

Management's Discussion and Analysis

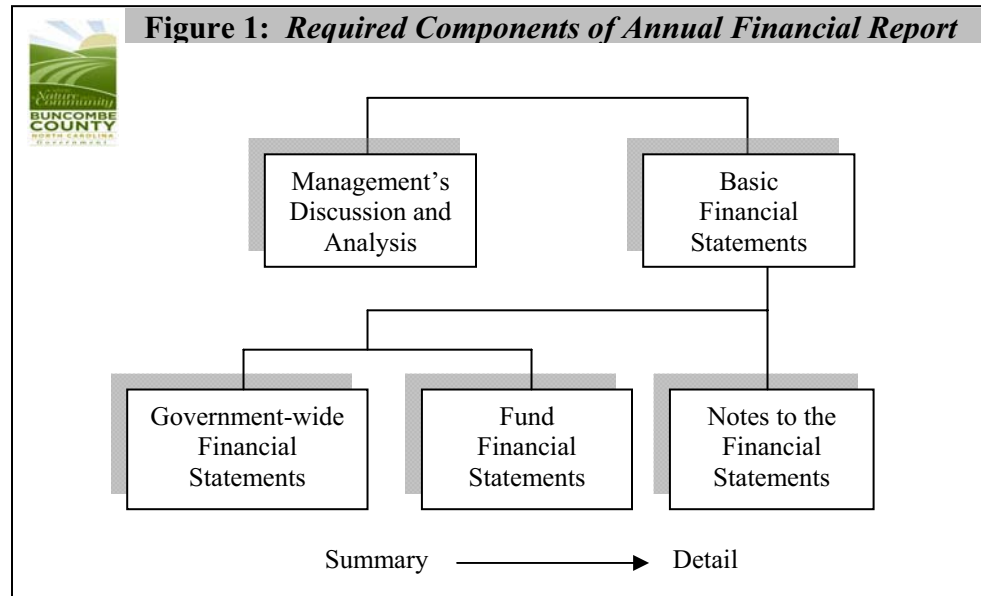
As management of Buncombe County (the County), we offer readers of the financial statements this overview and analysis of the financial activities for the fiscal year ended June 30, 2009. We encourage readers to consider the information here in conjunction with additional information we have furnished in the County's financial statements, which follow this discussion and analysis.

Financial Highlights for Fiscal Year 2009

- The assets of the County exceeded the liabilities at the close of the fiscal year by \$115.0 million (net assets). Of this amount, \$15.4 million may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net assets increased by \$9.5 million. Net assets in the governmental activities increased by \$8.5 million. These increases are significantly less than those experienced in the prior year.
- At the close of the fiscal year, the County's governmental funds reported combined ending fund balances of \$130.4 million, an increase of \$8.7 million over the prior year. Approximately 81.4 percent of this total amount, or \$106.1 million of ending fund balance, is unreserved fund balance and is available for spending at the government's discretion. A large part of this amount is either designated or appropriated for continuing activities and capital expenditures of the County.
- The County's unreserved fund balance for the General Fund was \$52.3 million or 20.9 percent of the total general fund expenditures and transfers for the fiscal year. This compares with \$46.6 million or 17.8 percent at the end of fiscal year 2008.
- At June 30, 2009, the total amount of outstanding long-term debt was \$195.6 million. This is a decrease of \$6.8 million or 3.4 percent from the previous fiscal year.
- The County maintained bonds ratings of Aa2 and AA with Moody's and Standard & Poor's, respectively, in fiscal year 2009; however, as a result of the County's strong fiscal position, management policies and continued economic diversity and growth, particularly in the current economic environment, Standard & Poor's has since upgraded the County's rating to AA+.
- As of June 30, 2009, the maturities of investments in the County's portfolio averaged 173 days. The average yield on investments was 2.54 percent.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. See Figure 1. The basic financial statements present two different views of the County through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the readers' understanding of the fiscal condition of the County.



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

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

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

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

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

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

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

The government-wide financial statements are on pages 30-33 of this report.

Fund Financial Statements. The fund financial statements provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like all other governmental entities in North Carolina, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and agency funds.

Governmental Funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using the modified accrual accounting method which provides a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps determine if there are more or less financial resources available to finance the County's programs. The relationship between government activities (reported on the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The County adopts an annual budget for its General Fund as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Board of Commissioners about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complies with the budget ordinance and whether or not the County succeeds in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the Statement of Revenues, Expenditures and Changes in Fund Balance. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

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

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 45-86 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the County's progress in funding its obligation to provide health insurance benefits to retirees and pension benefits to its law enforcement officers. Required supplementary information can be found beginning on page 87 of this report.

Government-wide Financial Analysis

As noted earlier, net assets over time may serve as a useful indicator of a government's financial position. As shown in Figure 2, assets exceeded liabilities by \$115.0 million at June 30, 2009. Net assets for the County are reported in three categories: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

By far the largest portion of Buncombe County's net assets (84.4 percent) reflects its investment in capital assets (e.g. land, buildings, automotive equipment and office and other equipment), less any related debt used to acquire those assets that is still outstanding. The amount as of June 30, 2009 was \$97.0 million. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other resources, since the capital assets cannot be used to liquidate these liabilities. See Figure 2 below.

	Figure 2: Net Assets (in millions)					
	Governmental Activities		Business Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$161.0	\$154.0	\$25.3	\$32.8	\$186.3	\$186.8
Capital assets	106.6	108.4	55.3	50.0	161.9	158.4
Total assets	267.6	262.4	80.6	82.8	348.2	345.2
Long-term liabilities outstanding	181.6	184.2	31.8	33.8	213.4	218.0
Other liabilities	18.7	19.4	1.1	2.3	19.8	21.7
Total liabilities	200.3	203.6	32.9	36.1	233.2	239.7
Net assets:						
Invested in capital assets, net of related debt	63.0	62.7	34.0	30.5	97.0	93.3
Restricted	-	1.4	2.6	9.0	2.6	10.4
Unrestricted	4.3	(5.3)	11.1	7.1	15.4	1.8
Total net assets	\$67.3	\$58.8	\$47.7	\$46.7	\$115.0	\$105.5

An additional portion of the County's net assets represents resources that are subject to external restrictions on how the funds may be used. This amount represents 2.3 percent of total net assets, or \$2.6 million. The remaining balance of unrestricted net assets, \$15.4 million or 13.4 percent, may be used to meet the government's ongoing obligations to citizens and creditors.

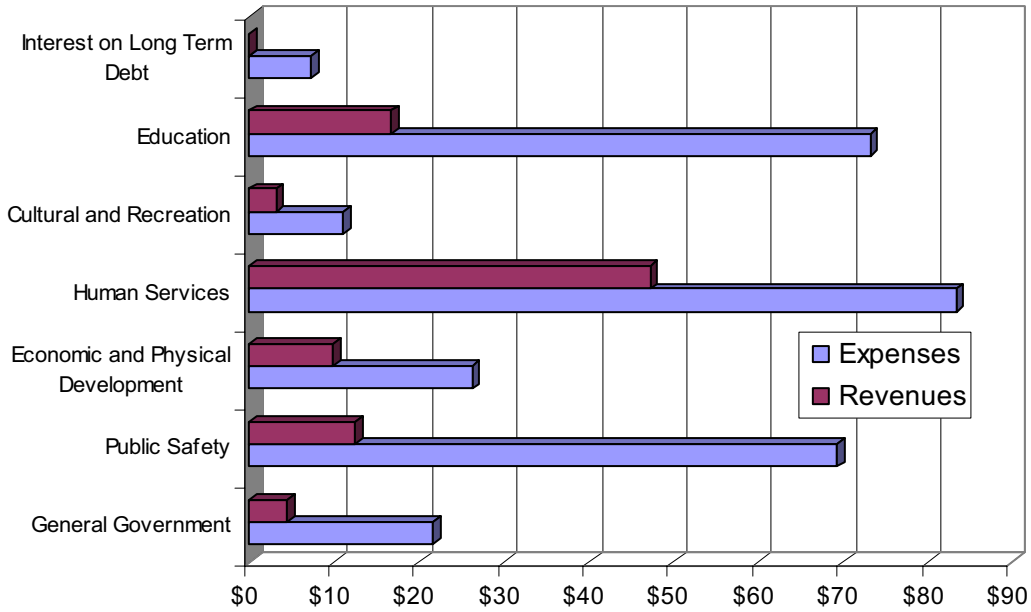
At the end of the current fiscal year, Buncombe County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. This is the first time in several years that this has been the case. In previous years, the County has reported net deficits in governmental unrestricted net assets as part of its legal obligation to provide capital funding for the two local school systems, a community college, and the airport authority. While the assets are funded by the County, they are owned and utilized by the respective entity and reflected as assets on their financial statements. Therefore, the County has incurred a liability without a corresponding increase in assets. At the end of the fiscal year, approximately \$105.4 million of the outstanding debt on the County's financial statements was related to assets included in the financial statements of the school systems, community college, and the airport authority. This amount was \$116.1 million in the prior year.

The government's net assets were increased by \$9.5 million during the current fiscal year. The increase can be tied to increases in ad valorem collections and savings from operational efficiencies and controlled spending by departments. Other tax revenues were down from the prior year, particularly sales tax revenues, which were down \$7.8 million or 17 percent. While the national economic downturn in the economy has impacted the sales tax revenue, also impacting this revenue stream is the State initiated Medicaid for sales tax swap. In October 2008, the State completed a three-year phase out of counties' costs for Medicaid. In return for the State assuming the costs of Medicaid, the County lost a portion of sales tax revenue. In fiscal year 2009, the decrease in sales tax revenue associated with this swap was \$4.0 million.

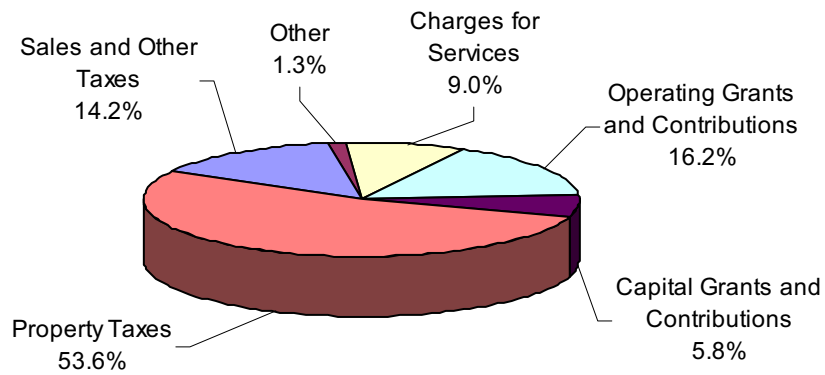
Governmental activities: Governmental activities increased the County's net assets by \$8.5 million, thereby accounting for over 89 percent of the total growth in net assets. (See Figure 7 on page 24.) Key elements of the increase include \$5 million more collected in ad valorem property tax revenue and a \$1.3 million increase in operating grant revenues. Figure 4 illustrates the major sources of revenue for the County, including both program and general revenues. Over 68 percent of the County's revenues are from property and sales taxes collected.

Net program expenses increased slightly (by \$1.7 million or 1 percent) in the current fiscal year. As can be seen in Figure 3, the net expense is mostly attributable to education, human services, and public safety services provided by the County. Expenses for economic and physical development had a significant increase (\$7.6 million or 29 percent) over the previous year. This is related to a \$7.7 million capital outlay for special Product Development Financing bonds issued for the Town of Woodfin Downtown District Project discussed later under long-term debt. Human services expenses indicate a \$6.8 million decrease from the previous year. This can be misleading as the demand for human services increased during fiscal year 2009. Part of the decrease in expenses is attributed to the State assuming Medicaid costs per the sales tax swap previously discussed. Also, prior year expenses once grouped under the human services category have been reclassified under the culture and recreation category, which accounts for this \$3 million increase.

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



**Figure 4: Revenues By Source -
Governmental Activities**



Business-type activities: Net assets in business-type activities increased by \$1.1 million. This was despite total revenues being down approximately \$0.8 million and total expenses increasing approximately \$0.7 million from the previous fiscal year. Transfers from governmental activities account for the increase in net assets. Charges for services account for 89 percent of the revenues for business-type activities.

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

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

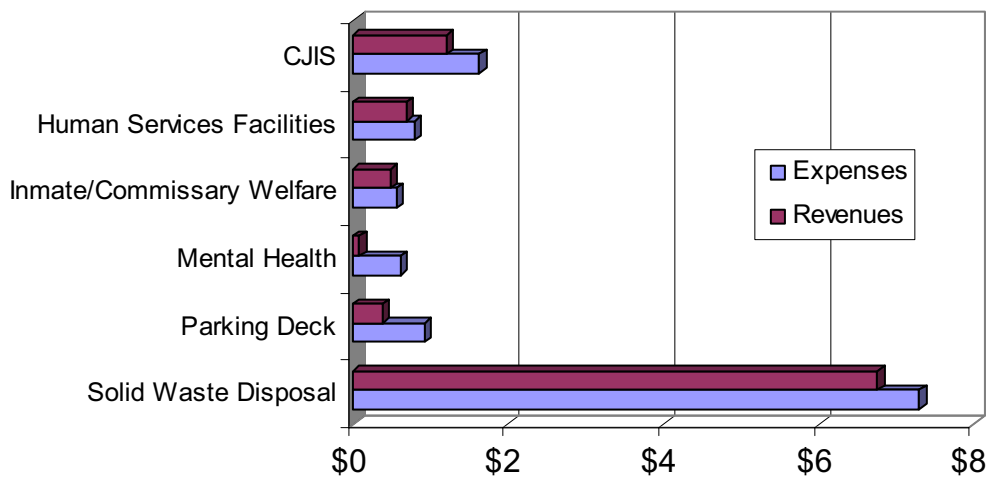


Figure 6: Revenues By Source- Business-Type Activities

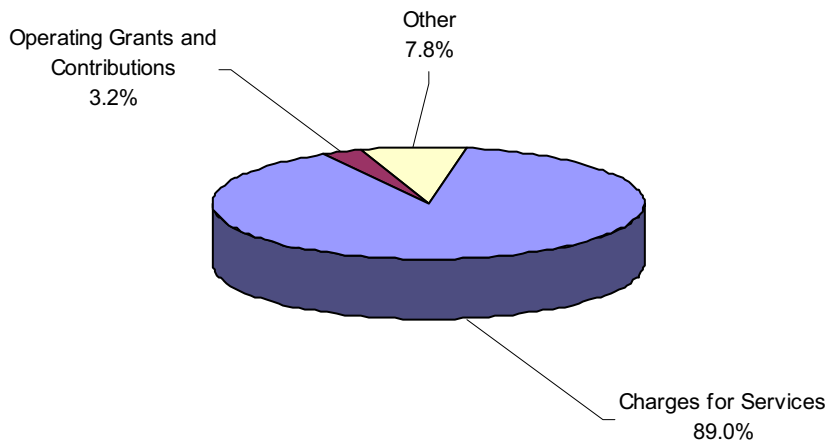




Figure 7: Changes in Net Assets (in millions)

	Governmental Activities		Business Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues:						
Charges for services	\$27.2	\$35.1	\$9.0	\$8.4	\$36.2	\$43.5
Operating grants and contributions	49.1	47.8	0.3	0.3	49.4	48.1
Capital grants and contributions	17.5	17.6	-	.1	17.5	17.7
General revenues:						
Property taxes	162.6	157.6	-	-	162.6	157.6
Other taxes	43.1	45.6	-	-	43.1	45.6
Other	3.9	6.5	.8	2.1	4.7	8.6
Total Revenues	303.4	310.2	10.1	10.9	313.5	321.1
Expenses:						
General government	21.7	23.4	-	-	21.7	23.4
Public safety	69.4	68.0	-	-	69.4	68.0
Economic and physical development	26.2	18.6	-	-	26.2	18.6
Human services	83.3	90.1	-	-	83.3	90.1
Culture and recreation	11.1	8.1	-	-	11.1	8.1
Education	73.2	75.9	-	-	73.2	75.9
Interest on long-term debt	7.2	6.3	-	-	7.2	6.3
Solid waste disposal	-	-	7.3	7.7	7.3	7.7
Other	-	-	4.6	3.4	4.6	3.4
Total expenses	292.1	290.4	11.9	11.1	304.0	301.5
Increase (decrease) in net assets before transfers, contributions, and special item	11.3	19.8	(1.8)	(0.2)	9.5	19.6
Transfers, contributions, and special item	(2.9)	(3.0)	2.9	3.0	-	-
Increase (decrease) in net assets	8.4	16.8	1.1	2.8	9.5	19.6
Net assets, beginning of year	63.0	45.6	46.6	43.8	109.6	89.4
Prior period adjustment	(4.1)	0.6	-	-	(4.1)	0.6
Net assets, end of year	\$67.3	\$63.0	\$47.7	\$46.6	\$115.0	\$109.6

Financial Analysis of the County's Funds

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

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

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$52.3 million compared to \$46.6 million at the end of the prior fiscal year. Total fund balance at June 30, 2009 was \$70.0 million in comparison to \$68.0 million at June 30, 2008. As a measure of the general fund's liquidity, it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers. Unreserved fund balance represents 20.9 percent of total General Fund expenditures and transfers as opposed to 17.8 percent for the preceding fiscal year. Total fund balance represents 28.0 percent of that same amount compared to 26.5 percent at the end of the prior year. The \$2.0 million growth in fund balance is due to operational efficiencies and controlled spending by departments.

The County Capital Project Fund accounts for capital asset construction or acquisition. Upon completion these assets will be owned by the County. The total fund balance decreased \$344 thousand in fiscal year 2009.

The School Capital Commission Fund accounts for revenue restricted for public school capital outlay projects. The total fund balance increased \$3.6 million because revenues collected exceeded project expenditures for the fiscal year.

At June 30, 2009, the governmental funds of the County reported a combined fund balance of \$130.4 million, compared to \$121.7 million in the prior year.


Proprietary Funds. The County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. At the end of the fiscal year, total unrestricted net assets increased \$4.0 million from the prior year with balances of \$5.0 million reported in the Solid Waste Disposal Fund, \$1.7 million in the Parking Deck Fund, and \$4.4 million in the other enterprise funds. The unrestricted net assets in the Internal Service Fund equaled \$8 million, a decrease of \$1.2 million from the prior fiscal year.

General Fund Budgetary Highlights. The County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased revenues and expenditures by \$8.5 million or 3.2 percent.

The actual operating revenues and transfers for the General Fund were \$3.5 million less than the budgeted amount. Actual operating expenditures and transfers were less than the budgeted amount by \$11.6 million, thus eliminating the need to draw upon existing fund balance.

Capital Asset and Debt Administration

Capital Assets. As of June 30, 2009, the County’s investment in capital assets, net of accumulated depreciation for its governmental and business-type activities totaled \$162 million. See Figure 8. These assets include land, buildings and improvements, equipment, automotive equipment, and construction in progress. The County’s total capital assets increased just over 2 percent for fiscal year 2009 (a 1.6 percent decrease for governmental activities and a 10 percent increase for business-type activities).

 **Figure 8: Capital Assets- Net of Depreciation (in millions)**

	Governmental Activities		Business Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$8.4	\$8.1	\$6.3	\$6.3	\$14.7	\$14.4
Buildings and improvements	42.2	44.2	27.8	20.2	70.0	64.4
Equipment	9.7	11.1	2.6	0.9	12.3	12.0
Automotive equipment	3.5	4.6	0.4	0.2	3.9	4.8
Construction in progress	42.8	40.4	18.2	22.4	61.0	62.8
Total capital assets	\$106.6	\$108.4	\$55.3	\$50.0	\$161.9	\$158.4

Major capital asset events during the current fiscal year included the following:

- A prior period adjustment in the amount of \$4.1 million was made to correct construction in progress for governmental activities. Interest on amounts borrowed for construction of the County’s detention center was improperly capitalized as a cost of the detention center instead of being treated as an expenditure during the construction period. The fiscal year 2008 numbers in Figure 8 reflect the adjusted amounts.
- Construction began and continues on several governmental capital projects including major initiatives such as renovations for a satellite human services office, construction of a new animal shelter, replacement of courthouse windows, and the near completion of the new detention center addition. In the current fiscal year, construction in process for governmental activities increased \$2.4 million to an ending balance of \$42.8.


- Business-type net capital assets increased \$5.3 million in the current fiscal year. Major initiatives include: work on cell six and a construction and debris area at the landfill, near completion of the new parking deck facility, and building improvements for the adult crisis stabilization project for the Human Services Facilities fund.

Additional information on the County's capital assets can be found in the Notes to the Basic Financial Statements.

Long-term Debt. The County's total long-term debt decreased by \$6.8 million or 3.4 percent during the past fiscal year. As of June 30, 2009, the County's total debt outstanding was \$195.6 million, of which \$67.9 million is debt backed by the full faith and credit of the County and \$9.5 million is special obligation revenue bonds for which revenues are pledged to the payment of and as security for the bonds. Installment notes account for \$105.4 million. Collateral for these notes are the asset purchased or constructed.

The remainder of \$12.8 million is for Product Development Financing (PDF) Bonds issued in fiscal year 2009 to fund the Woodfin Downtown District Project. PDF bonds are a financing mechanism whereby the County can promote economic development and redevelopment by capturing the incremental increase in tax revenue created by the project as a means of funding the debt service. The County has entered into an agreement with the Town of Woodfin to define the development financing district, issue the bonds, and pledge the incremental ad valorem taxes for the repayment of the bonds.

A summary of long-term debt is shown in Figure 9.

 **Figure 9: Outstanding Debt (in millions)**

	Governmental Activities		Business Type Activities		Total	
	2009	2008	2009	2008	2009	2008
General Obligation Bonds	\$67.9	\$76.5	\$ -	\$ -	\$67.9	\$76.5
Special Obligation Revenue Bonds	-	-	9.5	11.4	9.5	11.4
Installment Notes Payable	91.0	99.5	14.4	15.0	105.4	114.5
Product Development Financing Bonds	12.8	-	-	-	12.8	-
Total debt	\$171.7	\$176.0	\$23.9	\$26.4	\$195.6	\$202.4

Bond ratings are a clear indication of the sound financial condition of the County, which helps keep interest costs low on the County's outstanding debt. As a result of its strong fiscal position, management's policies and continued economic diversity, the County received a bond upgrade from Standard & Poor's to AA+ from AA. It maintained its bond rating of Aa2 with Moody's.

The State of North Carolina limits the amount of general obligation debt that the unit of government can issue to 8 percent of the total assessed value of taxable property located within

that government's boundaries. The legal debt margin for the County is \$2.1 billion. The County has \$915,000 in bonds authorized but not issued at June 30, 2009.

Additional information regarding the County's long-term debt can be found in the Notes to the Basic Financial Statements.

Economic Factors Effecting Next Year's Budget and Rates

The County has approved a \$250.1 million General Fund budget for fiscal year 2010, which represents a 2 percent decrease over the 2009 final budget. The tax rate remained unchanged at 52.5 cents per \$100 of assessed valuation.

The following factors were considered when developing the 2010 budget:

- A turbulent economy, both local and national, that is reflected in decreases in both home sales and new residential construction projects and increases in the unemployment rate. This has resulted in increased demand for human services and more volatile revenue sources (such as sales tax revenue) that are particularly sensitive to economic fluctuations.
- The need for a conservative approach for revenue estimates due to the level of State and Federal funding. The County is especially cognizant that American Recovery and Reinvestment funds are not recurring funds. The County continues to see steady population growth and anticipates 2 percent annual growth in the property tax base.
- An increased focus on providing for those core services the County is required to provide and developing community partnerships to continue services that are not "core" to County government but are essential for the community's economic vitality.

Requests for Information

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

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