

Management's Discussion and Analysis

As management of Buncombe County (the County), we offer readers of the financial statements this overview and analysis of the financial activities for the fiscal year ended June 30, 2008. We encourage readers to consider the information here in conjunction with additional information we have furnished in the County's financial statements, which follow this discussion and analysis.

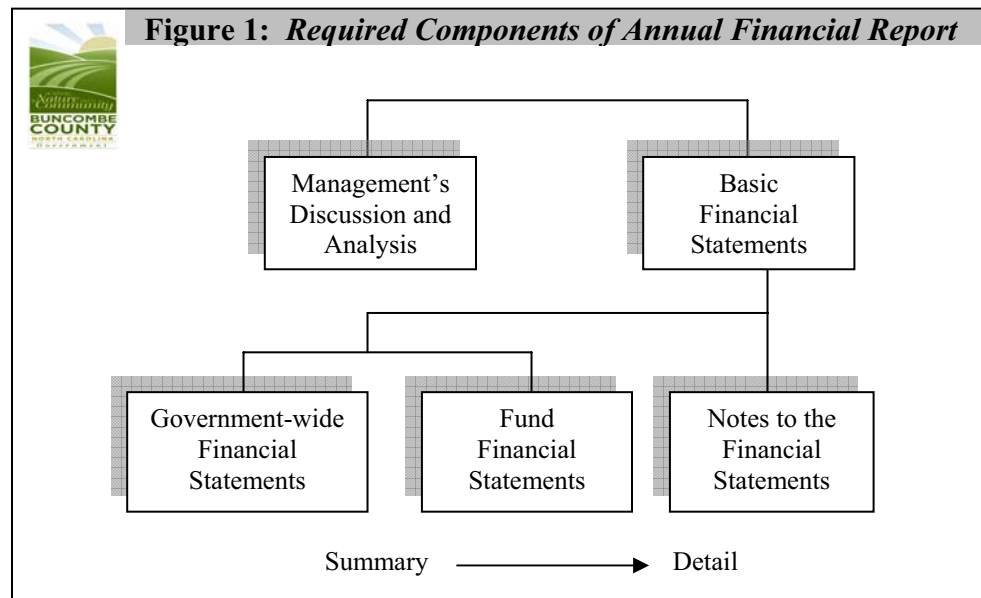
Financial Highlights for Fiscal Year 2008

- On the government-wide statements the assets of the County exceeded the liabilities at the close of the most recent fiscal year by \$110 million (net assets). In accordance with North Carolina law, liabilities of the County include approximately \$116.1 million in long-term debt associated with assets belonging to the Buncombe County Board of Education, the City of Asheville Board of Education, the Asheville-Buncombe Community College, and the Asheville Regional Airport. As these assets are not reflected in the County's financial statements and the full amount of the long-term debt is reported, the County reports a net deficit in governmental unrestricted net assets.
- The County's total net assets including prior period adjustments increased by \$20.2 million. Net assets in the governmental activities increased by \$17.4 million. This is attributable to an increase in program revenues, particularly operating grants and contributions; an increase in general revenues, with property tax accounting for the majority of the increase; and controlled spending in all functional areas, especially human services and economic development.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$121.7 million, an increase of \$0.2 million over the prior year. Including prior period adjustments, approximately 76.0 percent of this total amount, or \$92.6 million of ending fund balance, is unreserved fund balance and is available for spending at the government's discretion.
- At the end of the current fiscal year, the County's unreserved fund balance for the General Fund was \$46.6 million or 17.8 percent of the total general fund expenditures and transfers for the fiscal year. This compares with \$47.8 million or 19.8 percent at the end of fiscal year 2007. The fund balance decrease is a result of increased expenditures of \$19.9 million or 8.2 percent over the previous year in public safety, human services and education.
- The County maintained bonds ratings of Aa2 and AA with Moody's and Standard & Poor's, respectively.
- Certificates of Participation and an interim loan were used to fund \$28.9 million of capital projects.

- As of June 30, 2008, the maturities of investments in the County’s portfolio averaged 135 days. The average yield on investments was 4.17 percent.
- Fiscal year 2007 represents the 29th consecutive year the County’s Comprehensive Annual Financial Report received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County’s basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. See Figure 1. 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 readers’ understanding of the fiscal condition of the County.



Government-wide Financial Statements. The government-wide financial statements are designed to provide the reader with a broad overview of the County’s finances, similar in format to a financial statement of a private-sector business. These statements are prepared under the full-accrual basis of accounting where all the current year’s revenues and expenses are included regardless of when cash is received or paid. The government-wide statements provide short and long-term information about the County’s financial status as a whole. The two government-wide statements report the County’s net assets and how they have changed. The Statement of Net

Assets and the Statement of Activities help to determine if the County is in a better financial position as a result of the current year's activities.

The Statement of Net Assets reflects the County's net assets at the end of the fiscal year. The net assets of the County are the difference between total assets (what is owned) and total liabilities (what is owed). Measuring net assets is one way to evaluate the County's financial condition. However, other non-financial information such as changes in the County's property tax base and the condition of capital assets should be considered as well.

The Statement of Activities reflects the changes in the County's net assets that occurred during the fiscal year. These changes in net assets are reported immediately when an underlying event causes a change, regardless of timing or related cash flows. Accordingly, revenues and expenses are reported for some items that will only result in cash flows in future fiscal years (i.e. uncollected property taxes and earned but unused vacation leave).

The government-wide financial statements are divided into the following three types of activities:

Governmental activities – These activities of the County include general government, public safety, human services, economic and physical development, education, and cultural and recreation.

Business-type activities – The County charges fees to recover the costs associated with providing certain services. These activities include the parking deck, inmate commissary/welfare, human services facilities, and solid waste disposal.

Component units – The government-wide financial statements include not only the County of Buncombe (known as the primary government), but also a legally separate airport, a legally separate tourism development authority, a legally separate sanitary district, and a legally separate air quality agency for which the County of Buncombe is financially accountable. Financial information for these component units is reported separately from the financial information for the primary government.

The government-wide financial statements are on pages 17-20 of this report.

Fund Financial Statements. The fund financial statements provide a more detailed look at the County's most 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 demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and agency funds.

Governmental Funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using the modified accrual accounting method

which provides a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps determine if there are more or less financial resources available to finance the County's programs. The relationship between government activities (reported on the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The County adopts an annual budget for its General Fund as required by the 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 of Commissioners 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 complies with the budget ordinance and whether or not the County succeeds in providing 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 difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – The County has two kinds of 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 its solid waste, human services facilities, and inmate commissary/welfare operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the functions of the County. The County uses an internal service fund to account for one activity – its employee health insurance program. Because this operation benefits predominately governmental rather than business-type activities, the internal service fund has been included with the governmental-type activities in the government-wide financial statements.

Agency Funds – Agency funds are used to account for assets held on behalf of others. The County has seven agency funds.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The County has a fiduciary fund to account for assets set aside to fund future health insurance benefits for retirees.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 32-71 of this report.


Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the County's progress in funding its obligation to provide health insurance benefits to retirees and pension benefits to its

law enforcement officers. Required supplementary information can be found beginning on page 72 of this report.

Government-wide Financial Analysis

As noted earlier, net assets over time may serve as a useful indicator of a government's financial position. As shown in Figure 2, assets exceeded liabilities by \$109.6 million at June 30, 2008. Net assets for the County are reported in three categories: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The invested in capital assets, net of related debt category is defined as the County's investment in County owned capital assets (e.g. land, buildings, automotive equipment and office and other equipment), less any related debt still outstanding that was issued to acquire those assets. The amount as of June 30, 2008 was \$97.4 million. 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 resources, since the capital assets cannot be used to liquidate these liabilities. See Figure 2 below.

 **Figure 2: Net Assets (in millions)**

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$154.0	\$152.3	\$32.8	\$23.1	\$186.8	\$175.4
Capital assets	112.6	98.8	49.9	41.9	162.5	140.7
Total assets	266.6	251.1	82.7	65.0	349.3	316.1
Long-term liabilities outstanding	184.2	187.3	33.8	20.3	218.0	207.6
Other liabilities	19.4	18.2	2.3	0.9	21.7	19.1
Total liabilities	203.6	205.5	36.1	21.2	239.7	226.7
Net assets:						
Invested in capital assets, net of related debt	66.9	63.8	30.5	28.6	97.4	92.4
Restricted	1.4	1.3	9.0	6.4	10.4	7.7
Unrestricted	(5.3)	(19.5)	7.1	8.8	1.8	(10.7)
Total net assets	\$63.0	\$45.6	\$46.6	\$43.8	\$109.6	\$89.4

The restricted portion of the County's net assets, which was \$10.4 million at June 30, 2008, represents resources that are subject to external restrictions on how the funds may be used.

The unrestricted net assets at June 30, 2008 totaled \$1.8 million. However, the governmental activities unrestricted net reflects a deficit balance of \$5.3 million. As with many counties in the State of North Carolina, the County's deficit in the governmental activities unrestricted net assets is due to the portion of the County's outstanding debt incurred for the Buncombe County Board of Education and the City of Asheville Board of Education (the "school systems"), community college, and airport authority. Under North Carolina law, the County is responsible for providing capital funding for the two local school systems, a community college, and the airport authority. The County has chosen to meet its legal obligation to provide the school systems, community college, and airport authority capital funding by using a mixture of County funds and general obligation debt. The assets funded by the County, however, are owned and utilized by the school systems, community college, and airport authority. Since the County, as the issuing government, acquires no capital assets, the County has incurred a liability without a corresponding increase in assets.

At the end of the fiscal year, approximately \$116.1 million of the outstanding debt on the County's financial statements was related to assets included in the financial statements of the school systems, community college, and the airport authority. \$70.5 million of this debt is general obligation debt, which is collateralized by the full faith, credit, and taxing power of the County. Accordingly, 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. The remaining \$45.6 million of this debt is installment purchase debt, which is collateralized by the purchased or constructed asset.

The impact of the inclusion of the school systems, community college, and airport authority debt without the corresponding assets was offset by the following positive operational initiatives and results:

- An increase in total assets.
- A property tax collection rate of 99.13 percent.
- Actual expenditures, transfers, and other financing uses in the general fund less than the budgeted amount by \$6.6 million.
- Revenues and other financing sources in the general fund exceeding expenditures by \$12 million.

Governmental activities: Governmental activities increased the County's net assets by \$17.4 million (see Figure 7 on page 11.) This increase reflects positive operating results from both program and general revenues. Net program expenses increased by \$8 million. As can be seen in Figure 3, the net expense is mostly attributable to education, human services, and public safety services provided by the County. Figure 4 illustrates the major sources of revenue for the County, including both program and general revenues. Over 65.5 percent of the County's revenues are from property and sales taxes collected.

Figure 3: Buncombe County Expenses and Program Revenues - Governmental Activities (in millions)

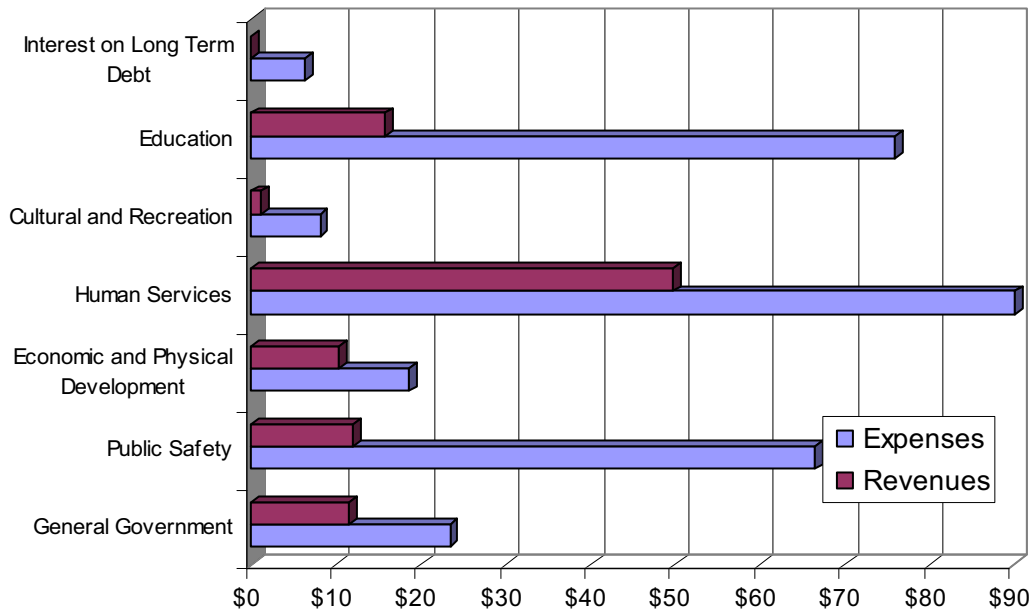
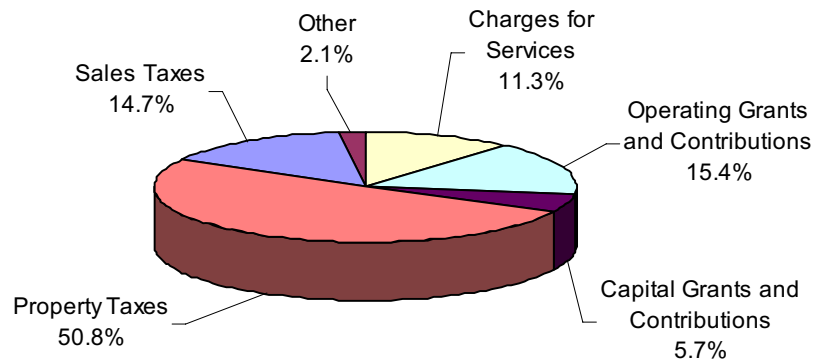


Figure 4: Revenues By Source - Governmental Activities



Business-type activities: Net assets in the business-type activities increased by \$2.8 million. The \$0.7 million positive results in non-operating revenues and the \$0.8 million positive results in Solid Waste expenditures account for the majority of this increase.

See Figures 5 and 6 below, and Figure 7 on the following page.

Figure 5: Buncombe County Expenses and Program Revenues - Business-Type Activities (in millions)

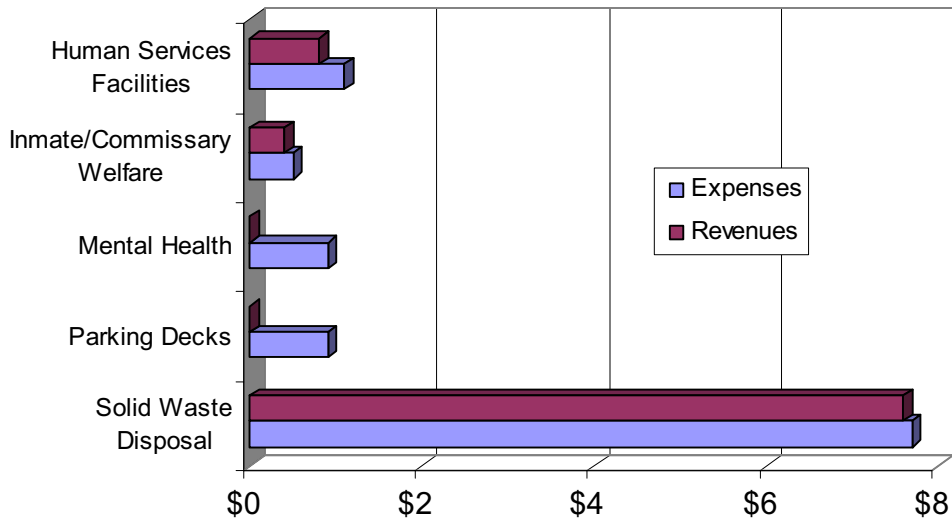


Figure 6: Revenues By Source- Business-Type Activities

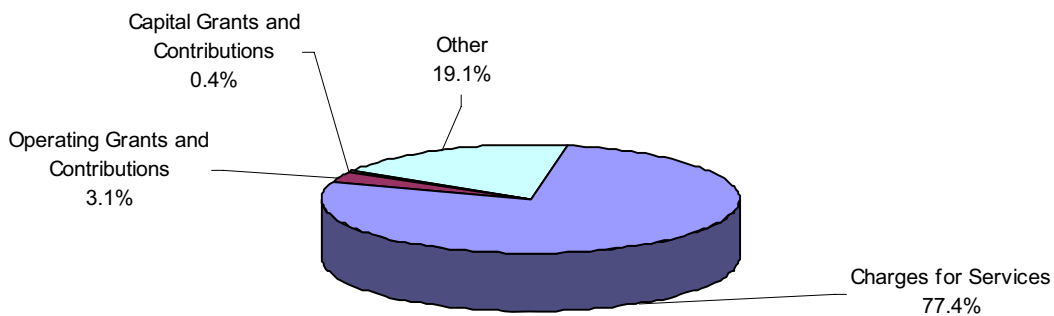




Figure 7: Changes in Net Assets (in millions)

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for services	\$35.1	\$34.2	\$8.4	\$8.2	\$43.5	\$42.4
Operating grants and contributions	47.8	44.2	0.3	0.3	48.1	44.5
Capital grants and contributions	17.6	16.9	.1	-	17.7	16.9
General revenues:						
Property taxes	157.6	152.8	-	-	157.6	152.8
Other taxes	45.6	43.9	-	-	45.6	43.9
Other	6.5	7.5	2.1	1.4	8.6	8.9
Total Revenues	310.2	299.5	10.9	9.9	321.1	309.4
Expenses:						
General government	23.4	22.5	-	-	23.4	22.5
Public safety	68.0	58.2	-	-	68.0	58.2
Economic and physical development	18.6	14.7	-	-	18.6	14.7
Human services	90.1	81.5	-	-	90.1	81.5
Culture and recreation	8.1	6.9	-	-	8.1	6.9
Education	75.9	91.9	-	-	75.9	91.9
Interest on long-term debt	6.3	6.7	-	-	6.3	6.7
Solid waste disposal	-	-	7.7	6.9	7.7	6.9
Other	-	-	3.4	3.2	3.4	3.2
Total expenses	290.4	282.4	11.1	10.1	301.5	292.5
Increase (decrease) in net assets before transfers, contributions, and special item	19.8	17.1	(0.2)	(0.2)	19.6	16.9
Transfers, contributions, and special item	(3.0)	(2.0)	3.0	2.0	-	-
Increase (decrease) in net assets	16.8	15.1	2.8	1.8	19.6	16.9
Net assets, beginning of year	45.6	31.0	43.8	42.0	89.4	73.0
Prior period adjustment	0.6	(0.5)	-	-	0.6	(0.5)
Net assets, end of year	\$63.0	\$45.6	\$46.6	\$43.8	\$109.6	\$89.4

Financial Analysis of the County's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the County's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year. The County's governmental fund types include the General Fund, Special Revenue Funds, and Capital Project Funds. Major funds include the General Fund, the County Capital Projects Fund, and the School Capital Commission Fund. The remaining governmental funds are considered non-major.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$46.6 million compared to \$47.8 million at the end of the prior fiscal year. Total fund balance at June 30, 2008 was \$68 million in comparison to \$67.2 million at June 30, 2007. As a measure of the general fund's liquidity, it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers. Unreserved fund balance represents 17.8 percent of total General Fund expenditures and transfers as opposed to 19.8 percent for the preceding fiscal year. Total fund balance represents 26.5 percent of that same amount compared to 27.8 percent at the end of the prior year. The \$0.8 million growth in fund balance is due the positive operating results in revenues, expenditures and transfers.

The County Capital Project Fund accounts for capital asset construction or acquisition. Upon completion these assets will be owned by the County. Total fund balance increased \$4.4 million in fiscal year 2008 as a result of transfers from other funds for future projects.

The School Capital Commission Fund accounts for revenue restricted for public school capital outlay projects. The total fund balance increased \$2.9 million because revenues collected exceeded project expenditures for the fiscal year.

At June 30, 2008, the governmental funds of the County reported a combined fund balance of \$121.7 million, compared to \$121.5 million last year.

Proprietary Funds. The County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. At the end of the fiscal year, unrestricted net assets of \$8.7 million were reported in the Solid Waste Disposal Fund; \$2.3 million in the Human Services Facilities Fund; and \$(6.0) million for the Parking Deck Fund. The other proprietary funds unrestricted net assets totaled \$2.1 million. The Internal Service Fund unrestricted net assets equaled \$11.5 million.

General Fund Budgetary Highlights. The County revised the 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. Total amendments to the General Fund increased revenues and expenditures by \$23.3 million or 9.5 percent.

The actual operating revenues and transfers for the General Fund were \$2.9 million more than the budgeted amount. Actual operating expenditures and transfers were less than the budgeted amount by \$6.6 million, thus eliminating the need to draw upon existing fund balance.

Capital Asset and Debt Administration

Capital Assets. The County's investment in capital assets, net of accumulated depreciation for its governmental and business-type activities as of June 30, 2008 totals \$162.5 million, as shown in Figure 8. These assets include land, buildings and improvements, equipment, automotive equipment, and construction in progress. The total increase in the County's capital assets for fiscal year 2008 was 15.4 percent (a 13.8 percent increase for governmental activities and a 19.3 percent decrease for business-type activities).

	Figure 8: Capital Assets- Net of Depreciation (in millions)					
	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$8.1	\$6.6	\$6.3	\$6.3	\$14.4	\$12.9
Buildings and improvements	44.2	42.1	20.2	21.5	64.4	63.6
Equipment	11.1	13.5	0.9	0.3	12.0	13.8
Automotive equipment	4.6	2.4	0.2	0.2	4.8	2.6
Construction in progress	44.5	34.3	22.4	13.6	66.9	47.9
Total capital assets	\$112.5	\$98.9	\$50.0	\$41.9	\$162.5	140.8

Additional information on the County's capital assets can be found in Note 3(5) on page 47 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2008, the County has total debt outstanding of \$202.4 million, of which \$76.5 million is debt backed by the full faith and credit of the County. The remainder is special obligation revenue bonds of \$11.4 million for which revenues are pledged to the payment of and as security for the bonds and installment notes of \$114.5 million for which the asset purchased or constructed is collateral for the note. A summary of long-term debt is shown in Figure 9.



Figure 9: Outstanding Debt (in millions)

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	\$76.5	\$85.6	\$ -	\$ -	\$76.5	\$85.6
Special Obligation Revenue Bonds	-	-	11.4	13.2	11.4	13.2
Installment Notes Payable	99.5	94.6	15.0	0.1	114.5	94.7
Total debt	\$176.0	\$180.2	\$26.4	\$13.3	\$202.4	\$193.5

The County's total long-term debt increased by \$8.9 million or 4.6 percent during the past fiscal year. The increase is a result of two debt issuances during the year. Certificates of Participation were issued for \$22.25 million to fund construction of the College Street parking deck, an animal shelter, an EOC Garage, a repair to the detention facility, and landfill equipment. An interim installment financing contract was issued to fund an addition to the animal shelter and a County government building. The interim loan will be paid with the proceeds of the Certificates of Participation to be issued in 2008.

The bond ratings are a clear indication of the sound financial condition of the County, which helps to keep interest costs low on the County's outstanding debt. The County maintained bond ratings of Aa2 and AA with Moody's and Standard & Poor's, respectively. This excellent rating insures low interest rates on the County's debt.

The State of North Carolina limits the amount of general obligation debt that the unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the County is \$2 billion. The County has \$915,000 in bonds authorized but not issued at June 30, 2008.

Additional information regarding the County's long-term debt can be found in Note 3(8) starting on pages 59 of this report.

Economic Factors Effecting Next Year's Budget and Rates

The County has approved a \$255.6 million general fund budget for fiscal year 2009, which represents a 5 percent decrease over the 2008 final budget. The tax rate remained unchanged at 52.5 cents per \$100 of assessed valuation.

The following factors were considered when developing the 2009 budget:

- The main objective of the Board of Commissioners to reduce the tax burden for the property owner and to save money and operate the County more efficiently.
- An average growth rate of 3 percent for property tax revenues.

- A slowing economy resulting in a decline in the growth rate of sales tax revenue.
- A decline in home sales and residential construction.
- The need for a conservative approach for revenue estimates due to the level of State and Federal funding. As grants are realized throughout the year, the budget is amended to reflect the increased revenues.
- Major increases in the cost of utilities and fuel, the continued rise in health care costs, increases to current operating budgets for public schools and community college, and state mandates for public assistance.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, PO Box 7526, Asheville, NC 28802.

Questions concerning the Asheville Regional Airport Authority may be addressed to the Director of Administration and Finance at PO Box 817, Fletcher, NC 28732.