



City of Asheville, NC

Finance Department

December 1, 2009

To the Honorable Mayor,
Members of the Governing Council,
and Citizens of the City of Asheville, North Carolina

State law requires that all municipal governments publish a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America (GAAS) and generally accepted government auditing standards (GAGAS), if required, by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Asheville (the "City") for the fiscal year ended June 30, 2009.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The independent certified public accounting firm of Dixon Hughes PLLC has audited the City's financial statements. The objective of the audit was to provide reasonable assurance that the City's financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Based on their audit, Dixon Hughes concluded that the City's financial statements, for the fiscal year ended June 30, 2009, are presented fairly in accordance with GAAP in all material respects. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also report on the City's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. In addition, the state of North Carolina has a similar requirement for state funds required under the "*State Single Audit Implementation Act*". The results of the City's Single Audit engagement can be found in the compliance section of this report.

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

Profile of Government

The City, incorporated in 1797, is located in the western part of the state, which is considered to be the top growth area in the state and one of the top growth areas in the country. Asheville currently occupies a land area of 43.64 square miles and serves a population of 79,395. The City is the county seat of Buncombe County, the largest city in Western North Carolina and thirteenth largest city in the State. Asheville is nestled between the Blue Ridge and Great Smoky Mountains and located astride the French Broad and Swannanoa Rivers. The City is surrounded by lush mountains, many with elevations above 5,000 feet. Asheville's natural and architectural beauty, moderate climate, strong job market and outstanding educational and health care facilities make it one of the most attractive locations in the United States. Asheville is consistently ranked high among the best places to live, work, and retire. The City's long-range planning is directed toward preserving this area's high quality of life, so that it shall remain one of the "best places."

The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

The City operates under the council-manager form of government. Policy-making and legislative authority are vested in a governing council ("Council") consisting of the mayor and six other members. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three council members elected every two years. The mayor is elected to serve a four-year term. The Council is responsible for adopting the budget and appointing the city manager, city attorney and city clerk. The city manager is responsible for implementing council policies, city ordinances, and managing daily operations and appointing department directors.

The City provides a full range of services, including police and fire protection; the construction and maintenance of streets, and other infrastructure; solid waste services and water service; and recreational activities and cultural events. The financial reporting entity includes all the funds and account groups of the City of Asheville (primary government), as well as all of its component units. Component units are legally separate entities for which the government is financially accountable. Blended component units, although legally separate entities, are in substance part of the City's operations and, as such, are included in the reporting entity. The Asheville Public Financing Corporation and the Asheville Claims Corporation are reported as blended component units, and, as such, are not presented in the Basic Financial Statements. The Asheville Alcoholic Control Board is reported as a discretely presented component unit and is presented in a separate column in the Basic Financial Statements to emphasize that it is legally separate from the primary government and to distinguish its financial position, results of operations and cash flows from that of the primary government.

In government, much more than in private business, the budget is an integral part of a unit's accounting system and daily operations. The North Carolina General Statutes require all governmental units to adopt a balanced budget by July 1 of each year. The City's budget ordinance, passed by Council, establishes a legal limit on spending authorizations. In general, the City's operating budget remains in effect for one year. However, capital projects funds and grant funds are budgeted, as permitted by statute, for the life of each individual project. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by fund or project total. For internal management

purposes, the budget is detailed and compared to expenditures and encumbrances by line item within each department or project. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary controls. Encumbered amounts lapse at year-end. However, encumbrances are re-appropriated in the following year's budget. Budgetary control is also facilitated by the use of an automated employee position classification system, which requires that every permanent position be budgeted.

Local Economy

The City is the regional center of manufacturing, transportation, health care, banking, professional services and shopping. The economy in this area is diverse, with strong representation in health care, retail trade and tourism. The area's leading industry in terms of employment is health services and private education, which currently employs approximately 30,000 people. Other leading industry sectors include government, retail trade, and leisure and hospitality. Together these four sectors account for 60% of all jobs in the Metropolitan Statistical Area ("MSA").

The City's setting in the heart of a vast and beautiful recreational area has made tourism an important part of the local economy. The most recent data from the N.C. Department of Commerce indicates that domestic tourism in Buncombe County generated an economic impact of \$711.04 million in 2008, an increase of 0.23% over 2007. A good indicator of the status of the local tourist economy is growth in hotel/motel sales. Because of the economic decline during the last two years, hotel/motel sales decreased 10.9% between 2008 and 2009. However, Buncombe County ranks 5th in travel impact among the state's 100 counties, and the number of jobs in this sector remains strong. Approximately 22,200 of the County's jobs are directly linked to hospitality and leisure.

In addition to being an important indicator of overall local economic health, Buncombe County retail sales activity also directly impacts the City's general fund budget through sales tax receipts. During the current recession, Buncombe County retail sales have seen a sharp decline, falling 8.8% from FY2008 to FY2009. Of the \$3.0 billion in retail sales recorded in Buncombe County during FY2009, \$2.29 billion or 76.6% of those sales occurred within the City of Asheville. Among the eighteen cities in North Carolina with population exceeding 50,000, Asheville had the highest level of retail sales per resident in FY2009 which reflects the City's position as the regional economic center for Western North Carolina. This high level of retail sales per resident is also likely associated with the City's status as a tourist destination.

The unemployment rate is another critical indicator of the relative strength in the economy, and as of October 2009, Buncombe County's unemployment rate was 8.3%. By comparison, Buncombe County's unemployment rate in October 2008 was 5.1%, and in October 2007 it was 3.3%; so the economic recession has had a significant impact on local employment. Data show that more than 8,000 jobs have been lost in the Asheville MSA during this recession. Buncombe County's unemployment rate has, however, remained lower than both the statewide and national unemployment rates throughout the recession. As of October 2009, the state unemployment rate was 10.7% and the national rate was 9.5%.

Long-Term Financial Planning

The Capital Improvement Program ("CIP") is a six-year financing plan for infrastructure improvements, facility construction and improvement, and equipment acquisition. The City's emphasis on long-range capital improvement planning focuses attention on current and future needs of the community and on balancing those needs with the City's fiscal resources.

The CIP is updated annually based on input from Council, the public and city staff. The FY2010 CIP was influenced by a number of other planning processes, including the City's long-range Strategic Operating Plan, the Unified Development Ordinance, the Parks & Recreation Master Plan, the Pedestrian Thoroughfare Plan, and the 1998 Parking Study. However, the most significant factor in the FY2010 CIP plan was the economy, which negatively affected revenues and limited the projects and purchases undertaken by the City.

In order to be included in the CIP, a capital item or construction project must have a useful life of more than one year and an initial cost of at least \$25,000. All capital items not meeting these criteria are included in the annual operating budget as capital outlay. The one exception to this rule is vehicle purchases which, regardless of price, are included in the CIP.

The General Capital Reserve Fund provides funding for all general government capital needs. FY2010 funding was provided by an \$8,367,222 pay-as-you-go contribution from the General Fund, \$2,076,000 in debt proceeds, and \$534,000 in Sewer Project Savings.

CIP items and projects in the Water Resources Operating & Capital Improvement Funds were funded with utility revenues generated by the Water Resources Operating Fund and the capital maintenance fee. The capital improvement project budget for FY2010 was \$5.6 million, and an additional \$1.38 million was budgeted for rolling stock replacement and small capital equipment. Debt service payments continue for the \$40 million in revenue bonds that were issued in FY2008.

Relevant Financial Policies

The Fiscal Management Section of the North Carolina State Treasurer's Office suggests local governments with taxing authority maintain an available fund balance, in their general fund, equal to (the larger of) eight percent of general fund expenditures or half the population group average. The City's fund balance policy is to maintain an unreserved fund balance no less than 15 percent of the General Fund operating budget excluding capital expenditures. In recent years, the City's fund balance grew to 31 percent of expenditures, exceeding the State's minimum suggested threshold, as well as the City's internal policy threshold. As a result, Council based upon staff's recommendation made the conscious decision to spend down fund balance in order to address critical infrastructure needs as well as maintain adequate service levels during the current economic downturn. The City's fund balance in the General Fund has decreased over the past couple of years and is currently 18.7 percent of General Fund expenditures.

Insurance Programs

The City maintains "insurance programs" for certain general liability and casualty risks, fringe benefits and workers compensation obligations. Revenues and expenses for this program are recorded in the City's internal service fund. For all of its self-insured retention programs, the City retains the services of outside third party administrators for the professional management and adjustments of claims. The City is protected by the placement of a \$15,000,000 excess-only liability program across the liability lines under the contract. The City also insures its real and property holdings, including its dams for a total of \$240,000,000 in assets. For the City's self-insured Workers Compensation and Employer Liability, the City retains out-of-pocket losses of \$300,000 on specific claims and an aggregate loss of \$3,600,000 over a three-year period. The City carries a \$3,000,000 specific and aggregate excess over these deductibles, with the aggregate excess attachment 75 percent of the annual loss over a three-year period.

Awards and Acknowledgements

The Governmental Finance Officers Association (“GFOA”) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2008. This was the twenty-ninth time that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

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

In addition, the City also received the GFOA’s Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2008. In order to qualify for the Distinguished Budget Presentation Award, the City’s budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

We recognize the City’s responsibility for the contents of this report and would like to express our appreciation for the cooperation and assistance of our independent auditors, Dixon Hughes PLLC, in its preparation. Also, this report would not have been possible without the efficient and dedicated service of the entire staff of the City’s Accounting Division as well as the cooperation of all other departments and divisions of the City. We would also like to thank the members of Council for their interest and support.

As required by North Carolina General Statute 159-34, a copy of this report will be filed with the Secretary of the North Carolina Local Government Commission. In addition, a copy will be sent to the City Clerk to be available for public inspection.

Respectfully submitted,



Gary W. Jackson
City Manager



Benjamin C. Durant, III
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Asheville
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

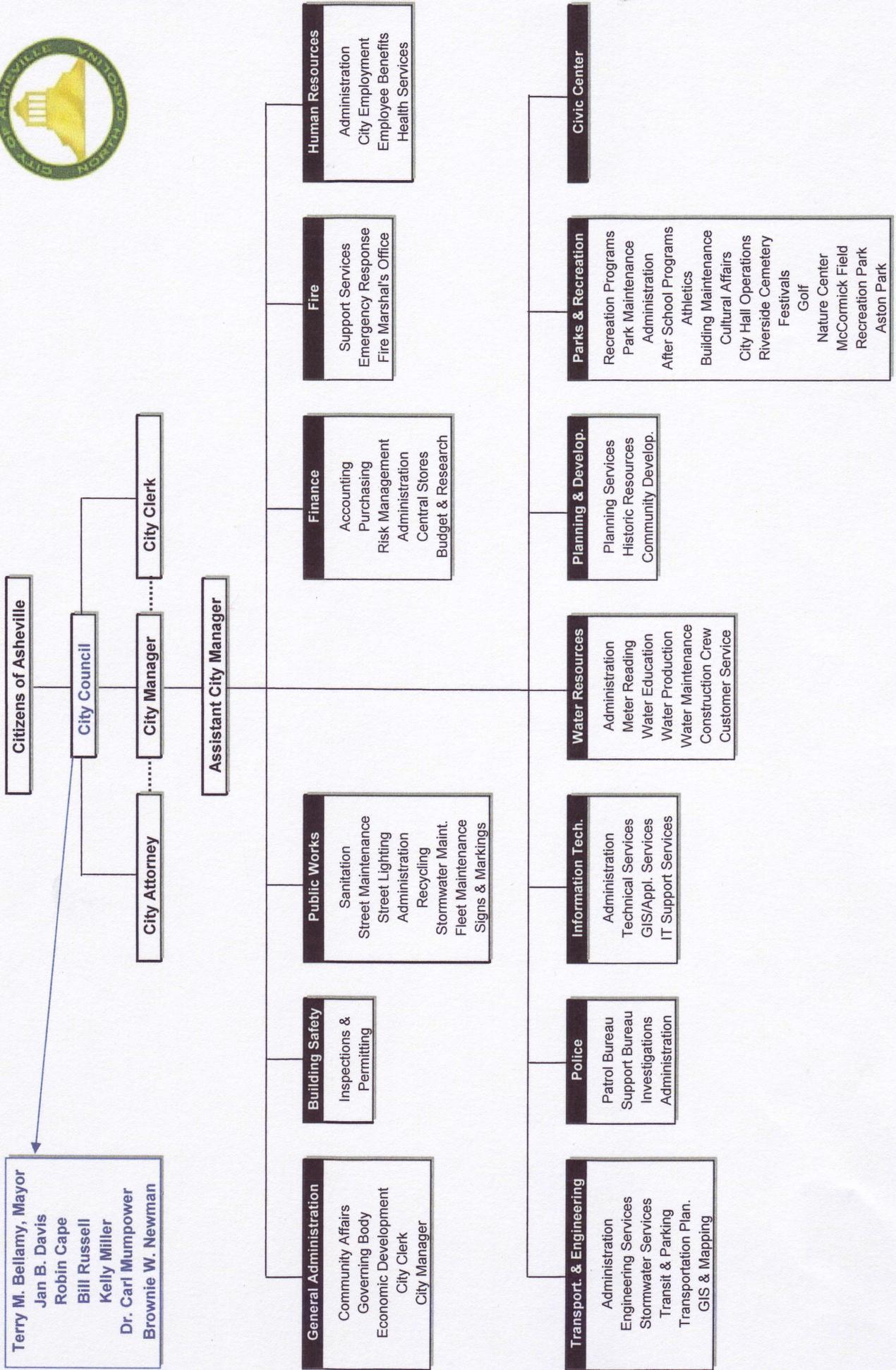
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF ASHEVILLE ORGANIZATION CHART



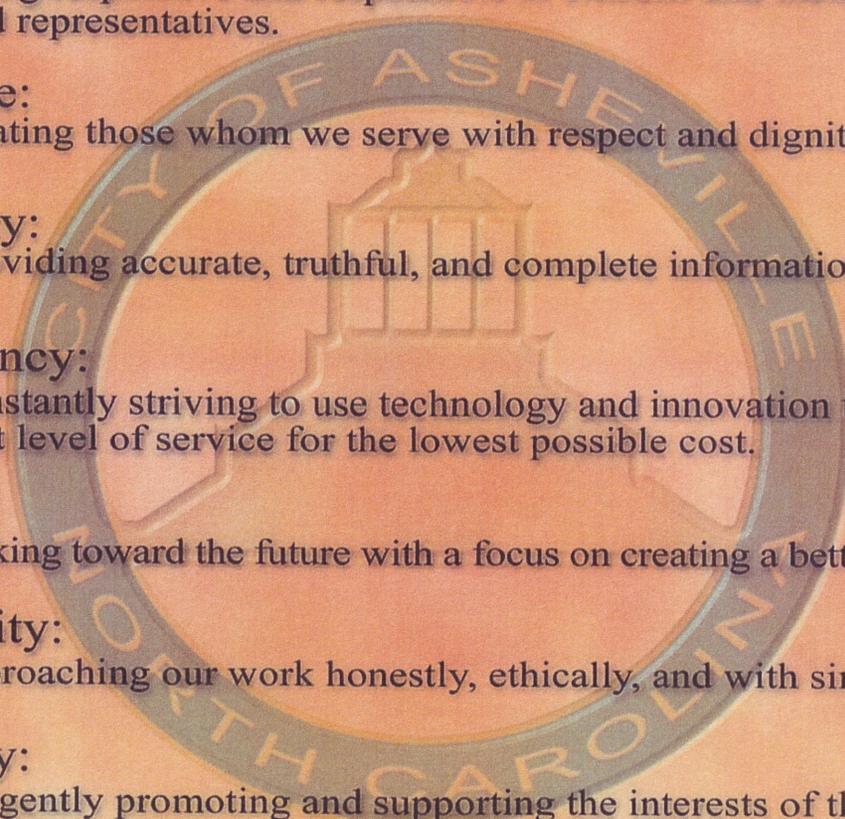
City of Asheville

MISSION STATEMENT

The City of Asheville is committed to delivering an excellent quality of service to enhance your quality of life.

CORE VALUES

In order to achieve our mission of providing quality service to enhance the quality of life in Asheville, we adhere to the following core values:

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- A**ccountability:
By being responsive and responsible to citizens and their elected representatives.
- S**ervice:
By treating those whom we serve with respect and dignity.
- H**onesty:
By providing accurate, truthful, and complete information.
- E**fficiency:
By constantly striving to use technology and innovation to provide the highest level of service for the lowest possible cost.
- V**ision:
By looking toward the future with a focus on creating a better Asheville.
- I**ntegrity:
By approaching our work honestly, ethically, and with sincerity.
- L**oyalty:
By diligently promoting and supporting the interests of the community we serve.
- L**eadership:
By being a model for quality service and professionalism in our community and throughout the nation.
- E**qual Opportunity:
By encouraging our diverse population to participate in the government of our city as citizens and employees.

"Our Quality of Service, Your Quality of Life"