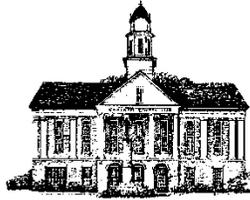


INTRODUCTORY SECTION

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COUNTY OF CHATHAM

FINANCE OFFICE
POST OFFICE BOX 608
PITTSBORO, N. C. 27312-0608



ORGANIZED 1770 707 SQUARE MILES

VICKI S. McCONNELL
Finance Officer
PHONE: 919-542-8210

October 26, 2010

To the Board of County Commissioners and Citizens of 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 for the fiscal year ended June 30, 2010.

Generally accepted accounting principles require that management provide a narrative introduction, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). 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.

Responsibility for the accuracy, completeness and fairness of the presentations, including all disclosures, rest with the County. We believe the data, as presented, is accurate in all material respects and fairly present the County's financial position and results of operations.

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, 2010. The independent auditor's report is located at the front of the financial section of this report.

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 County's 2008 population was estimated at 63,077. 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 2,443 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 approximately 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., Uniboard USA and Moncure Plywood. The service sector provides another 30 percent of jobs in the County. Major service employers include Chatham County Schools and Carolina Meadows.

Agriculture and agribusiness (food, fibers and forestry) remain significant in the local economy. 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, crinum, daylilies, orchids, exotic ferns, trees and shrubs.

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. The County is optimistic that the presence of the hospital and community college will help attract other health-related facilities to the Business Campus. The County has contracted with a large regional commercial broker to market the property.

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.

Financial Information

County management is responsible for establishing and maintaining an internal control structure that is designed to provide reasonable assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition; (2), the reliability of financial records for preparing financial statements in conformity with generally accepted accounting principles and maintaining accountability for assets; and (3)

compliance with applicable laws and regulations related to federal and state financial assistance programs. 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.

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

A major issue impacting Chatham County during fiscal year 2009-10 was the fire that severely damaged the Historic Courthouse on March 25, 2010. Much of the interior was destroyed, but the county took action to recover and restore as much as possible. The county had to find temporary space for Superior Court, District Attorney, Probation Services, and the County Historical Association.

The recession continued to impact Chatham County and all local governments across the nation during fiscal year 2009-10. The recession limited growth in local revenues, even as demands for some services increased as a result of the struggling economy. The county implemented additional budget saving measures, reducing the operating budget (other than schools) by 8%. Even with these challenges, Chatham County reported progress on several initiatives during FY 2010.

General Administration

Upgraded Bond Ratings—During the spring of 2010, the two major bond rating agencies upgraded Chatham County’s ratings two levels, which means major savings to taxpayers for any future issues. It also means that Chatham’s overall ratings are now higher than other counties of similar size and most surrounding counties.

2010 Census—Chatham County worked with key groups and individuals across the county to ensure that the county had the highest rate of mail returns for the 2010 Census forms in the state with a 79% return rate. Since major state and federal funds for schools, roads, community development and human services are tied to Census counts, a high return rate is critical.

Economic Development

Points-Based Incentives—The Board of Commissioners adopted a new points-based economic development incentive policy for the Chatham County Economic Development Corporation (EDC) to aid new and expanding businesses. Incentive levels are determined based on job creation, local hiring, capital investment, environmental impact, business type and related factors

EDC Announces Five-Year Plan—Governor Beverly Perdue addressed the EDC’s Opportunity Chatham Annual Meeting in May 2009. During the meeting, the EDC announced a major new campaign, Opportunity Chatham: A Five-Year Economic Growth and Prosperity Initiative, designed to create over 3,650 new jobs between 2010 and 2014.

EDC Siler City Office—The EDC opened a Siler City office in the Siler City Town Hall, open Thursdays from 9 am to noon.

Agriculture Hall of Fame Awards—The Agriculture Advisory Committee developed the Agriculture Hall of Fame Awards, a program to honor individuals and groups who have made significant contributions to the agricultural economy in the county. Six inductees were honored during the inaugural ceremony held in February 2010.

K-12 Education

Commissioners Earn Top State Honor—The Board of Commissioners received the NC School Board Association's top statewide award in November 2009 for its support of education. The Chatham County Board of Education nominated the commissioners for making school funding a priority, even during difficult economic times. Despite overall budget reductions, the commissioners increased funding for schools by 4% and per pupil funding increased by \$103 to \$4,010 per pupil.

Major School Facilities—The county funded several major school projects underway or completed in FY 2010, including a major renovation and expansion of Northwood High School, renovation of labs at all high schools and various renovation and replacement projects at various schools. The school system broke ground on the new Margaret B. Pollard Middle School in northeastern Chatham.

Non-school Facilities

Library & CCCC Classroom—Chatham County started construction of the new Chatham Community Library in August 2009. This is a joint library with Central Carolina Community College (CCCC) and is located on CCCC's Pittsboro campus. The Friends of the Library raised more than \$700,000 to fund library enhancements. Construction of a new Sustainable Technologies Center on the campus also got underway at the same time. Also funded by the county, the center will house classroom classrooms on sustainable agriculture, culinary arts, green building techniques and biofuels production. CCCC also started construction on a new educational building for its Siler City campus, located on the Central Carolina Business Campus.

Northwest District Park—Staff and volunteers completed work to open Northwest District Park on Woody Store Road on a limited basis. Amenities include a swimming pool, volleyball, multipurpose field for ballgames, picnic shelter, and a pond with paddleboats and fishing.

Northeast District Park—The County completed plans for the construction of Phase I of Northeast District Park on Big Woods Road, which was slated to begin in the fall of 2010. More than \$838,000 in grants had been secured to help fund the first phase.

American Tobacco Trail—In June 2010, the county joined with other partners in dedicating a section of the American Tobacco Trail located in northeastern Chatham. The 4.67-mile section is part of a 23-mile project to convert old railways to trails for use by hikers, bikers and other pedestrians. The Town of Cary will maintain Chatham County's section of the trail for the next five years.

Land Use Planning and Environment

Jordan Lake Rules—Chatham County played a key role in successful regional negotiations involved with state approval of rules to protect Jordan Lake's water quality. The county is working with the Town of Pittsboro to develop and implement a plan to comply with the new state rules, with the goal of reducing harmful nutrients in the lake.

Jordan Lake Cleanups—The County supported the work of Clean Jordan Lake, a nonprofit, in sponsoring successful volunteer cleanups to remove debris along the banks of the lake that has accumulated over many years. In May 2010, the 135 volunteers removed 195 bags of plastic bottles, 437 bags of trash, 245 tires on rims.

Farmland & Ag Economy Preservation—In March 2010, the Board of Commissioners adopted a two-pronged Farmland Preservation Plan that includes both a voluntary Farmland Preservation Plan and an Agricultural Economic Development Plan. The plan was developed by the Agriculture Advisory Committee working with the Triangle Land Conservancy and the Chatham County Center of the N.C. Cooperative Extension Service.

Transportation Planning—Chatham County hired its first Transportation Planner in the Sustainable Communities Development Department to focus on overall transportation planning, impact on regional transportation decisions, and resident access to all types of transportation, including roads, mass transit, walking and biking.

Public Transit—Chatham Transit introduced a cross-county route that runs from Siler City to Pittsboro to US 15/501 North. Chapel Hill Transit initiated the Pittsboro Express route to provide several morning and late afternoon routes between Pittsboro and Chapel Hill.

Civic Engagement

Rebuilding of Historic Courthouse—In response to the fire, the Board of Commissioners appointed 21 residents from across the county to serve on a task force to provide recommendations on the functions or services that should be housed in the Historic Courthouse after it is rebuilt. The task force hosted a community meeting and conducted a survey in June 2010 to get broader feedback on potential uses of the courthouse.

New Advisory Boards—The Board of Commissioners approved formation of the Transportation Advisory Board and the Grand Trees of Chatham during FY 2010 to provide additional citizen input on important issues. Two task forces that transitioned to full advisory board status were the Affordable House Advisory Board and the Green Building & Sustainable Energy Advisory Board.

Human Services

Human Services Demands— The economic recession meant that more residents turned to the county for assistance. Social Services staff adjusted to soaring demands for Medicaid, food assistance, and emergency energy assistance. Public Health saw major increases in people qualifying for free clinic services. The Council on Aging had huge increases in demands for home-delivered meals and in-home aides.

Foster Care—The Department of Social Services used new strategies to increase the number of licensed foster care homes in the county by a record 41%.

H1N1 Response—The Public Health Department successfully responded to a regional outbreak of H1N1 flu to help prevent a major community pandemic.

Pittsboro Clinic—The Health Department expanded its general clinic and family planning services at the Pittsboro clinic. The services are available on a limited schedule.

Public Safety

Public Safety Demands—Violent and property crimes remained well below average, but the Sheriff's Office responded to an increase in petty crimes, misdemeanors, bad checks, forgery, embezzlement and minor assaults. The economy meant a much heavier workload for deputies serving civil and criminal papers, especially foreclosure papers. The number of calls coming in to the E-911 Center also have increased 12% over the past two years, but new software installed in FY 2010 will help telecommunicators more accurately locate callers in need.

Substations— The Sheriff's Office expanded its Siler City substation.

Public Works and Utilities

Taste Award for County Water—Chatham County's water rated third out of 23 systems in a blind-taste test conducted during a NC Water Works Association Conference.

Southeast Waterlines—The County completed installation of more than 40 miles of waterlines in the Southeast Water District, funded by voter-approved bonds.

More Recyclables Added—During FY 2010, the county started accepting several new paper items for recycling, including gable-top cartons (often used for milk, juice and softener refills) and flat-top drink boxes. The county also initiated a pilot to recycle #1 to #7 food-contact plastics, such as margarine and yogurt tubs. The county expanded cooking oil recycling to eight collection centers.

Long-Term Waste Disposal—The County held four public meetings around the county to get feedback on the results of a proposed long-term solid waste disposal plan.

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, 2009. This was the 21th 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 appreciate the assistance and dedication of the Finance Department throughout the preparation of this report. We would like to thank all members of departments for contributions they provided and the County's independent certified public accountants, Martin Starnes & Associates CPAs, PA, for their assistance and guidance during the report's preparation. 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, 2010*

Board of County Commissioners

<i>Sally Kost</i>	<i>Chairman</i>
<i>George Lucier</i>	<i>Vice Chairman</i>
<i>Mike Cross</i>	<i>Commissioner</i>
<i>Carl Thompson</i>	<i>Commissioner</i>
<i>Thomas Vanderbeck</i>	<i>Commissioner</i>

County Officials:

<i>Charlie Horne</i>	<i>County Manager</i>
<i>Renee Paschal</i>	<i>Assistant County Manager</i>
<i>Vicki McConnell</i>	<i>Finance Officer</i>
<i>Richard Webster</i>	<i>Sheriff</i>
<i>Treva Seagroves</i>	<i>Register of Deeds</i>
<i>Sandra Coletta</i>	<i>Social Services Director</i>
<i>Holly Coleman</i>	<i>Health Director</i>
<i>Dawn Stumpf</i>	<i>Elections Director</i>
<i>Cynthia Van Der Wiele</i>	<i>Sustainable Communities Director</i>
<i>David Hughes</i>	<i>Public Works Director</i>
<i>Tina Stone</i>	<i>Property Tax Administrator</i>
<i>Tony Tucker</i>	<i>Emergency Operations Director</i>
<i>Mark Ellington</i>	<i>Information Services Director</i>
<i>Linda Clarke</i>	<i>Library Services Director</i>
<i>Tracy Burnett</i>	<i>Recreation Director</i>
<i>Neha Shah</i>	<i>Tourism Coordinator</i>
<i>Angel Dennison</i>	<i>Senior Services Director</i>
<i>Dianne Reid</i>	<i>Economic Development Director</i>
<i>Mike Sturdivant</i>	<i>District Conservationist</i>

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, 2009

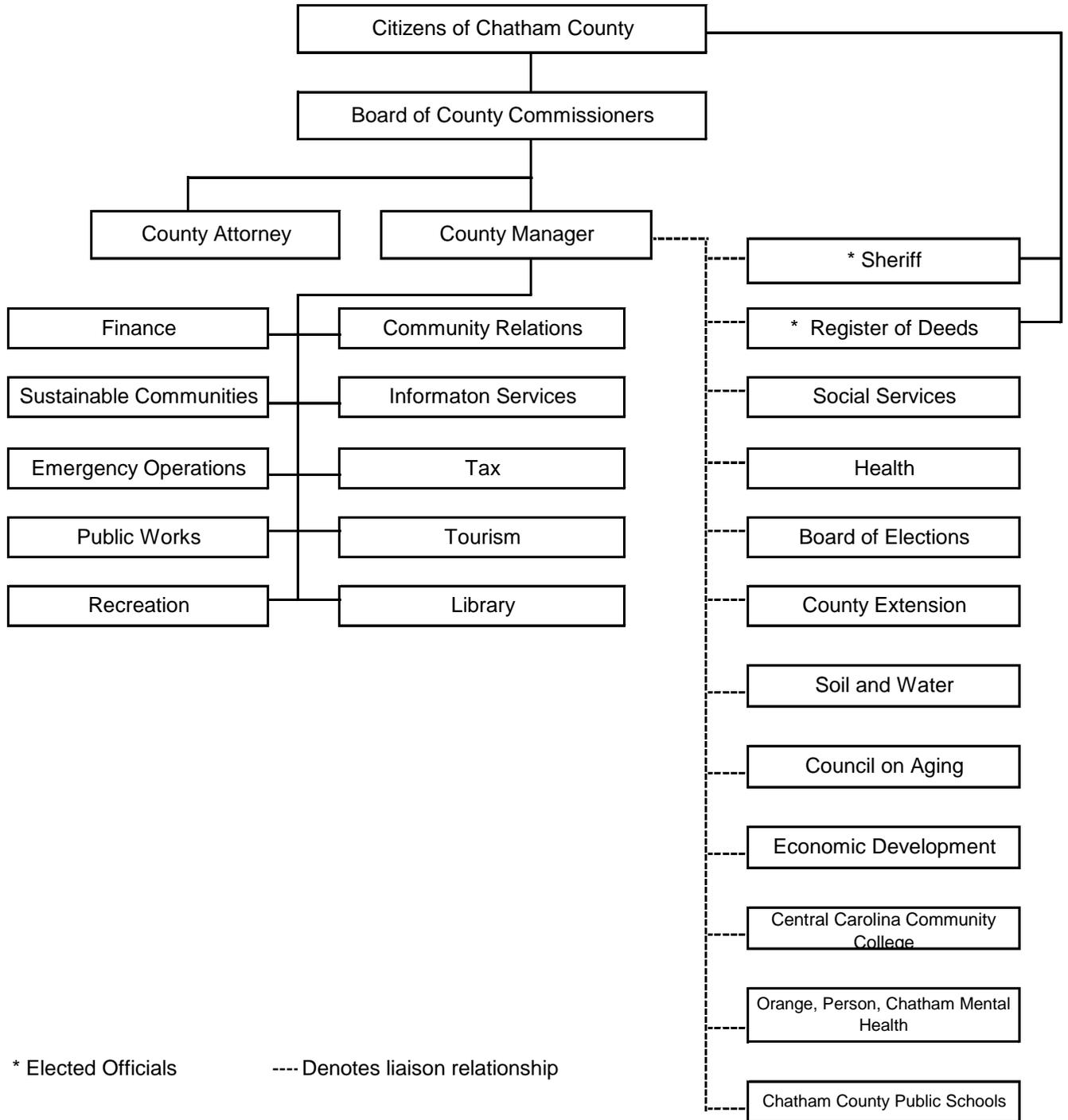
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

**Chatham County
 Organization Chart
 Fiscal Year Ended June 30, 2010**



* Elected Officials

---- Denotes liaison relationship

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