who seek to fill positions quickly.

Long-term Financial Planning

Buncombe County prepares a five year capital plan and updates it each year in the annual budget process. At June 30, 2007 general fund projects estimated at \$14.7 million are planned over the next five years. Future plans include the renovation of Pack Library and the new construction of an East Asheville Branch Library, the cost is projected at \$5 million. The completion of the Recreation master plan will result in renovation projects for current facilities and the construction of an additional Soccer Complex, the cost is unknown at this time. In 2010 the plans are to begin on a master plan for the aging courthouse facilities. These costs are also not known at this time, but it is anticipated that long-term debt will be issued to finance these costs and the County will have sufficient debt capacity to do so.

Other Postemployment Benefits

Buncombe County maintains a retiree medical plan in which the County pays 100 percent of the employee-only coverage for retirees until age 65. The benefit also applies to disabled employees. In general, retirees must be age 60 with 25 years of service, or have 30 years of service at any age. Cash outlays currently are approximately \$225,580 per month. Buncombe County also maintains retiree medical plan in which the County pays 100 percent of an employee-only Medicare Supplement policy. Employees with 25 years of service are offered this as an incentive for early retirement. Cash outlays currently are approximately \$5,780 per month. In fiscal year ending June 30, 2007, the County adopted procedures under Governmental Accounting Standards Board (“GASB”) Statements No. 43 and 45. The County has determined the expense of the retiree medical plan using the requirements and procedures of these statements. An actuarial study completed as of June 30, 2005, reported an Annual Required Contribution of \$1,793,274. The County has reserved \$5,133,562 as of June 30, 2007 for future Other Postemployment Benefits (OPEB).

Awards and Acknowledgements

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Buncombe County for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. This marks the twenty-eighth consecutive year that Buncombe County has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The County also received the GFOA’s Award for Distinguished Budget Presentation for its 2007 annual budget document. This is the eleventh year that the award has been presented to the County.



In order to qualify for this award, the County's budget document was judged to be proficient in several categories including policy documentation, financial planning, and organization. The Budget Department believes the fiscal year 2008 budget document continues to conform to program requirements and is submitting it to the GFOA to determine eligibility for another award.

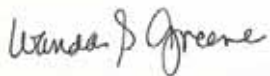
In addition, the Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to Buncombe County for its Popular Annual Financial Report for the fiscal year ended June 30, 2006. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. The Award is valid for a period of one year only. Buncombe County has received a Popular Award for the last seven consecutive years (fiscal years ended 2000-2006). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA.

Acknowledgements

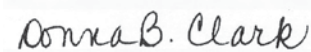
We commend each County department for the commitment to the goals, vision and mission of Buncombe County Government. This commitment is reflected in the quality services provided to our citizens. We also thank each department for their cooperation in carrying out the financial activities of the County. We sincerely appreciate the entire staff of the Finance Department for their attentiveness and commitment during the year and especially during the preparation of this report. We also thank Gould Killian CPA Group, P.A., Certified Public Accountants for their assistance with the report.

Providing effective and efficient government our citizens can trust is an important component of the Buncombe County mission. Preparation of this report supports this component by assuring fiscal accountability. We commend the Board of County Commissioners for their leadership and support for maintaining the highest standards in the management of the County's finances.

Respectfully submitted,



Wanda S. Greene, PhD, CPA
County Manager



Donna B. Clark
Finance Director

