

BUNCOMBE COUNTY, NORTH CAROLINA

Notes to the Financial Statements

For the Year Ended June 30, 2007

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Buncombe County and its discretely presented component units conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

(A) Reporting Entity

The County, which is governed by a five-member board of commissioners, is one of the 100 counties established in North Carolina under North Carolina General Statute 153A-10. As required by generally accepted accounting principles, these financial statements present the County and its component units, legally-separate entities for which the County is financially accountable. Buncombe County Industrial Facility and Pollution Control Financing Authority (the Authority) exists to issue and service revenue bond debt of private businesses for economic development purposes. The Authority has no financial transactions or account balances; therefore, it is not presented in the basic financial statements. The Asheville Regional Airport Authority (the Airport Authority), which has a June 30 year-end, is presented as if it is a separate proprietary fund of the County (discrete presentation). Buncombe County Tourism Development Authority (the Development Authority), Avery's Creek Sanitary District (the District), and Western North Carolina Regional Air Quality Agency (the Agency), which have a June 30 year-end, are presented as if they are separate governmental funds of the County (discrete presentation). The discretely presented component units presented below are reported in a separate column in the County's financial statements in order to emphasize that they are legally separate from the County.

Component Unit	Reporting Method	Criteria for Inclusion	Separate Financial Statements
Buncombe County Industrial Facility and Pollution Control Financing Authority	Discrete	The Authority is governed by a seven-member board of commissioners that is appointed by the county commissioners. The County can remove any commissioner of the Authority with or without cause.	None issued (no amounts have been presented because no financial transactions or account balances exist).
Asheville Regional Airport Authority	Discrete	The Airport Authority was established by a joint agreement between the City of Asheville and the County pursuant to State statute. The governing authority is selected by the County Commissioners and the Asheville City Council. The County is responsible for financing any operating deficits of the Airport Authority and the County must approve issuance of any revenue bonds. The County has also issued general obligation bonds for improvement of the Airport Authority's facilities.	Asheville Regional Airport Authority Post Office Box 817 Fletcher, NC 28732

<p>Buncombe County Tourism Development Authority</p>	<p>Discrete</p>	<p>The Development Authority is governed by members appointed by the County Commissioners, the Asheville City Council, and the Asheville Area Chamber of Commerce. The Development Authority derives its revenues through a special room occupancy tax which is authorized by, and may be repealed by, the decision of the County Commissioners.</p>	<p>Tourism Development Authority Post Office Box 1010 Asheville, North Carolina 28812</p>
<p>Avery's Creek Sanitary District</p>	<p>Discrete</p>	<p>The District is governed by a five-member board elected by the constituents of the District every four years. The District receives some delinquent taxes from a levy in fiscal year 1986-87 and otherwise derives its revenues from sewer taps and assessment fees. The County has financial accountability as a result of fiscal dependency of the District. The District's budget is included in the County's annual budget process.</p>	<p>None issued.</p>
<p>Western North Carolina Regional Air Quality Agency</p>	<p>Discrete</p>	<p>The Agency was established by an interlocal agreement between the City of Asheville and the County pursuant to State statute. The governing authority is selected by the County Commissioners and the Asheville City Council. The County and the city are responsible for financing any operating deficits of the Agency and the County shall provide personnel and financial services in that all employees of the Agency shall be County employees subject to the Buncombe County personnel plan in all respects except for the Agency Director which shall serve at the pleasure of the Agency Board. The County will also provide financial, payroll and bookkeeping services for the Agency with cost of services and personnel to be reimbursed by the Agency in accordance with the County cost allocation plan. The Agency's budget is included in the County's annual budget process.</p>	<p>None issued.</p>

(B) Basis of Presentation, Basis of Accounting**Basis of Presentation, Measurement Focus – Basis of Accounting**

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities; however, interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The County reports the following major governmental funds:

General Fund: This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

County Capital Projects Fund: This fund is used to account for capital asset construction from general government resources and financing. Assets constructed from this fund will be owned by the County.

School Bond Fund: This fund accounts for the public school projects constructed with the proceeds of the \$45 million general obligation school bonds authorized in the year 2000 and \$42 million in installment note financing in 2005 and 2006. Once constructed, the assets will be capitalized by the local school units.

The County reports the following major enterprise funds:

Solid Waste Disposal Fund: This fund accounts for landfill activities including disposal and recycling operations.

Human Services Facilities Fund: This fund accounts for the rental and management of buildings used by mental health service providers.

The County reports the following fund types:

Internal Service Fund: The Internal Service fund is used to account for the accumulation and allocation of costs associated with the County's self-insured group health and dental insurance program.

Agency Funds: Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the County holds on behalf of others. The County maintains the following agency funds:

The Social Services Fund, which accounts for monies deposited with the Department of Social Services for the benefit of certain individuals; the Inmate Trust Fund, which accounts for the revenues and expenditures of activity funds belonging to inmates during the period of incarceration; the General Agency Accounts, which account for ad valorem and local option sales taxes collected for other taxing units; the Sondley Estate Trust, which accounts for certain monies held by the County which was appointed as fiscal agent by the Courts; the Buncombe County Anticrime Task Force, which accounts for forfeiture and controlled substance tax earmarked for the Buncombe County Anticrime Task Force; the Sheriff's Forfeiture and Controlled Substance Fund, which accounts for forfeiture and controlled substance tax earmarked for the Sheriff's Department; and the NC Motor Vehicle Interest Fund, which accounts for the three percent interest on the first month of delinquent motor vehicle taxes that the County is required to remit to the North Carolina Department of Motor Vehicles.

Measurement Focus, Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the County are maintained during the year using the modified accrual basis of accounting.

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus, except for the agency funds which have no measurement focus. The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital

grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The County considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Under State law (as of January 1, 1993), the County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities and special tax districts in the County. For those motor vehicles registered under the staggered system and for vehicles newly registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, taxes for vehicles registered from March 2006 through February 2007 apply to the fiscal year ended June 30, 2007. Uncollected taxes that were billed during this period are shown as a receivable on these financial statements. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annually registration expired December 31st each year with taxes due by May 1st of the following year. To transition from the staggered into the annual registration, the initial 2007 registration renewals will vary from 7 to 18 months after December 31, 2006. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system.

Sales taxes collected and held by the State at year-end on behalf of the County are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement

grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and enterprise funds of the County follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

(C) Budgetary Data

The County's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Special Districts Volunteer Fire Departments, Emergency Telephone System, Occupancy Tax, Capital Reserve, Workforce Investment Act, Register of Deeds Automation, and Grant Projects Special Revenue Funds and the Enterprise Funds.

All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Capital Projects Funds. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$10,000. The governing board must approve all amendments. The County Manager is authorized by the budget ordinance to transfer appropriations between functional areas within a fund up to \$10,000 per expenditure; however, any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$10,000 per expenditure must be approved by the governing board. Budgetary transfers by the Manager must be reported to the County Commissioners at the next board meeting and recorded in the minutes. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

(D) Assets, Liabilities, and Fund Equity

(1) Deposits and Investments

All deposits of the County, Asheville Regional Airport Authority, Buncombe County Tourism Development Authority, Avery's Creek Sanitary District, and Western North Carolina Regional Air Quality Agency (Agency) are made in board-designated official depositories and are secured as required by G.S. 159-31. The County, Airport Authority, Tourism Development Authority, Sanitary District, and Agency may designate as an official depository any bank or savings association whose principal office is located in North Carolina. Also, the County, Airport Authority, Tourism Development Authority, Sanitary District and Agency may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the County, Airport Authority, Tourism Development Authority, Sanitary District, and Agency to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The County, Airport Authority, Tourism Development Authority, Sanitary District, and Agency's investments with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

(2) Cash and Cash Equivalents

The County pools monies from several funds to facilitate disbursement and investment and to maximize the investment income. Therefore, all cash and investments with an original maturity of six months or less are essentially demand deposits and are considered cash and cash equivalents. Unrestricted cash totaling \$15,602,395 and restricted cash of \$6,432,817 make up the \$22,035,212 reported in the statement of cash flows for the Proprietary Funds. Asheville Regional Airport Authority considers demand deposits and investments purchased with an original maturity of three months or less, which are not limited as to use, to be cash and cash equivalents.

(3) Restricted Assets

The unexpended bond proceeds of the County Capital Projects, School Bond, School Capital Commission, and Special Revenue Capital Projects Funds are classified as restricted assets within the governmental funds because their use is completely restricted to the purpose for which the bonds were originally issued.

Restricted cash and cash equivalents of \$6,432,817 in the Enterprise Funds are reserved for landfill closure and post closure.

Receivables of the Asheville Regional Airport Authority are classified as restricted assets of the component unit because their use is legally restricted for designated capital projects.

(4) Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1; however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2006.

(5) Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years and the age of individual outstanding balances.

(6) Inventories and Prepaid Items

Inventory is valued at cost, on a first-in, first-out basis for Governmental Funds. Inventory consists of expendable items, including pharmaceutical and general supplies and items held for sale. The costs of governmental fund type inventories are recorded as expenditures at the time the individual inventory items are consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

(7) Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The minimum capitalization cost is \$5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. No infrastructure assets were acquired prior to the implementation of GASB 34.

Capital assets of the County and Western North Carolina Regional Air Quality Agency are depreciated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	30
Improvements	20
Furniture and equipment	5-10
Vehicles	1-5

Capital assets of the Airport Authority are depreciated on a straight-line basis over the following useful lives:

	<u>Years</u>
Leasehold improvements	5-40
Public safety and maintenance equipment	3-20
Vehicles	3-20
Furniture	5-10

Capital assets of the Avery's Creek Sanitary District are depreciated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Improvements	30-50

(8) Long-term Obligations

In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements for governmental fund types, the face amount of debt issued is reported as an other financing source.

(9) Compensated Absences

County personnel policies permit an employee to accumulate vacation earned during the latest two years of service before such entitlement expires. In addition, non-exempt employees who work beyond the normal working day in conducting County business earn compensatory time at one and one-half hours for each hour actually worked. Upon termination any unexpired entitlement is due to the employee. For the County's government-wide financial statements and proprietary fund types in the fund financial statements, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. Airport personnel policies permit an employee to earn vacation as of January 1 of the related calendar year. Any unused vacation as of December 31 is forfeited. Upon termination, any unexpired vacation pay is due the employee.

The County's and the Airport Authority's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither entity has any obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made by the County or its component unit.

(10) Net Assets/Fund Balances**Net Assets**

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts the appropriation of fund balance to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved for inventories - portion of fund balance not available for appropriation because it represents the year-end balance of ending inventories, which are not expendable available resources.

Reserved for encumbrances - portion of fund balance available to pay for any commitments related to purchase orders and contracts which remain unperformed at

year-end.

Reserved by State statute - portion of fund balance in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law [G.S. 159-13(b)(16)]. This amount is usually comprised of accounts receivable and interfund receivables that are not offset by deferred revenues.

Reserved for Wireless 911 expenditures - portion of fund balance available for the lease, purchase or maintenance of emergency telephone equipment for the wireless enhanced 911 systems (including necessary computer hardware, software and database provisioning), the nonrecurring cost of establishing a wireless enhanced 911 system, and rates associated with the local telephone companies' charges related to the operation of the wireless enhanced 911 system.

Unreserved:

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

Designated for construction in progress – portion of fund balance designated by the County Commissioners for future capital projects.

(E) Reconciliation of Government-wide and Fund Financial Statements

- (1) Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government – wide statement of net assets. The net adjustment consists of several elements as follows:

Description	Amount
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column)	\$ 143,870,167
Less accumulated depreciation	<u>(45,000,793)</u>
Net capital assets	98,869,374
Accrued interest receivable less the amount claimed as unearned revenue in the government-wide statements as these funds are not available and therefore deferred in the fund statements	741,647
Liabilities for revenue deferred but earned and therefore recorded in the fund statements but not the government-wide	706,367

Description	Amount
The assets and liabilities of the internal service fund, which is used by management to charge the cost of insurance to individual funds, are included in governmental activities in the statement of net assets	10,972,320
Deferred charges related to advance refunding bond issued – included on government-wide statement of net assets but are not current financial resources	496,819
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:	
Bonds, leases, and installment financing	(180,204,257)
Compensated absences	(4,862,365)
Accrued pension obligation	(1,207,159)
Accrued interest payable	(1,375,166)
	<u>\$ (75,865,420)</u>

- (2) Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The net adjustment consists of several elements as follows:

Description	Amount
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities (including prior period adjustment)	\$ 18,206,640
Cost of disposed assets not recorded in fund statements	(1,580,001)
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements	(6,847,483)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net assets in the government-wide statements	17,539,683
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements.	
Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual)	530,793
Amortization of refunding costs not recorded on fund statements	(56,916)
Pension obligations are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(62,132)

Description	Amount
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(355,577)
Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements.	
Difference in interest revenue between fund statements (modified accrual) and government-wide statements (full accrual)	347,903
Reversal of deferred revenues other than property taxes recorded at 7/1/06	(103,691)
Recording of property taxes deferred in fund statements as of 6/30/07	706,368
Net revenue, including transfers, of internal service funds determined to be governmental type	1,549,409
Total adjustment	<u>\$ 29,874,996</u>

(F) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Detail Notes on All Funds**(A) Assets****(1) Deposits**

All deposits of the County, Airport Authority, Tourism Development Authority, Avery's Creek Sanitary District and Western North Carolina Regional Air Quality Agency are either insured or collateralized by using the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the County, Airport Authority, Tourism Development Authority, Avery's Creek Sanitary District and Western North Carolina Regional Air Quality Agency, these deposits are considered to be held by their agents in the entities' names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the County, Airport Authority, Tourism Development Authority, Avery's Creek Sanitary District, and Western North Carolina Regional Air Quality Agency or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the County, Airport Authority, Tourism Development Authority, Avery's Creek Sanitary District, and Western North Carolina Regional Air Quality Agency under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial

stability for each depository that collateralizes public deposits under the Pooling Method.

In accordance with North Carolina General Statute 159-31(b) and the GFOA Recommended Practices on the Collateralization of Public Deposits, full collateralization is required on deposits at interest and savings certificates of deposit. The County, Tourism Development Authority, Avery's Creek Sanitary District and Western North Carolina Regional Air Quality Agency utilize the pooling method of collateralization and use only banking institutions approved by the North Carolina Local Government Commission. The Airport Authority does not have a policy regarding custodial credit risk for deposits.

At June 30, 2007, the County's (including Western North Carolina Regional Air Quality Agency) deposits had a carrying amount of \$51,418,845 and a bank balance of \$52,632,914. Of the bank balance, \$4,907,500 was covered by federal depository insurance; \$47,725,414 was covered by collateral held under the Pooling Method. These amounts include \$1,962,906 held by the County in its fiduciary capacity for its agency funds.

At June 30, 2007, Buncombe County had \$9,155 cash on hand.

At June 30, 2007, the carrying amount of deposits for the Airport Authority was \$5,237,140 and the bank balance was \$6,298,211. Of the bank balance, \$200,000 was covered by federal depository insurance and \$6,098,211 was covered under the pooling method.

At June 30, 2007, the Tourism Development Authority's deposits had a carrying amount of \$2,629,709 and a bank balance of \$2,676,393. Of the bank balance, \$100,000 was covered by federal depository insurance and \$2,576,393 was covered by collateral held under the Pooling Method.

At June 30, 2007 the Avery's Creek Sanitary District's deposits had a carrying amount and bank balance of \$352,046. Of the bank balance, \$100,000 was covered by federal depository insurance.

(2) Investments

As of June 30, 2007, the County had the following investments and maturities:

Investment Type	Fair Value	Less Than 30			
		Days	1-6 Months	6-12 Months	1-2 Years
US Government Agencies	\$ 30,688,065	\$ 1,402,422	\$ 8,724,454	\$ 494,815	\$ 20,066,374
NC Educational Assistance Authority					
Bonds	12,350,000	12,350,000	—	—	—
Commercial Paper	15,391,614	1,979,489	13,412,125	—	—
Bankers Acceptances	1,413,634	—	1,413,634	—	—
Certificates of Deposit	12,275,811	—	12,275,811	—	—
NC Capital Management Trust- Cash Portfolio	<u>22,398,612</u>	<u>22,398,612</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 94,517,736</u>	<u>\$ 38,130,523</u>	<u>\$ 35,826,024</u>	<u>\$ 494,815</u>	<u>\$ 20,066,374</u>

As of June 30, 2007, the Airport Authority had the following investments and maturities:

Investment Type	Fair Value	Less Than 6 Months
Commercial Paper	\$ 3,909,047	\$ 3,909,047
NC Capital Management Trust Cash	2,846,680	N/A
Total	\$ 6,755,727	\$ 3,909,047

At June 30, 2007, Tourism Development Authority's investments with North Carolina Capital Management Trust were as follows:

	Reported Value	Fair Value
NC Capital Management Trust- Cash Portfolio	\$ 4,951,785	\$ 4,951,785

At June 30, 2007, Avery's Creek Sanitary District's investments with North Carolina Capital Management Trust were as follows:

	Reported Value	Fair Value
NC Capital Management Trust- Cash Portfolio	\$ 268,818	\$ 268,818

During 2007, the County realized no gain or loss from the sale of investments. The calculation of realized gains is independent of the calculation of the net increases in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of the investment reported in the prior year. There were no realized or unrealized gains or losses on the County's, Airport Authority's, Tourism Development Authority's, or Avery's Creek Sanitary District's, investments during 2007.

A reconciliation of deposits and investments to the government-wide financial statements is as follows:

	Primary Government	Airport Authority	Tourism Development Authority	WNC Regional Air Quality
Deposits	\$ 51,418,845	\$ 5,237,140	\$ 2,629,709	\$ -
Cash on hand	9,155	-	-	-
Investments	94,517,736	6,755,727	4,951,785	-
	145,945,736	11,992,867	7,581,494	-
Reported in agency funds and component unit	(2,692,163)	-	-	729,257
	\$ 143,253,573	\$ 11,992,867	\$ 7,581,494	\$ 729,257
Reported on financial statements:				
Cash and cash equivalents	\$ 97,968,745	\$ 8,083,820	\$ 2,629,709	\$ 729,257
Investments	20,561,189	3,909,047	4,951,785	-
Restricted cash	24,723,639	-	-	-
	\$143	\$ 11,992,867	\$ 7,581,494	\$ 729,257

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's investment policy mitigates interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in shorter-term securities. The County's investment policy also requires that the portfolio be diversified by security type and institution as well as limiting all securities to a final maturity of no more than three years.

Credit Risk

The County's policy is to limit investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. State law limits investments in commercial paper to the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligation. As of June 30, 2007, the County's investments in commercial paper were rated P1 by Standard & Poor's, F1 and F1+ by Fitch Ratings, and A1 and A1+ by Moody's Investors Service. The County's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2007. The County's investments in US Agencies are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Buncombe County Investment Policy mitigates custodial credit risk by stating that "all trades where applicable will be executed by Delivery vs. Payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts."

Concentration of Credit Risk

The County limits that the combined investment in commercial paper and bankers' acceptances shall not exceed 25% of the total portfolio and the investment in commercial paper or bankers' acceptances of a single issuer shall not exceed the lesser of 5 million dollars or 5 percent of the total portfolio at the time of investment. The County's combined investment in commercial paper and bankers' acceptances is 12%, with no more than 5 million dollars or 5 percent of the total portfolio at the time of investment in any single issuer.

The County places no other limits on the amount that the County may invest in any one issuer. More than 5 percent of the County's investments are in FHLB, FNMA, and NC State Educational Assistance bonds. These investments are 9%, 8%, and 9% respectively of the County's total investments.

(3) Property Tax - Use-Value Assessment on Certain Lands

In accordance with the general statutes, agriculture, horticulture, and forestland may be taxed by the County at the present-use value as opposed to market value. When the property loses its eligibility for use-value taxation, the property tax is recomputed at market value for the current

year and the three preceding fiscal years, along with the accrued interest from the original due date. This tax is immediately due and payable. The following are property taxes that could become due if present use-value eligibility is lost. These amounts have not been recorded in the financial statements.

Year Levied	Tax	Interest	Total
2004	\$ 1,821,297	\$ 432,558	\$ 2,253,855
2005	1,876,215	276,742	2,152,957
2006	4,281,963	246,213	4,528,176
2007	4,260,438	—	4,260,438
Total	<u>\$ 12,239,913</u>	<u>\$ 955,513</u>	<u>\$ 13,195,426</u>

4) Receivables

Receivables at the government-wide level at June 30, 2007 were as follows:

	Accounts	Taxes and Related Accrued Interest	Due From Other Governments	Total
Governmental Activities:				
General	\$ 2,846,012	\$ 4,050,373	\$ 15,959,192	\$ 22,855,577
County Capital Projects	16,176	—	—	16,176
School Bond	286,216	—	—	286,216
Other Governmental	887,764	883,107	6,701,917	8,472,788
	4,036,168	4,933,480	22,661,109	31,630,757
Allowance for doubtful accounts	(821,881)	(3,237,275)	—	(4,059,156)
Total - governmental activities	<u>\$ 3,214,287</u>	<u>\$ 1,696,205</u>	<u>\$ 22,661,109</u>	<u>\$ 27,571,601</u>
	Accounts	Taxes and Related Accrued Interest	Due From Other Governments	Total
Business-type Activities				
Solid Waste Disposal	\$ 794,184	\$ —	\$ —	\$ 794,184
Other Business-type	33,320	—	—	33,320
	827,504	—	—	827,504
Allowance for doubtful accounts	(62,005)	—	—	(62,005)
Total - business-type activities	<u>\$ 765,499</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 765,499</u>

The due from other governments that is owed to the County consists of the following:

Local option sales tax	\$ 16,265,343
Other	6,395,766
Total	<u>\$ 22,661,109</u>

No allowance for uncollectible accounts has been recorded by the Airport Authority, Tourism Development Authority, Avery's Creek Sanitary District, or Western North Carolina Regional Air Quality Agency.

(5) Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,570,791	\$ 36,673	\$ -	\$ 6,607,464
Construction in process	<u>21,250,160</u>	<u>16,909,558</u>	<u>3,830,037</u>	<u>34,329,681</u>
Total capital assets not being depreciated	<u>27,820,951</u>	<u>16,946,231</u>	<u>3,830,037</u>	<u>40,937,145</u>
Capital assets being depreciated:				
Buildings	67,966,176	716,185	57,616	68,624,745
Other improvements	2,623,613	-	40,000	2,583,613
Equipment	24,011,714	3,206,258	3,114,485	24,103,487
Vehicles	<u>7,432,741</u>	<u>1,043,281</u>	<u>854,845</u>	<u>7,621,177</u>
Total capital assets being depreciated	<u>102,034,244</u>	<u>4,965,724</u>	<u>4,066,946</u>	<u>102,933,022</u>
Less accumulated depreciation for:				
Buildings	26,536,507	2,071,679	51,679	28,556,507
Other improvements	457,680	136,074	3,327	590,427
Equipment	8,797,238	3,448,951	1,592,064	10,654,125
Vehicles	<u>4,848,830</u>	<u>1,190,779</u>	<u>839,875</u>	<u>5,199,734</u>
Total accumulated depreciation	<u>40,640,255</u>	<u>\$ 6,847,483</u>	<u>\$ 2,486,945</u>	<u>45,000,793</u>
Total capital assets being depreciated, net	<u>61,393,989</u>			<u>57,932,229</u>
Governmental activities capital assets, net	<u>\$ 89,214,940</u>			<u>\$ 98,869,374</u>
Business-type activities:				
Solid Waste Disposal				
Capital assets not being depreciated:				
Land	\$ 6,308,519	\$ -	\$ -	\$ 6,308,519
Construction in process	<u>11,908,677</u>	<u>1,175,448</u>	<u>-</u>	<u>13,084,125</u>
Total capital assets not being depreciated	<u>18,217,196</u>	<u>1,175,448</u>	<u>-</u>	<u>19,392,644</u>
Capital assets being depreciated:				
Buildings and improvements	22,675,550	-	-	22,675,550
Equipment	662,102	50,472	25,739	686,835
Vehicles	<u>2,310,106</u>	<u>56,291</u>	<u>76,882</u>	<u>2,310,106</u>
Total capital assets being depreciated	<u>25,647,758</u>	<u>50,472</u>	<u>25,739</u>	<u>25,672,491</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Less accumulated depreciation for:				
Buildings and improvements	\$ 8,994,991	\$ 1,895,496	\$ —	\$10,890,487
Equipment	430,504	30,363	21,650	439,217
Vehicles	1,882,904	185,252	—	2,068,156
Total accumulated depreciation	<u>11,308,399</u>	<u>2,111,111</u>	<u>21,650</u>	<u>13,397,860</u>
Total capital assets being depreciated, net	<u>14,339,359</u>			<u>12,274,631</u>
Solid Waste Disposal capital assets, net	<u>32,556,555</u>			<u>31,667,275</u>
Human Services Facilities				
Capital assets being depreciated:				
Buildings and improvements	<u>10,662,142</u>	<u>—</u>	<u>—</u>	<u>10,662,142</u>
Less accumulated depreciation for:				
Buildings and improvements	<u>567,577</u>	<u>354,185</u>	<u>—</u>	<u>916,762</u>
Human Services Facilities capital assets, net	<u>10,099,565</u>			<u>9,745,380</u>
Other Business-type				
Construction in process	<u>—</u>	<u>534,271</u>	<u>—</u>	<u>534,271</u>
Capital assets being depreciated:				
Maintenance equipment	<u>8,351</u>	<u>—</u>	<u>8,351</u>	<u>—</u>
Vehicles	<u>18,175</u>	<u>—</u>	<u>18,175</u>	<u>—</u>
Total capital assets being depreciated	<u>26,526</u>	<u>—</u>	<u>26,526</u>	<u>—</u>
Less accumulated depreciation for:				
Maintenance equipment	<u>5,379</u>	<u>405</u>	<u>5,784</u>	<u>—</u>
Vehicles	<u>11,407</u>	<u>295</u>	<u>11,702</u>	<u>—</u>
Total accumulated depreciation	<u>16,786</u>	<u>\$ 700</u>	<u>\$ 17,486</u>	<u>—</u>
Total capital assets being depreciated, net	<u>9,740</u>			<u>—</u>
Other Business-type capital assets, net	<u>9,740</u>			<u>534,271</u>
Business-type capital assets, net	<u>\$ 42,665,860</u>			<u>\$ 41,946,926</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 1,879,602
Public Safety	2,963,896
Economic and Physical Development	63,828
Human Services	1,077,579
Cultural and Recreational	862,578
Total Depreciation Expense	<u>\$ 6,847,483</u>
Business-Type Activities:	
Solid Waste Disposal	\$ 2,111,111
Human Services Facilities	354,185
Other Business-Type	700
Total Depreciation Expense	<u>\$ 2,465,996</u>

Construction commitments

The government has the following commitments with contractors for active construction projects as of June 30, 2007:

Project	Spent-to-date	Remaining Commitment
Detention center	\$ 27,984,650	\$ 3,091,675
EOC building	2,779,486	1,615,142
Animal shelter	72,000	68,800
Crisis stabilization	794,785	287,241
Roof replacement	1,374,774	800,225
Parking deck	566,467	159,831
EPA project – bioreactor	1,430,038	247,959
Total construction commitments	<u>\$ 35,002,200</u>	<u>\$ 6,270,873</u>

Discretely presented component units

The fixed assets of the Asheville Regional Airport for the year ended June 30, 2007, were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 3,725,790	\$ –	\$ –	\$ 3,725,790
Capital projects	<u>2,416,974</u>	<u>5,627,135</u>	<u>4,753,338</u>	<u>3,290,771</u>
Total capital assets not being depreciated	<u>6,142,764</u>	<u>5,627,135</u>	<u>4,753,338</u>	<u>7,016,561</u>
Capital assets being depreciated:				
Leasehold improvements	53,032,870	4,151,516	–	57,184,386
Public safety & maintenance equipment	3,776,157	280,846	–	4,057,003
Furniture	50,080	–	–	50,080
Vehicles	<u>2,365,660</u>	<u>707,488</u>	<u>–</u>	<u>3,073,148</u>
Total capital assets being depreciated	<u>59,224,767</u>	<u>5,139,850</u>	<u>–</u>	<u>64,364,617</u>
Less accumulated depreciation for:				
Leasehold improvements	19,788,848	2,228,314	–	22,017,162
Public safety & maintenance equipment	2,299,040	276,399	–	2,575,439
Furniture	36,641	485	–	37,125
Vehicles	<u>1,935,159</u>	<u>144,568</u>	<u>–</u>	<u>2,079,726</u>
Total accumulated depreciation	<u>24,079,688</u>	<u>\$ 2,649,766</u>	<u>\$ –</u>	<u>26,709,454</u>
Total capital assets being depreciated, net	<u>35,165,079</u>			<u>37,655,163</u>
Asheville Regional Airport capital assets, net	<u>\$ 41,307,843</u>			<u>\$ 44,671,724</u>

Activity for the Avery's Creek Sanitary District for the year ended June 30, 2007, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Improvements	\$ 2,056,471	\$ —	\$ —	\$ 2,056,471
Less accumulated depreciation for:				
Improvements	452,046	<u>\$ 42,144</u>	<u>\$ —</u>	494,190
Avery's Creek Sanitary District capital assets, net	<u>\$ 1,604,425</u>			<u>\$ 1,562,281</u>

Activity for WNC Regional Air Quality for the year ended June 30, 2007, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Equipment	\$ 146,145	\$ 12,480	\$ —	\$ 158,625
Vehicles	168,225	26,294	69,925	124,594
Total capital assets being depreciated	314,370	38,774	69,925	283,219
Less accumulated depreciation for:				
Equipment	140,336	3,913	—	144,249
Vehicles	92,792	20,389	51,141	62,040
Total accumulated depreciation	233,128	<u>\$ 24,302</u>	<u>\$ 51,141</u>	206,289
WNC Regional Air Quality capital assets, net	<u>\$ 81,242</u>			<u>\$ 76,930</u>

(B) Liabilities

(1) Payables

Payables at the government-wide level at June 30, 2007, were as follows:

	Vendors	Salaries and Benefits	Accrued Interest	Total
Governmental Activities:				
General	\$ 6,122,211	\$ 4,879,092	\$ 1,375,166	\$ 12,376,469
County Capital Projects	1,007,045	-	-	1,007,045
School Bond	188,749	-	-	188,749
Other governmental	2,838,272	113,898	-	2,952,170
Total - governmental activities	<u>\$ 10,156,277</u>	<u>\$ 4,992,990</u>	<u>\$ 1,375,166</u>	<u>\$ 16,524,433</u>

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Total</u>
Business-type Activities:				
Solid Waste Disposal	\$ 531,841	\$ 76,098	\$ 190,238	\$ 798,177
Human Services				
Facilities	20,631	8,072	-	28,703
Other business-type	<u>10,929</u>	<u>12,709</u>	<u>-</u>	<u>23,638</u>
Total - Business-type activities	<u>\$ 563,401</u>	<u>\$ 96,879</u>	<u>\$ 190,238</u>	<u>\$ 850,518</u>

(2) Pension Plan Obligations**(a) Local Governmental Employees' Retirement System**

Plan Description. Buncombe County and the Airport Authority contribute to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The County and the Airport Authority are required to contribute at an actuarially determined rate. For the County, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.89% and 4.78%, respectively, of annual covered payroll. For the Airport Authority, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.93% and 7.80%, respectively, of annual covered payroll. Certain County employees assigned to Western North Carolina Regional Air Quality Agency have a current rate of 4.88% of annual covered payroll. The contribution requirements of members and of the County and the Airport Authority are established and may be amended by the North Carolina General Assembly. The County's contributions to LGERS for the years ended June 30, 2007, 2006, and 2005 were \$2,672,285, \$2,556,012, and \$2,061,979, respectively.

The Airport Authority's contributions to LGERS for the years ended June 30, 2007, 2006, and 2005 were \$130,160, \$115,271, and \$92,494, respectively. The contributions made by the County and the Airport Authority equaled the required contributions for each year.

(b) Law Enforcement Officers' Special Separation Allowance

1. Plan Description.

Buncombe County administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the County's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the

General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time County and Airport Authority law enforcement officers are covered by the Separation Allowance. At December 31, 2006, the Separation Allowance's membership consisted of:

	County	Airport Authority
Retirees receiving benefits	16	4
Terminated plan members entitled to but not yet receiving benefits	0	0
Active plan members	203	19
Total	219	23

2. Summary of Significant Accounting Policies.

Basis of Accounting. The County and Airport Authority have chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay these benefits.

Method Used to Value Investments. Investments are reported at fair value. Short-term money market debt instruments, deposits, and repurchase agreements are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price.

3. Contributions.

The County and Airport Authority are required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and have chosen to fund the benefits on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The County's and Airport Authority's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administrative costs of the Separation Allowance are paid as they come due.

The annual required contribution for the current year was determined as part of the December 31, 2006 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2006 was 24 years.

4. Annual Pension Cost and Net Pension Obligation.

The County's and Airport Authority's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

	County	Airport Authority
Annual required contribution	\$ 198,511	\$ 24,101
Interest on net pension obligation	83,014	6,230
Adjustments to annual required contribution	(68,523)	(5,060)
Annual pension cost	213,002	25,271
Contributions made	150,870	42,657
Increase (decrease) in net pension obligation	62,132	(17,385)
Net pension obligation beginning of year	1,145,027	85,928
Net pension obligation end of year	<u>\$ 1,207,159</u>	<u>\$ 68,543</u>

Three-Year Trend Information
for Buncombe County

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 218,164	38.95%	\$ 1,035,527
2006	227,236	51.81	1,145,027
2007	213,002	70.83	1,207,159

for Airport Authority

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 26,048	101.72%	\$ 98,416
2006	26,790	146.61	85,928
2007	25,271	168.79	68,543

(c) Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The County and the Airport Authority contribute to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the County and the Airport Authority. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. Article 12E of G.S. Chapter 143 requires the County and the Airport Authority to contribute each month an amount equal to eight percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2007 were \$745,676, which consisted of \$610,878 from the County and \$134,798 from the law enforcement officers.

(d) Supplemental Retirement Income Plan for Non-Law Enforcement Officers 401(k) Plan

Plan Description. The County contributes to the Supplemental Retirement Income Plan of North Carolina, often referred to as the State's 401(k) Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to employees of the County who are members of the Local Government Employees' Retirement System. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. The Board of Commissioners has directed that the County contribute each month an amount equal to eight percent of each qualified non-law enforcement employee's salary which is vested immediately. Also, the employees may elect to make voluntary contributions to the plan. Contributions for the year ended June 30, 2007 were \$4,728,752 which consisted of \$3,649,919 from the County and \$1,078,833 from the employees. Contributions for the year ended June 30, 2007 were \$122,896, which consisted of \$82,681 from the Airport Authority and \$40,215 from their employees.

(e) Register of Deeds' Supplemental Pension Fund

Plan Description. Buncombe County also contributes to the Register of Deeds' Supplemental Pension Fund (Fund), a noncontributory, defined contribution plan administered by the North Carolina Department of State Treasurer. The Fund provides supplemental pension benefits to any eligible county register of deeds who are retired under the Local Government Employees' Retirement System (LGERS) or an equivalent locally sponsored plan. Article 3 of G.S. Chapter 161 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. On a monthly basis, the County remits to the Department of State Treasurer an amount equal to four and one-half percent (4.5%) of the monthly receipts collected pursuant to Article 1 of G.S. Chapter 161. Immediately following January 1 of each year, the Department of State Treasurer divides ninety-three percent (93%) of the amount in the Fund at the end of the preceding calendar year into equal shares to be disbursed as monthly benefits. The remaining seven percent (7%) of the Fund's assets may be used by the State Treasurer in administering the Fund. For the fiscal year ended June 30, 2007, the County's required and actual contributions were \$89,115.

(f) Firemen's and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of Buncombe County, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers who have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute \$10 per month to the Fund. The State, a nonemployer contributor, funds the plan through appropriations. The State's annual contribution per fireman and rescue squad worker to the Firemen's and Rescue Squad Worker's Pension Fund for the fiscal year ended June 30, 2007 and 2006 was \$223 and \$223, respectively. The State's on behalf contributions are recorded as revenues and expenditures to the County. The County does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

(g) Other Post Employment Benefits

According to a County resolution, the County provides health care benefits to retirees of the County who participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least five years of creditable service with the County. The County pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the County's group rates. Currently 221 retirees are eligible for postretirement health benefits. For the fiscal year ended June 30, 2007, the County made payments for postretirement health benefit premiums of \$2,706,959.

(h) Other Employment Benefits

The County and the Airport Authority have elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, state-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the system at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. All death benefit payments are made from the Death Benefit Plan. The County and the Airport Authority have no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the County or the Airport Authority, the County and the Airport Authority do not determine the number of eligible participants.

For the fiscal year ended June 30, 2007, the County made contributions to the State for death benefits of \$20,929 for employees not engaged in law enforcement, \$4,856 for law enforcement officers, and \$157 for employees assigned to Western North Carolina Regional Air Quality Agency. For the fiscal year ended June 30, 2007, the Authority made contributions to the State for death benefits of \$2,006. The County's required contributions for employees not engaged in law enforcement, for law enforcement officers, and for Western North Carolina Regional Air Quality Agency employees represented .09%, .14%, and .08% of covered payroll, respectively. The Authority's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .11% and .14%, respectively, of covered payroll. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount.

(3) Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfills when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The County reports a portion of closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

The County has met the requirements of a local government financial test that is one option under state and federal laws and regulations that helps determine if a unit is financially able to meet closure and postclosure care requirements. However, the County has also elected to establish a reserve fund to accumulate resources for the payment of closure and postclosure care costs of this landfill. Transfers of \$4,104,186 were made to the Landfill Closures and Postclosure Reserve Fund through June 30, 1997, and those funds, together with cumulative investment earnings are held in investments with a carrying value of \$6,432,817 (market value, \$6,432,817) at year-end. The County expects that future inflation costs will be paid from the investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or by future tax revenues.

Closed Landfill:

Landfill Permit Number 11-01: The previous landfill site of the County was closed on September 26, 1997. The \$2,841,295 reported as landfill postclosure care liability at June 30, 2007, represents the projected actual cost of the closed landfill over the next 22 years based on what it would cost to perform all postclosure care in 2007. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Landfill in Operation:

Landfill Permit Number 11-07: The \$4,058,639 reported as landfill closure and postclosure care liability at June 30, 2007, represents a cumulative amount reported to date based on the use of 18.74 percent of the total estimated capacity of this landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$17,559,751 as the remaining estimated capacity is filled. This amount is based on what it would cost to perform all closure and postclosure care in 2007. The County expects to operate this landfill until at least the year 2031. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The County has met the requirements of a local government financial test that is one option under state and federal laws and regulations that help determine if a unit is financially able to meet closure and postclosure care requirements with respect to this landfill.

(4) Deferred/Unearned Revenues

The balance in deferred or unearned revenues on the fund statements and unearned revenues on the government-wide statement at year-end is composed of the following elements:

	Deferred <u>Revenue</u>	Unearned <u>Revenue</u>
Prepaid taxes not yet earned (General)	\$ —	\$ 860,699
Taxes receivable, net (General)	661,816	—
Taxes receivable, net (Special Revenue)	44,551	—
Other, (Special Revenue)	—	170,610
	<u>\$ 706,367</u>	<u>\$ 1,031,309</u>

(5) Risk Management

The County for several years has operated under a limited risk management posture whereby moderate levels of risk are assumed, stop-loss limits are established, and conventional insurance for protection above these limits is purchased. The County has a scheduled limit on property coverage.

There is primary coverage of \$2,000,000 on general liability, automobile liability, law enforcement officers' professional liability and public officials' liability. Workers compensation has a statutory limit of \$1,000,000. There is a self-insured retention of \$100,000 on property, \$250,000 on liability, and \$300,000/\$350,000 on workers compensation. The County carries a \$5,000,000 commercial flood insurance policy with a \$100,000 self-retention policy.

The risk manager and safety officer work with departments and employees to control losses. Training, accident investigation, transfer, assumption, and avoidance are some of the methods looked at to reduce costs. Employee health and dental programs are self-insured. The County offers a reimbursement plan for the following wellness programs to hold down rising health care costs: Weight Watchers, fitness club memberships, smoking cessation classes, walking programs, Employee Health Clinic, and cancer screenings, including mammograms and prostate screenings. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

The County provides health insurance benefits through a self-insured health insurance plan. The County is protected against catastrophic individual and aggregate loss by stop-loss insurance coverage. The accompanying statement of net assets and balance sheets as of June 30, 2007 includes a loss reserve liability for estimated outstanding medical claims of \$1,671,653. Changes in the health claims liability are presented below:

Year Ended June 30th	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance
2006	\$ 883,735	\$ 12,371,361	\$ 11,949,885	\$ 1,305,211
2007	1,305,211	15,066,968	14,700,526	1,671,653

In accordance with G.S. 159-29, The County's employees that have access to \$100 or more at any given time of the County's funds are performance bonded through a commercial surety bond. The Finance Director, Tax Collector, Register of Deeds, and Sheriff are each individually bonded for \$200,000, \$100,000, \$50,000, and \$20,000, respectively. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

The Airport Authority component unit is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority carries property, general liability, auto liability, employee health and accident, and worker's compensation. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Contingent Liabilities

The County is presently a defendant in several lawsuits and is also subject to potential claims which may arise out of the ordinary conduct of its affairs. It is the opinion of the County's management and the County Attorney that settlement of these matters, if any, will not have a material adverse effect on the County's financial position.

(7) Operating Leases

The County leases certain data processing equipment and other office equipment and facilities. Lease expenditures for the year ended June 30, 2007 amounted to \$1,085,284.

Future minimum lease payments under these operating lease agreements at June 30, 2007 are as follows:

<u>Year Ended June 30th</u>	<u>Amount</u>
2008	\$296,209
2009	181,416
2010	92,386
2011	94,824

(8) Long-Term Obligations

(a) Installment Note Obligations

As authorized by State law [G.S. 160A-20 and 153A-158.1], the County has financed various property acquisitions including general government buildings and facilities, equipment, and vehicles by installment notes, private placement, or certificates of participation (COP's).

<u>Installment Note Obligations</u>	<u>Balance June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Serviced by the Governmental Funds:				
COPS 1998, refunding \$37,020,000 issue, interest at 3.65% to 5.0% payable semiannually to 2012.	\$ 13,890,000	\$ -	\$ 1,730,000	\$ 12,160,000
Building acquisition, 2000 \$1,665,000 issue, interest at 7.35% payable semiannually to 2006.	147,220	-	147,220	-
Criminal justice information system, 2001 \$3,000,000 issue, interest at 4.287% payable semiannually to 2006.	329,430	-	329,430	-
Health patient management system, 2001 \$741,400 issue, interest at 4.4% payable semiannually to 2006.	81,428	-	81,428	-
EMS vehicles, 2003 \$860,424 issue, interest at 2.34% payable semiannually to 2007.	356,413	-	176,049	180,364
COPS 2003, detention center and other improvements, \$19,620,000 issue, interest at 2.0% to 5.0% payable semiannually to 2023.	17,835,000	-	1,425,000	16,410,000
Sheriff vehicles, 2004 \$594,775 issue, interest at 1.83% payable semiannually to 2007.	189,913	-	189,913	-

<u>Installment Note Obligations</u>	<u>Balance June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Sheriff vehicles, 2005 \$755,000 issue, interest at 3.235% payable semiannually to 2008.	\$ 511,367	-	\$ 259,954	\$ 251,413
Server, 2005 \$1,685,000 issue, interest at 3.33% payable semiannually to 2010.	1,369,897	-	325,689	1,044,208
COPS 2005, detention center \$14,500,000 issue, interest at 2.5% to 5.0% payable semiannually to 2025. A premium of \$393,944 is reported as an increase to long-term debt and will be amortized over the life of the debt.	13,775,000	-	720,000	13,055,000
COPS 2006, schools and community college \$51,985,000 issue, interest at 3.375% to 5.0% payable to 2026. A premium of \$2,223,983 is reported as an increase to long-term debt and will be amortized over the life of the debt.	<u>51,985,000</u>	<u>-</u>	<u>3,100,000</u>	<u>48,885,000</u>
Total installment note obligations	<u>\$ 100,470,668</u>	<u>\$ -</u>	<u>\$ 8,484,683</u>	<u>\$ 91,985,985</u>

For Buncombe County, the future minimum payments for installment notes as of June 30, 2007, are:

<u>Year Ended June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 7,736,783	\$ 4,057,639
2009	7,374,570	3,773,669
2010	7,534,632	3,492,610
2011	7,075,000	3,184,679
2012	7,140,000	2,891,207
2013-2017	26,580,000	10,320,752
2018-2022	23,020,000	4,461,740
2023-2026	<u>5,525,000</u>	<u>452,544</u>
Total	91,985,985	<u>\$ 32,634,840</u>
Add unamortized premium	<u>2,652,790</u>	
	<u>\$ 94,638,775</u>	

(b) General Obligation Bond Indebtedness

All general obligation bonds serviced by the County's general fund are collateralized by the full faith, credit, and taxing power of the County. Principal and interest payments are appropriated when due.

Bonds payable at June 30, 2007, are comprised of the following individual issues:

<u>General Obligation Bonds</u>	<u>Balance June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Serviced by the Governmental Funds:				
Airport Bonds, 1991 \$2,000,000 issue, interest at 6% to 6.5% payable semiannually, due serially to 2012.	\$ 600,000	\$ —	\$ 100,000	\$ 500,000
Refunding Bonds, 1993 \$52,870,000 issue, interest at 5.1% payable semiannually, due serially to 2010.	10,815,000	—	3,455,000	7,360,000
Refunding Bonds, 1996 \$5,495,000 issue, interest at 4.5% to 5.0% payable semiannually, due serially to 2011.	2,270,000	—	470,000	1,800,000
Refunding Bonds, 1998 \$3,490,000 issue, interest at 4.4% to 4.6% payable semiannually, due serially to 2009.	1,080,000	—	270,000	810,000
School Bonds, 2000 issue, interest at 4.7% to 5.0% payable semiannually, due serially to 2014.	12,800,000	—	800,000	12,000,000
Public Improvement (Libraries), 2000 \$3,950,000 issue, interest at 4.5% to 4.7% payable semiannually, due serially beginning 2002 to 2009.	2,000,000	—	500,000	1,500,000
Refunding Bonds, 2001 \$12,365,000 issue, interest at 4.0% to 4.4% payable semiannually due serially to 2012.	8,915,000	—	775,000	8,140,000

General Obligation Bonds	Balance June 30, 2006	Increases	Decreases	Balance June 30, 2007
Refunding Bonds, 2002 \$24,500,000 issue, interest at variable rates in the weekly mode payable semiannually, due serially to 2026.	\$ 23,384,000	\$ —	\$ 382,000	\$ 23,002,000
School Bonds, 2002 \$15,000,000 issue, interest at variable rates in the weekly mode payable semiannually, due serially to 2026.	14,316,000	—	218,000	14,098,000
Public Improvement, 2002 \$4,340,000 issue, interest at 4% payable semiannually, due serially to 2014.	1,475,000	—	430,000	1,045,000
Refunding Bonds, 2005 \$12,430,000 issue, interest at 3% to 3.5% payable semi- annually, due serially to 2015.	11,425,000	—	1,270,000	10,155,000
Public Improvement, 2005 \$5,835,000 issue, interest at 3% to 4% payable semi- annually, due serially to 2020.	<u>5,445,000</u>	<u>—</u>	<u>385,000</u>	<u>5,060,000</u>
Total general obligation bonds	<u>\$ 94,525,000</u>	<u>\$ —</u>	<u>\$ 9,055,000</u>	<u>\$ 85,470,000</u>

Annual debt service requirements to maturity for the County's general obligation bonds are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2008	\$ 9,005,000	\$ 3,507,285
2009	8,605,000	3,118,368
2010	8,705,000	2,740,993
2011	6,435,000	2,388,345
2012	6,885,000	2,073,555
2013-2017	23,075,000	6,633,095
2018-2022	13,160,000	3,211,625
2023-2027	<u>9,600,000</u>	<u>768,000</u>
Total	85,470,000	<u>\$ 24,441,266</u>
Add unamortized premium	<u>95,482</u>	
	<u>\$ 85,565,482</u>	

At June 30, 2007, Buncombe County had bonds authorized but unissued of \$915,000 and had a legal debt margin of \$1,916,932,652.

(c) Business-Type Activities Installment Obligations

A privately placed installment note was executed on June 30, 2003 for the purchase of a compactor. The \$473,900 transaction requires ten semi-annual payments of \$50,461 including interest at 2.34%.

The future minimum payments as of June 30, 2007 are:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2008	\$ 99,270	\$ 1,652
Total	<u>\$ 99,270</u>	<u>\$ 1,652</u>

(d) Special Obligation Revenue Bonds

On October 12, 2005, the county issued \$16,140,000 in tax-exempt Special Obligation Revenue Bonds bearing interest payable semi-annually at fixed rates from 2.875% to 4.5%.

The bonds were issued for construction of cell 6 of the solid waste landfill and miscellaneous access roads and drainage structures in the amount of \$7,900,000, and the advance refunding of the series 1996 and series 2000 Special Obligation Revenue Bonds in the amount of \$8,240,000. The proceeds are held by a Trustee until requisitioned for the stated purposes. Revenues pledged to the payment of and as security for the bonds are as follows: net solid waste system receipts, ambulance fees, undesignated Register of Deeds fees, inspection fees, and jail fees. Neither the faith and credit nor the taxing power of the County is pledged to the payment of the bonds. The debt will be serviced by the Solid Waste Disposal Enterprise Fund and principal and interest requirements will be provided by appropriation in the year in which they become due.

Special Obligation Revenue Bond debt service requirements to maturity are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2008	\$ 1,820,000	\$ 467,238
2009	1,865,000	412,638
2010	1,945,000	348,144
2011	1,995,000	281,932
2012	1,305,000	207,725
2013-2016	<u>5,510,000</u>	<u>542,391</u>
Total	13,135,000	<u>\$ 2,052,341</u>
Add unamortized premium	<u>77,476</u>	
	<u>\$ 13,212,476</u>	

(e) Advance Refundings

In prior years, the County has refunded various general obligation bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase qualified government securities that were placed in the trust funds. As of June 30, 2007, all defeased debt payments have been paid by trust funds.

(f) Long Term Obligation Activity

The following is a summary of changes in the County's long-term obligations for the year ended June 30, 2007:

	<u>Balances</u> <u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u> <u>June 30, 2007</u>	<u>Current</u> <u>Portion</u> <u>of Balance</u>
Governmental activities:					
General obligation bonds	\$ 94,641,630	\$ —	\$ 9,076,148	\$ 85,565,482	\$ 9,005,000
Installment notes	103,461,328	—	8,822,553	94,638,775	7,736,783
Pension liability	1,145,027	281,525	219,393	1,207,159	227,824
Compensated absences	<u>5,413,291</u>	<u>4,430,980</u>	<u>4,008,185</u>	<u>5,836,086</u>	<u>973,721</u>
Total governmental activities	<u>\$204,661,276</u>	<u>\$ 4,712,505</u>	<u>\$ 22,126,279</u>	<u>\$187,247,502</u>	<u>\$ 17,943,328</u>
Business-type activities:					
Special obligation revenue bonds, net	\$ 14,987,067	\$ —	\$ 1,774,591	\$ 13,212,476	\$ 1,820,000
Installment notes	196,165	—	96,895	99,270	99,270
Compensated absences	116,921	—	11,197	105,724	105,724
Accrued landfill closure and postclosure care costs	<u>6,569,284</u>	<u>330,650</u>	<u>—</u>	<u>6,899,934</u>	<u>—</u>
Total business-type activities	<u>\$ 21,869,437</u>	<u>\$ 330,650</u>	<u>\$ 1,882,683</u>	<u>\$ 20,317,404</u>	<u>\$ 2,024,994</u>

Compensated absences and pension liability have been liquidated in the funds in which they have been earned. Interest expense for the government-wide statements for the year-end June 30, 2007 was \$7,811,367, including capitalized interest of \$1,083,135.

	Balances July 1, 2006	Increases	Decreases	Balances June 30, 2007	Current Portion of Balance
Discretely presented component units:					
Compensated absences	\$ 80,380	\$ 33,676	\$ —	\$ 114,056	\$ —
Total discretely presented component units long- term liabilities	<u>\$ 80,380</u>	<u>\$ 33,676</u>	<u>\$ —</u>	<u>\$ 114,056</u>	<u>\$ —</u>

(g) Transfer of Enka-Candler Water and Sewer District Bonds

On July 2, 1990, the County transferred the ownership, operation, and maintenance responsibility for the sanitary districts to the Metropolitan Sewerage District. The contracts effecting the transfer call for the Metropolitan Sewerage District to assume the liability for the Enka-Candler Water and Sewer District Bonds. Consequently, the bonds have been removed from the County's financial statements. The Enka-Candler Water and Sewer District, for which the County Board of Commissioners is the governing body, is liable for the payments on these bonds if the Metropolitan Sewerage District defaults. As of June 30, 2007, the balance of the bonds outstanding was \$945,000.

(h) Conduit Debt Obligations

The Buncombe County Industrial Facility and Pollution Control Financing Authority has issued industrial revenue bonds to provide financial assistance to private businesses for economic development purposes. These bonds are secured by the properties financed as well as by letters of credit and are payable solely from payments received from the private businesses involved. Ownership of the acquired facilities is in the name of the private businesses served by the bond issuance. Neither the County, the Authority, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2007, there were three series of industrial revenue bonds outstanding with an aggregate principal amount payable of \$9,150,000.

(C) Interfund Balances and Activity

There is a loan outstanding from the General Fund to the Grant Projects Fund of \$1,420,812 to cover the cost of expenditures from reimbursement-based grants until those grants are received from the granting agencies. The full amount of the loan is expected to be repaid within one year.

Transfers to/from other funds loans at June 30, 2007 consist of the following:

General Fund:

From the General Fund to the Special Revenue Capital Reserve Fund to transfer available funds to capital reserve contingency.	\$ 500,000
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From the General Fund to the Special Revenue Capital Projects Fund for special revenue capital projects.	2,848,825
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General fund continued

From the General Fund to the School Capital Commission Fund to transfer balance of restricted article 40/42 sales tax.	\$ 1,944,838
From the General Fund to the Special Revenue Transportation Fund for transportation services.	394,727
From the General Fund to the County Capital Projects Fund for future capital projects.	14,032,592
From the General Fund to the County Parking Deck Fund for operational funds to begin enterprise.	2,616,094
From the General Fund to the Internal Service Fund for the cost of future post-employment benefits other than pension.	<u>1,800,321</u>
	<u>\$ 24,137,397</u>

Major Governmental Funds:

From the School Bond Fund to the School Capital Commission Fund for debt service payments.	\$ <u>37,442</u>
	<u>\$ 37,442</u>

Non major Governmental Funds:

From the Special Revenue Occupancy Tax Fund to the General Fund for payment of a 1.5% collection fee.	\$ 98,539
From the Special Revenue Emergency Telephone System Fund to the County Capital Projects Fund for aerial photography capital project.	500,000
From the Transportation Fund to the Special Revenue Grant Projects Fund to transfer grant project revenues.	20,000
From the Transportation Fund to the County Capital Projects Fund for future capital projects.	<u>123,813</u>
	<u>\$ 742,352</u>

Solid Waste Disposal Fund:

From the Solid Waste Disposal Fund to the Solid Waste Capital Projects Fund for future capital projects.	\$ <u>4,982,253</u>
	<u>\$ 4,982,253</u>

General fund continued

Non major Enterprise Funds:

From the After School Fund to the General Fund to transfer remaining fund balance and operations of the fund.	\$ <u>616,094</u>
	<u>\$ 616,094</u>

Note 3 - Joint Ventures

The County, in conjunction with seven other counties, participates in the Western Highlands Area Authority, which provides mental health, developmental disability, and substance abuse services to residents of the eight-county area. Buncombe County appoints two of the sixteen-member board, with the other counties appointing the remainder. The County has an ongoing financial responsibility for the Authority because it is legally required to provide public health services either directly or jointly with other counties. None of the participating governments have any equity interest in the Authority, so no equity interest has been reflected in the financial statements at June 30, 2007. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$600,000 to the Authority to fund operations. Complete financial statements for the Authority may be obtained from the Authority's offices at 356 Biltmore Avenue, Asheville, NC 28801.

The County, in conjunction with the State of North Carolina and the Buncombe County Board of Education and Madison County, participates in a joint venture to operate the Asheville-Buncombe Community College. The County, the Governor (on behalf of the State of North Carolina) and the Buncombe County Board of Education each appoint four members and Madison County appoints two members of the fifteen-member board of trustees of the community college. The president of the community college's student government serves as an ex officio nonvoting member of the community college's board of trustees. The community college is included as a component unit of the State. The County has the basic responsibility for providing funding for the facilities of the community college and also provides some financial support for the community college's operations. In addition to providing annual appropriations for facilities, the County periodically issues general obligation bonds and certificates of participation to provide financing for new and restructured facilities. Of the general obligation bonds issued for this purpose, \$10,298,057 in principal is still outstanding. Of the certificates of participation issued for this purpose \$15,789,732 in principal is still outstanding. The County has an ongoing financial responsibility for the community college because of the statutory responsibilities to provide funding for the community college's facilities. The County contributed \$7,133,254 to the community college for operating purposes during the fiscal year ended June 30, 2007. In addition, the County made principal and interest payments of \$1,005,079 during the fiscal year on general obligation bonds and \$1,169,217 on certificates of participation issued for community college capital facilities. The participating governments do not have any equity interest in the joint venture; therefore, no equity interest has been reflected in the County's financial statements at June 30, 2007. Complete financial statements for the community college may be obtained from the community college's administrative offices at 340 Victoria Road, Asheville, NC 28801.

Note 4 - Jointly Governed Organizations

The County, in conjunction with three other counties and fourteen municipalities, established the Land-of-Sky Regional Council (Council). The participating governments established the

Council to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the Council's governing board. The County paid membership fees of \$118,897 to the Council during the fiscal year ended June 30, 2007.

The County appoints three members to the eleven member board of the Metropolitan Sewerage District of Buncombe County, North Carolina. The District owns, operates, and maintains a wastewater treatment plant and collector lines.

Note 5 - Benefit Payments Issued by the State

The amounts listed below were paid directly to individual recipients by the state from federal and state monies. County personnel are involved with certain functions, primarily eligibility determinations, that cause benefit payments to be issued by the state. These amounts disclose this additional aid to County recipients that do not appear in the basic financial statements because they are not revenues and expenditures of the County.

	<u>Federal</u>	<u>State</u>
Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 3,113,822	\$ -
Food Stamp Program	21,655,003	-
Child Welfare Service	-	990,395
IV-E Adoption Assistance	1,295,194	356,742
Medical Assistance	150,490,624	74,155,535
Low-Income Home Energy Assistance	696,961	-
State/County Special Assistance for Adults	-	2,024,179
Refugee Assistance	14,384	-
IV-E Foster Care	681,528	134,492
Temporary Assistance to Needy Families	<u>2,105,596</u>	<u>(159)</u>
Totals	<u>\$ 180,053,112</u>	<u>\$ 77,661,184</u>

Note 6 - Summary Disclosure of Significant Commitments and Contingencies

Federal and State Assisted Programs

The County has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Note 7 - Prior Period Adjustment

The beginning net assets of governmental and business-type activities on the statement of activities (exhibit 2) have been restated to reflect various corrections of prior period errors of \$(409,969) and \$(284), respectively. The adjustments also affect the fund balances of governmental funds (exhibit 4) and the net assets of proprietary funds (exhibit 7). The details of these adjustments are as follows:

Governmental Activities:

General Fund:

To correct for grant expenditures erroneously charged to General Fund.	\$ 28,933
To apply the receipt of federal gasoline in prior years to the amount recorded as receivable and allocate it between the General Fund and the Solid Waste Disposal Fund.	<u>(28,099)</u>
Total General Fund	<u>834</u>

County Capital Projects Fund:

To record capital expenditures originally charged to the Emergency Telephone System Fund in the prior year as a capital project.	<u>(124,722)</u>
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Non major Governmental Funds:

To record capital expenditures originally charged to the Emergency Telephone System Fund in the prior year as a capital project.	124,722
To correct life-to-date debt service payments charged to the Emergency Telephone System Fund.	<u>12,319</u>
Total non major governmental funds	<u>137,041</u>

Governmental Activities:

To correct the life-to-date depreciation for a building acquired in 1981.	<u>(547,844)</u>
Net prior period adjustment – governmental activities	<u><u>\$ (534,691)</u></u>

Business-type Activities:

To apply the receipt of federal gasoline in prior years to the amount recorded as receivable and allocate it between the General Fund and the Solid Waste Disposal Fund.	<u><u>\$ (284)</u></u>
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Note 8 – Dissolution of Water Agreement

On October 29, 1981, the City of Asheville and Buncombe County entered into an agreement, which established the Asheville/Buncombe Water Authority, effective January 1, 1982. The agreement was amended in 1994 to include representation from Henderson County and in 1996 was renamed

the Regional Water Authority of Asheville, Buncombe, and Henderson. This body had authority to set water rates and to adopt operating and capital budgets of the water funds, subject to approval of the governing bodies of the City and County. On May 25, 2004, the City of Asheville adopted a "Resolution to Amend or Terminate the Restated and Amended Supplemental Water Agreement" and gave notice to the County that the Water Agreement was to terminate effective May 25, 2005. On July 1, 2005 all recreation assets obtained by the County as a provision of the former "Water Agreement" were returned to the City of Asheville for operation. These assets included Aston Park Tennis Courts, Municipal Golf Course, Recreation Park, McCormick Field, and The Nature Center. The City of Asheville and the County are currently negotiating terms for the provision of water services and ownership of the water system. Pending the outcome of the negotiations, the Water Authority will continue to provide water service to the City of Asheville and the County. The nature of the water service after termination of the Water Agreement and the financial impact of the termination on the County cannot be determined at this time.

The City of Asheville has filed a lawsuit against the State of North Carolina challenging Sullivan II and III. Buncombe County has joined the State of North Carolina in the suit. After the Superior Court of Wake County granted summary judgment in favor of the State and the County, Asheville appealed to the N.C. Court of Appeals. The City also petitioned the N.C. Supreme Court to "by-pass" the Court of Appeals and take the case directly. The Supreme Court has denied the City's petition to "by-pass" the Court of Appeals. The appeal will now be heard by the Court of Appeals. The Authority is included as an enterprise fund in the City's financial statements, which may be obtained from the City's offices at P.O. Box 7148, Asheville, NC 28812.

Note 9 – Unrestricted (Deficit)

Under North Carolina law, the County is responsible for providing capital funding for the Buncombe County Board of Education (the school system), the Asheville-Buncombe Community College (the community college), and the Asheville Regional Airport Authority (the Airport Authority). The County has chosen to meet its legal obligation to provide school system, community college, and airport authority capital funding by using a mixture of County funds and general obligation debt. The assets funded by the County are owned and utilized by the school system, the community college, and the 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, the outstanding balance of the debt was \$109,816,783, \$15,789,732, and \$1,310,000 for the school system, community college, and airport authority, respectively. However, the entire amount of school, community college, and airport authority debt 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 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.

Note 10 – Subsequent Event

On August 8, 2007, the County issued \$22,250,000 Certificates of Participation to finance purchases and construction including tax software, heavy landfill equipment, College Street Parking Deck, Animal Shelter, and EOC Garage.

Note 11 – Bond Covenant Disclosure

The Special Obligation Bonds described in Note 2(B)(8)(d) require the County to comply with covenants as to rates, fees, and charges covering the debt principal and interest. The net solid waste revenues and the total available revenues must be no less than 1.00 times and 1.50 times annual debt service, respectively. The following table presents information with respect to the financial performance of the Solid Waste System for June 30, 2007, as well as information as to available revenues (available revenues differ from Obligated Revenues in that available revenues include Net Solid Waste System Revenues whereas Obligated Revenues include Net Solid Waste System Receipts).

Solid Waste System	
Annual Debt Service ¹	<u>\$ 2,281,175</u>
Solid Waste System Revenues	\$ 7,030,768
Current Expenses ²	<u>(3,394,335)</u>
Net Solid Waste System Revenues	<u>\$ 3,636,433</u>
Debt Service Coverage ³	<u>1.59 times</u>
Available Revenues	
Net Solid Waste System Revenues	\$ 3,636,433
Ambulance Fees	3,973,265
Undesignated Register of Deeds Fees	1,891,553
Inspection Fees	1,718,053
Jail Fees	<u>770,809</u>
Total Available Revenues	<u>\$ 11,990,113</u>
Debt Service Coverage ⁴	<u>5.26 times</u>

¹Actual Debt Service for the 2005 Bonds.

²Excludes depreciation.

³Debt service coverage from Net Solid Waste System Revenues.

⁴Debt service coverage from Available Revenues.