INTRODUCTORY SECTION

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COUNTY OF CHATHAM

FINANCE OFFICE
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PITTSBORO, N. C. 27312-0608

ORGANIZED 1770 707 SQUARE MILES

VICKI S. McCONNELL
Finance Officer
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October 20, 2008

The Board of County Commissioners
Chatham County, North Carolina

State law requires that all local governments publish, within six months of the close of each fiscal year, a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2008.

This report consists of management's representations concerning the finances of Chatham County. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework designed to provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposition the reliability of financial records for preparing financial statements in conformity with generally accepted accounting principles and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived; and the evaluation of costs and benefits requires estimates and judgments by management.

Martin, Starnes & Associates, CPAs, a firm of licensed Certified Public Accountants, have issued an unqualified opinion on the County's financial statements for the year ended June 30, 2008. The independent auditor's report is located at the front of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis. This letter of transmittal is designed to complement the Management Discussion and Analysis and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

Description of the County

Founded in 1771 and located at the geographic center of the state, Chatham County encompasses an area of 707 square miles. The County borders Orange, Durham, Wake, Lee, Moore, Randolph, and Alamance counties and is situated between two of the State's three largest centers of population and commerce, the Research Triangle and the Piedmont Triad.

The proximity to these two areas continues to promote population growth and keep the County's economy healthy. New residents are attracted to the County because of its rural quality of life coupled with close proximity to major metropolitan areas and employment centers. The Count's 2007 population was estimated at 61,455. By 2030, the State estimates that the County's population will grow to 85,877.

Most of the County's population continues to reside in the unincorporated area, with only 19 percent of residents living in a municipality. The Town of Pittsboro with a population of 2,468 serves as the County seat.

The County operates under the manager form of government. Policy making and legislative authority are vested in a Board of Commissioners consisting of five members who are elected for four-year terms in even numbered years. The County Manager is appointed by the Board and is responsible for the administration of the affairs of the County. The County is responsible for and maintains a full range of services inherent in the operation of a county government. These services include general government, public safety, human services, cultural and recreational activities, education, economic and physical development, and environmental protection. The County also operates a water system on a user charge basis. This report includes all the County's activities in maintaining these services.

The County operates under an annual budget ordinance, adopted in accordance with the provisions of the Local Government Budget and Fiscal Control Act. Budgetary control is maintained on a departmental basis and may be amended as changing conditions warrant.

Local economy

The County retains a large agricultural base with a mixture of industrial, tourism, and service businesses helping support the County's economy. Strong economic influences in surrounding areas, such as Cary, Chapel Hill, Durham, Raleigh, and the Research Triangle Park have a positive effect on the growth of the County's population and economy, especially in the northern and eastern sections of the County. These neighboring areas provide much of the employment for as much as 55 percent of the County resident labor force. Within the County, the manufacturing sector accounts for the largest percentage of jobs, approximately 34 percent. Major manufacturers include Townsends, Inc. and Performance Fibers. The service sector provides another 30 percent of jobs in the County. Major service employers include Chatham County Schools and Carolina Meadows.

Agricultural and agribusiness (food, fibers and forestry) industries account for 38 percent of Chatham County's total income. The County ranks ninth in the state in income from livestock, dairy and poultry and ranks fifteenth in the state in total farm income. Chatham County ranks eleventh in the state in the number of farms, with 27 percent of the County's total acreage in farmland. While most farms range in size from 10 to 49 acres, the total number of acres used for farming has changed very little when compared to 1997. The County still has a fairly strong agricultural economy due to 1) a growing number of small sustainable farms focused on specialty products such as organic farming, herbs, cut flowers, unique produce, and diverse nurseries; and 2) continued strength in cattle and broiler chicken production. The County ranks number one in the state in beef cattle (third in overall cattle production) and fifth in broiler production. The growth of feed crops also helps promote the livestock industry. The horticulture industry in the County is diverse and includes some very specialized niche nurseries that produce aquatic/wetlands plants, Asian herbs, shady perennials, crinums, daylilies, orchids, exotic ferns, trees and shrubs.

The year of 2007 was incredible for tourism in Chatham County. According to travel economic impact statistics, visitor spending in Chatham County increased six percent in 2007.
Tourism impact highlights for 2007 included:

- Domestic tourism in Chatham County generated an economic impact of $24.83 million in 2007, up 6% from 2006.
- More than 170 jobs in Chatham County were directly attributable to travel and tourism. Travel generated a $3.16 million payroll in 2007.
- State and local tax revenues from travel to Chatham County amounted to $1.87 million. This represents a $30.43 tax saving to each county resident.

Pittsboro-Siler City Convention & Visitors Bureau won the 2008 Platinum Award, the top state award, for their monthly electronic newsletters, Tourism ChitCHAT, from the Destination Marketing Association of North Carolina.

Media attention from national publications has continued in 2008. Cooking Light sent travel writers to cover a culinary article regarding everything from NC barbecue to fine dining at Fearrington House (NC's only five-star, five-diamond restaurant); the article will appear in print November 2008. USA Today

featured agri-tourism in April 2008, an article about NC farms and bed & breakfasts, which included the Inn at Celebrity Goat Dairy in 2008. Small Market Meetings featured Fearrington House Country Inn, NC's only five star inn, as a site for meetings that require anywhere from a few to 5,600 square feet. Regional and state publications, Fifteen 501, Wake Living, Triad Living, Metro NC, and Our State magazine all printed features on Chatham County's tourism assets.

In an attempt to further diversify its industrial employment base, the County has completed the construction phase of the Chatham County Business Campus near the intersection of US 64 and US 421 in Siler City. Chatham Hospital purchased land in the Business Campus and relocated its current operation to the new facility in July, 2008. The State has constructed a North Carolina Department of Juvenile Justice and Delinquency Prevention facility, the Chatham Youth Center, which opened in Spring 2008 and created 30 new jobs. The County provided land in the Business Campus to Central Carolina Community College for a new western campus and job training center. The County is optimistic that the presence of the hospital and community college will help attract other health-related facilities to the Business Campus.

Several major highways (US 15-501, US 1, US 64, and US 421) and numerous state roads access the County and link it to Interstates 40 and 85. The area is served by major freight carriers, bus lines and delivery services, and air transportation is less than one hour away from Raleigh-Durham International Airport in the heart of the Research Triangle Region and Piedmont Triad International Airport in Greensboro. The Blair Municipal Airport located in Siler City has a 5,000 foot paved, lighted runway with instrument approach capability and can accommodate small business aircraft. A "reliever airport" located in neighboring Lee County is in close proximity to the Moncure industrial area in the southeastern portion of the County.

Long-term financial planning

The County updates annually during the budget process its five year Capital Improvements Program (CIP). The CIP is a systematic way of anticipating, planning, and budgeting for major capital projects. The CIP includes all major projects costing $25,000 or more. The CIP includes summaries of all major projects and detailed descriptions of each project, including justifications, cost detail, funding sources, and impact on the operating budget.

Major Initiatives

The 2007-08 fiscal year has been an active year, with major progress made on several broad initiatives and important services in Chatham County.

ECONOMIC DEVELOPMENT

With the support of the Board of Commissioners, the Chatham County Economic Development Corporation (EDC) worked hard for more than a year to produce a strategic plan, which was finalized in June. The UNC Center for Competitive Economies led the development of the plan, which involved a series of community meetings around the county and interviews of key groups, such as business leaders and public officials.

The strategic plan identified seven specific types of industries and businesses to target based on our competitive advantage and identified resources needed to effectively promote the county to potential businesses. The plan also outlined strategies to retain and grow existing businesses, and to help entrepreneurs start new businesses in the county.

Other key components of the strategic plan focused on meeting infrastructure needs (water, sewer, broadband, etc.), reorganization of the EDC's Board of Directors to have broader representation from the business community, and maintaining quality of place, such as enhancing downtown areas and enhancing recreational opportunities and recreation-related businesses.

Progress Update— The EDC is recruiting volunteers to assist with attraction and retention efforts and has hired new staff to help implement the plan.

Business Campus— The county has almost finished a $7.5 million project to provide water, sewer and roads for the Central Carolina Business Campus in Siler City, which has 10-15 remaining sites for businesses. A major tenant is Chatham Hospital, which opened its new 25-bed facility and emergency

center on the campus in July. The Chatham Youth Center also is housed there and Central Carolina Community College will build a facility on the campus.

LAND USE PLANNING & ENVIRONMENT

- **Moratorium Extension—** The Board of Commissioners extended to **Dec. 2, 2008** the moratorium on residential developments that have at least 26+ units. The extension gives advisory boards and subcommittees time to complete complex revisions of ordinances and regulations.
- **Zoning & Subdivisions—** Two Planning Board subcommittees have focused on developing proposed revisions to the zoning ordinance and subdivision regulations. Recommended revisions include: more citizen & neighbor input; coordination with other county boards; sufficient time for thorough review; and rewards for conservation designs. Changes are slated for approval in December 2008.
- **Environmental Review—** In January 2008, the Board of Commissioners adopted proposed zoning and subdivision amendments proposed by the Environmental Review Board (ERB). These changes define which developments must complete environmental assessments. However, the amendments will not be enforced until the ERB finalizes standards for reviewing environmental assessments and clarifying when and how developers must act to reduce negative impact. This work should be completed and approved in December.

Related Work—Other related land use work is underway, but not likely to be completed before the moratorium expires on Dec. 2, 2008:

- **Finalizing and adopting a Major Corridor Plan for several highways in the county.** As an interim step, the Board of Commissioners zoned 1,500-foot buffers along both sides of six highways until the final corridor plan is adopted. The buffers were zoned RA-40 (residential & agricultural with at least one-acre lots), but existing businesses in these areas can expand or revise their operations. Community input meetings were held earlier this year to get input on a proposed corridor plan, but the plan is on hold so that the county can work with existing businesses to ensure that they are rezoned to continue their operations.
- **Reviewing the Land Use Plan to incorporate all of the revisions to ordinances and regulations.**
- **Producing a revised Land Use Map based on the updated Land Use Plan.**
- **Developing an Affordable Housing Plan and a proposed Affordable Housing Ordinance.** These would be based a recent countywide study of affordable housing needs and input received at a countywide **Affordable Housing Summit** in April.

Watershed Ordinance—Last fall, the Board of Commissioners revised the county's watershed ordinance, based on recommendations from the Environmental Review Board. The new regulations enhanced the buffers for streams to protect the county water resources, including Jordan Lake.

Lighting Ordinance— On Nov. 19, 2007, the Board of Commissioners approved outdoor lighting regulations as part of the zoning ordinance. The new regulations affect county-zoned areas and promote the use of fixtures that conserve energy and that reduce glare and light pollution in areas where it is not needed. Developments (commercial and residential) must submit outdoor lighting plans, but the regulations also apply to sports fields, parking lots, lighting of buildings and signs and vehicle canopies (gas stations, drive-throughs, etc.

COUNTY ORGANIZATION

New departments created in FY 2007-08 included:

Environmental Resources—To support the work of the Environmental Review Board and other environmental issues, the Board of Commissioners created the Environmental Resources Department.

Human Relations—The office promotes amicable relations and mutual respect among all groups in the county and discourages discriminatory practices.

INFRASTRUCTURE

Park Facilities—The Board of Commissioners made a significant commitment to health and quality of life when they approved the purchase of two tracts that will serve as Northeast and Northwest District Parks. This will provide parks in three of quadrants of the county, as provided in its master plan for parks and recreation. The major phase of Southwest Park in Bear Creek already was completed this year.

- **Northeast Park**—The county purchased nearly 67 acres on the northern part of Big Woods Road using recreation fee revenues paid by developers. The county has been awarded two grants for the park totaling $717,500 (nearly a penny on the tax rate) to help pay for the first phase of facilities and to preserve 14.5 acres as a permanent conservation easement. The easement can be used for low-impact activities, such as walking trails, and will help protect the Jordan Lake watershed.
- **Northwest Park**—The Board of Commissioners also purchased a site that used to be Camp Maranatha Springs on Woody Store Road near Silk Hope. This 110-acre site served as a campground for youth groups for many years. It has existing facilities that can be renovated, including a dining hall, ball field and large pond.

GIS Website Upgrade—Chatham County completed a major upgrade and reorganization of its website for Geographic & Information Systems (GIS) (www.chathamgis.com). The county used free software for the project, saving up to $40,000. Major features include updated 2007 aerial photos, more accessible mapping, and more than **80 sets of data** that can be layered on the maps, such as topography, zoning, conservation areas, water resources and Census data.

Cash Management

Cash temporarily idle during the year was invested in certificates of deposits ranging from 30 to 120 days to maturity, in demand deposits in a state-authorized money market mutual fund, and in money market investment accounts. All investments were insured or fully collateralized

Risk Management

The County obtains property insurance coverage and general liability coverage through commercial insurers. The County maintains a self-insured health and dental plan for employees and worker's compensation coverage. The County contracted with third-party administrators to manage the plans.

Pension and Other Postemployment Benefits

The County sponsors a single-employer defined benefit plan that provides retirement benefits to the County's sworn law enforcement officers. Each year, an independent actuary calculates the amount of the annual contribution that the County must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis.

The County also provided post employment retirement health benefits for certain retirees and their dependents. As of the end of the current fiscal year there were 4 retired employees receiving these benefits. The County accounts for the funds to finance these benefits in an internal service fund.

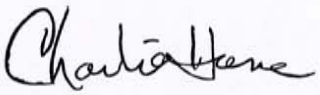
Awards and Acknowledgements

Awards - The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Chatham County for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the 18th consecutive year that the County has received this award. In order to be awarded a Certificate of Achievement, the County published an easily readable and efficiently organized Comprehensive Annual Financial Report. This report satisfied both GAAP and applicable legal requirements.

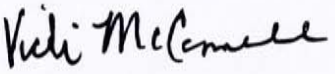
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the certificate of achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments - We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. We would also like to thank the members of the Board of Commissioners for their continued support throughout the past year.

Respectfully submitted,



Charlie Horne
County Manager



Vicki McConnell
Finance Officer

Chatham County, North Carolina
Principal Officials
June 30, 2008

Board of County Commissioners

George Lucier	*Chairman*
Michael Cross	*Vice Chairman*
Patrick Barnes	*Commissioner*
Thomas Vanderbeck	*Commissioner*
Carl Thompson	*Commissioner*

County Officials

Charlie Horne	*County Manager*
Renee Paschal	*Assistant County Manager*
Vicki McConnell	*Finance Officer*
Richard Webster	*Sheriff*
Treva Seagroves	*Register of Deeds*
Holly Coleman	*Health Director*
Dawn Stumpf	*Elections Director*
Tina Stone	*Property Tax Administrator*
Esther Coleman	*Human Relations*
Jenny Williams	*Central Permitting Director*
Glenn Woolard	*County Extension Director*
Mike Sturdivant	*District Conservationist*
Tony Tucker	*Emergency Operations Director*
Donald Metcalf	*Facilities Management Director*
Mark Ellington	*Information Services Director*
Linda Clarke	*Library Services Director*
Keith Megginson	*Planning Director*
Tracy Burnett	*Recreation Director*
Angel Dennison	*Senior Services Director*
Sandra Coletta	*Social Services Director*
Neha Shah	*Tourism Coordinator*
David Hughes	*Public Works Director*
Robert Holden	*Waste Management Director*
Dianne Reid	*Economic Development Director*

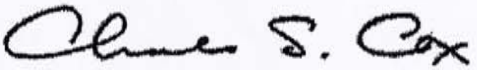
Certificate of Achievement for Excellence in Financial Reporting

Presented to

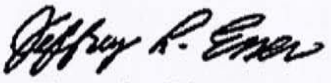
County of Chatham
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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.

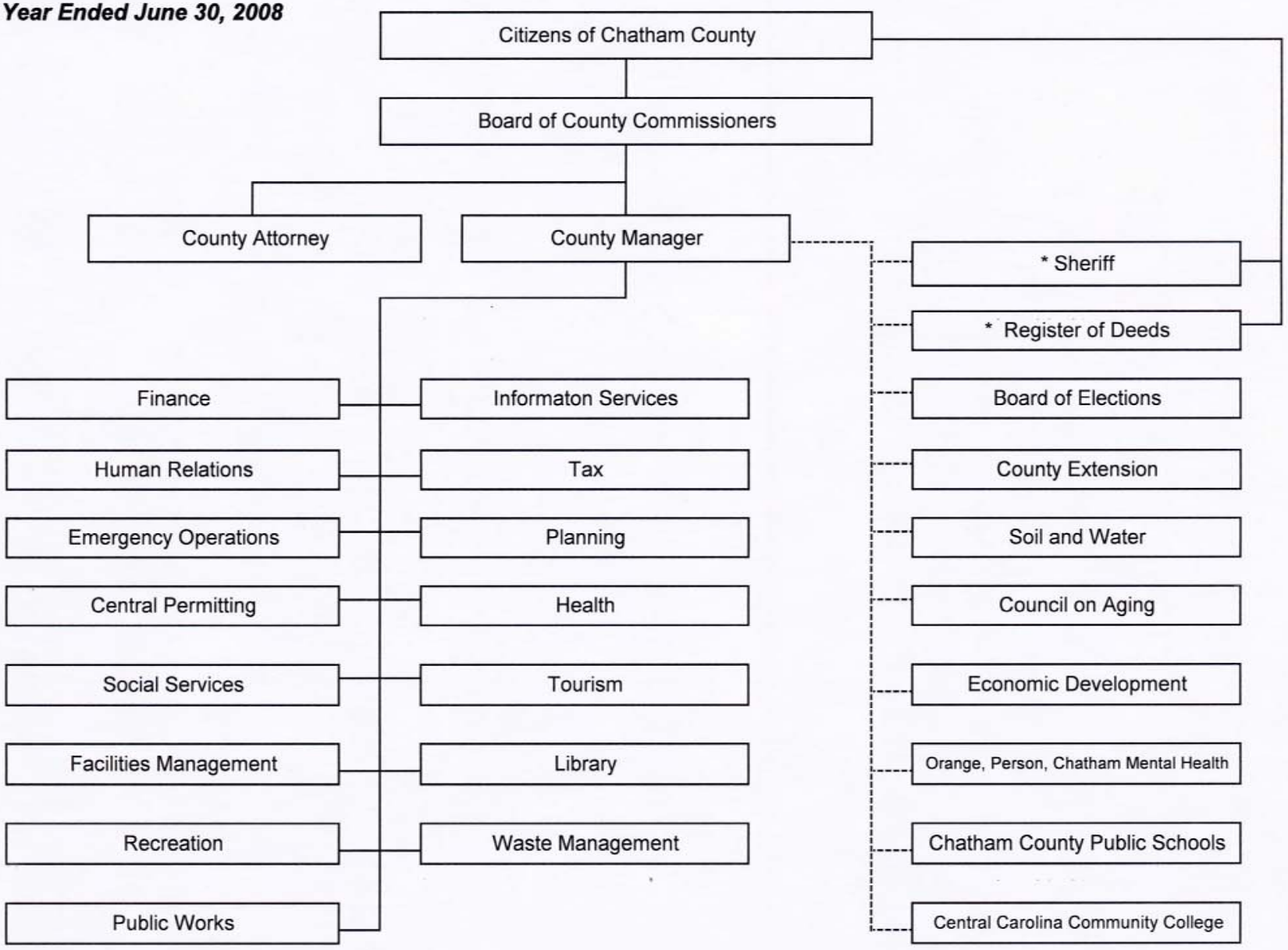


President



Executive Director

Chatham County
Organization Chart
Fiscal Year Ended June 30, 2008



* Elected Officials ---------- Denotes liaison relationship

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FINANCIAL SECTION

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