

Letter of Transmittal

October 31, 2008

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, 2008. 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, 2008.

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, 2008. 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 224,267 at June 30, 2007. There are six municipalities within the County, the largest being the City of Asheville (population of 71,129 or approximately 31.7 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 2008, the area had experienced 51 straight months of record-setting job growth. During this same period 3,700 net new jobs were added and employment grew at a rate of 2.7 percent. The average unemployment rate rose slightly to 4.8 percent, but remains below the rate for both the state and nation. The Asheville metro area has developed a diverse and balanced economy. The area's sustainable economy is attributable to the following drivers:

- Health Services and Leisure & Hospitality – these traditional core drivers have accounted for over half of all new jobs.
- Manufacturing – while down overall manufacturing has experienced growth in machinery, plastics and electronics.
- Population Growth – the population of the area has grown for the past four decades. Moderate growth is expected to continue at a rate of 1.5 – 2.0 percent. Approximately 95 percent of the population growth is from in-migration. Forty percent migrate from other North Carolina communities and 12 percent from the State of Florida. The baby boomers are particularly attracted to the Asheville metro area.
- Home Appreciation – the decline in the national real estate market, particularly in areas from which new residents relocate to the Asheville metro area, has caused local home sales and residential construction to decline as well. However, the Asheville metro area has not experienced major declines in appreciation rates. Through the first quarter of 2008 rates increased 4.5 percent, compared to a national appreciation rate of -0.03 percent.

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, 2008 general fund projects estimated at \$166.7 million are planned over the next five years. However, future projects may be impacted by future economic conditions. Major projects include the following:

FY 2009

- \$25 million - Parking Deck on Coxe Avenue and expand and renovate the Human Services Building.
- \$20 million - Emergency Services Training Center

FY 2010

- \$80 million - Courthouse renovations and new Court Annex
- \$30 million - Aquatics Facility and Softball Complex

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 20 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 a 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, 2008, 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 December 31, 2007, reported an Annual Required Contribution of \$4,438,054. As permitted by G.S. 147-69.2 and G.S. 147-69.4, the County has deposited \$2,500,000 in the Local Government OPEB Irrevocable Trust Fund managed by the North Carolina Department of State Treasurer and paid \$2,604,872 on the pay as you go basis.

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, 2007. This marks the twenty-ninth 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 2008 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 2009 budget document continues to conform to program requirements and is submitting it to the GFOA to determine eligibility for another award.

Acknowledgements

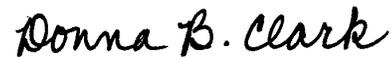
Many professional staff members in the Finance Department contributed to the preparation of this report. Their hard work, dedication, and continuing efforts to produce and improve the quality of this report are a direct benefit to all that read and use it. We would also like to commend each County department for their cooperation and assistance throughout the year in the efficient administration and commitment to the vision, mission and goals of Buncombe County Government. We also thank Gould Killian CPA Group, P.A., Certified Public Accountants for their hard work and assistance with this report.

Recognition and appreciation are also extended to the Board of County Commissioners for their leadership and dedication to serving the people of Buncombe County. This report is a testament to their continued support and desire for maintaining the highest standards in fiscal management and accountability.

Respectfully submitted,



Wanda S. Greene, PhD, CPA
County Manager



Donna B. Clark
Finance Director