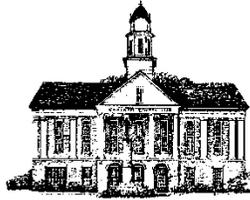


INTRODUCTORY SECTION

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COUNTY OF CHATHAM

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



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

ORGANIZED 1770 707 SQUARE MILES

October 31, 2011

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, 2011.

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, 2011. 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 2011 population was estimated at 63,505. By 2030, the State estimates that the County's population will grow to 92,604.

Most of the County's population continues to reside in the unincorporated area, with only 20 percent of residents living in a municipality. The Town of Pittsboro with a population of 3,743 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 26 percent. Major manufacturers include Townsends, Inc., which idled operations in October 2011, Uniboard USA and Performance Fibers. Various services provide another 30 percent of jobs in the County. Major service employers include Chatham County Schools, Carolina Meadows, and Chatham Hospital.

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, crinums, 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 when the economy improves. 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.

Chatham County is home to diverse tourism assets, ranging from budget to luxury offerings for visitors. Among the nature-based sites are Jordan Lake State Recreation Area, Jordan Lake Educational State Forest, numerous hiking and cycling trails, the American Tobacco Trail (multi-county trail), nature preserves and historic park lands. Chatham County is also home to North Carolina's only five-star, five-diamond restaurant, one of only two five-star, five-diamond inns in the state.

Domestic tourism in Chatham County generated an economic impact of \$25.03 million in 2010. This was a 4.6% change from 2009. Total payroll generated by the tourism industry in Chatham County reached \$3.03 million, with more than 170 jobs directly attributed to tourism. State and local tax revenues from travel to Chatham County amounted to \$2.07 million. This represents a \$32.41 tax saving to each county resident.

Visitor-related businesses in Chatham County vary in size, with an advantage to the rural charm of the area in that small, independently-owned businesses offer a distinctive product for the Convention & Visitors Bureau to promote, with a Heart of Bed & Breakfast Trail, shops, eateries, and more. Attractions range from a wildlife sanctuary for 'big cats,' including tigers, ocelots and binturongs, with guided tours as a unique offering to visitors. Agritourism is one of the county's top-ranked tourism strengths, alongside the nature sites. Four wineries, six farmers' markets and numerous small farms offering tours enhance the visitor experience, plus provide local food and drink for the farm to fork trips that tourists seek from Chatham County restaurants. A rural and convenient getaway with excellent proximity for day trips and overnight escapes from neighboring urban counties make Chatham County a significant tourism destination. More information: <http://visitpittsboro.com/about-us>

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. The Board of Commissioners recently voted to change the Capital Improvements Program to a seven year estimate.

Major Initiatives

Chatham County successfully continued to make budget cuts in its general operating budget to deal with reduced revenues during the recession. The opening of Margaret Pollard Middle School served as a major factor in increased school funding, along with helping offset state budget cuts for schools. In January 2011, a new Board of Commissioners eliminated several positions at a savings approximately \$2 million over the next four years.

For the first time in 14 years, Chatham County's 2010-11 budget presentation earned the **Government Finance Officers Association's Distinguished Budget Award**, a difficult achievement for a small staff. This distinction measures how well the presented budget serves as a policy document, financial plan, operational guide and communications tool.

Despite economic conditions, Chatham County continued its grant support of local nonprofits at the same level. The nonprofits provide a wide range of important food and family services at a time that demand is increasing due to economic conditions.

OPEN GOVERNMENT: Chatham County took several major new steps toward public access and open government, including videotaping the meetings of the Board of Commissioners and making them

available a few days after the meeting at <http://vimeo.com/channels/chathamocmeetings> and on the county's government access channel on Time Warner Cable (channel 18).

The county also created a new homepage link at www.chathamnc.org to an extensive list of Open Government resources. FY 2011 additions include monthly checkbook registers, obligations for future retirees and salary grades for employee job positions.

REDISTRICTING: In FY 2011, the Board of Commissioners initiated efforts to redraw the board's election districts based on new 2010 population figures, which show the county population at 63,505, an increase of 28.74% since 2000. The new election districts will be effective with the 2012 Election.

EDUCATION FACILITIES:

COMMUNITY COLLEGE CLASSROOMS: Both facilities were built to LEED Gold requirements for energy efficiency and environmental standards.

- The Sustainable Technologies Center in Pittsboro opened in the fall of 2010 and houses CCCC's nationally recognized green education programs, including biofuels production, green building/renewable energy, sustainable agriculture, ecotourism and organic culinary arts.
- A 23,322-square-foot industrial and adult education center opened in January 2011 in the county's Central Carolina Business Campus in Siler City. This new center replaces an overcrowded, outdated facility and allows CCCC to provide industry-specific training to new industries at no cost.

MARGARET POLLARD MIDDLE SCHOOL: This 119,945-square-foot, LEED Silver middle school on Andrews Store Road opened mid-year. It can hold up to 650 students, relieving overcrowding at other schools in northeastern Chatham.

TECHNOLOGY UPGRADE: The Board of Commissioners approved a three-year lease-purchase arrangement beginning in 2011-12 to replace outdated technology that included Apple laptops for high school students at Northwood and Chatham Central. Jordan-Matthews students previously received laptops through a grant.

OTHER COUNTY FACILITIES:

JOINT LIBRARY: In Sept. 2010, Chatham County opened a new 25,000-square-foot library on the campus of Central Carolina Community College that serves both the county and students at CCCC. The library was built to meet LEED Gold requirements for energy efficiency and environmental standards.

JUDICIAL CENTER: In May 2011, Chatham County broke ground on a new Judicial Center near the Courthouse Annex building. The 87,093-square-foot facility will house courtrooms and offices for Superior Court and District Court as well as offices for court-related staff, such as Clerk of Court, District Attorney, Probation Services, Public Defender and others. The construction bid came in about \$2 million less than expected. The facility should be completed in the fall of 2012.

HISTORIC COURTHOUSE: A commissioner-appointed task force completed its work in receiving public input and making recommendations to guide the rebuilding of the Historic County Courthouse, severely damaged by fire on March 25, 2010. After hearing from the task force, the Board of Commissioners approved plans for the rebuilt facility, which will again include a courtroom on the second floor. The first floor will house museum exhibit space, storage and offices for the Chatham County Historical Association. Construction begins in the fall of 2011 and will be completed fall of 2012.

INTERIM SUPERIOR COURTROOM: Due to the courthouse fire, the county had to relocate Superior Court to temporary quarters until the Judicial Center is completed. The county successfully renovated the former Pittsboro Memorial Library as the temporary home of Superior Court.

NORTHEAST DISTRICT PARK: Chatham County completed construction of Northeast District Park on Big Woods Road, which had its Grand Opening soon after the budget year. The 66-acre park includes a

walking trail, baseball field, multipurpose field (soccer, football, etc.), tennis courts, playground, picnic shelter, concession building and restrooms. The county received more than \$800,000 in non-county grants to help build the park.

COUNTY JAIL: Chatham County initiated plans for a new jail to address overcrowding in the existing jail. The county is required by state law to provide adequate jail space for inmates.

GENERAL COUNTY PROGRAMS & SERVICES:

THE STATE OF OUR HEALTH: The Public Health Department released its 2010 Community Health Assessment results, a 15-month review of the health status of Chatham County residents. Based on the results, the Health Department identified obesity, physical inactivity including safe areas to walk/bike, and diabetes as major focus areas until the next Community Health Assessment in 2014.

TRACING ROOTS: A special bequest to the Chatham County Public Libraries provided public access to two valuable online genealogy research databases: *Ancestry Library Edition* and *African American Heritage*. Resources are available at all library branches.

TOOLS FOR BUSINESS: The Economic Development Corporation joined with three other counties to form a one-stop, online resource, *Tools for Business*. It combines local, state and national information to help entrepreneurs start and expand their small businesses. Local entrepreneurs can access this resource at: www.chathamcdc.org/business-resources

STREAMLINED LAND USE PROCESSES: Staff worked with the Board of Commissioners to identify amendments to various land use regulations and ordinances to reduce the overall timeframe and steps in the approval process for businesses. The process has also involved a reorganization of departments or services related to land use planning and permitting.

EMERGENCY COMMUNICATIONS: The county replaced its emergency communications equipment to comply with a Federal Communication Commission's mandate that all equipment be able to operate at 12.5 KHZ or less.

TOURISM DOLLARS: The North Carolina Division of Tourism, Film and Sports Development announced today that visitors to Chatham County spent \$25.03 million in 2010, an increase of 4.6% from 2009. This shows an increase in tourism dollars despite the slow economy.

RECYCLING: Chatham County took action to comply with a statewide ban on computer equipment and televisions in landfills by establishing E-Cycle Stations at all 12 county Collection Centers. The stations accept electronics weighing less than 50 pounds from county residents with a current decal. The county also contracted with a company to sort wastes from the 12 collection centers.

LET'S TALK TRASH: Over 40 businesses, artists, and nonprofits promoted activities related to reusing, recycling, composting, and removing litter during the "Let's Talk Trash!" event April 30, 2011 held in partnership with Central Carolina Community College (CCCC) in Pittsboro.

FUEL TANK: Using grant funds, the county installed a 1000-gallon tank for B-20 biodiesel fuel. The fuel at Waste Management can be used in county vehicles and can help meet emergency needs during shortages.

FOSTER HOMES: Chatham County Social Services became one of a few counties in the state offering training classes for foster and adoptive parents in Spanish to help find homes for Spanish-speaking children.

ECONOMIC SUPPORT: Chatham County continues to meet increased demands for Food and Nutrition, Medicaid, Emergency Assistance for families affected by the recession, including special outreach to employees laid off at Townsend's. In this same period, Social Services exceeded its annual goal for the collection of court-ordered Child Support.

TAX SYSTEM EFFICIENCIES: The Tax Office implemented two systems to enhance productivity and reduce overall costs:

- Electronic scanning of listing forms
- A new property imaging system called Pictometry, which will be used in the 2013 revaluation

Despite the slow economy, the property tax collection rate increased to 97.73%, up from 97.58% the prior year.

HEALTHY SENIORS: Social Services joined with the Chatham Council on Aging, the University of North Carolina, Carolina Access (the State's Managed Care Program) to implement a program to help seniors suffering from depression.

HEALTH AWARDS: Public Health Department received a NC Children's Trust Fund grant to expand services to support fathers with parenting skills. During FY11, the Animal Shelter won \$2,000 from www.Petfinder.com for outstanding customer service during a secret shopper stakeout where shelters are rated on their service.

LEAD POISON PREVENTION: The Board of Health adopted a Childhood Lead Poisoning Prevention Rule to increase practitioners' screening of children to prevent excessive exposure to lead.

EXTENSION SAVINGS: Cooperative Extension converted many of its course materials from printed handouts to materials on CDs. This produced substantial savings in photocopying costs.

DATA STORAGE: The county successfully transitioned storage of data to SANS and virtual servers, providing effective, expanded storage at a major savings.

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, 2010. This was the 22th 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, 2011*

Board of County Commissioners

<i>Brian Bock</i>	<i>Chairman</i>
<i>Walter Petty</i>	<i>Vice Chairman</i>
<i>Mike Cross</i>	<i>Commissioner</i>
<i>Sally Kost</i>	<i>Commissioner</i>
<i>Pamela Stewart</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>Jason Sullivan</i>	<i>Planning Director</i>
<i>Jenny Williams</i>	<i>Central Permitting Director</i>
<i>David Hughes</i>	<i>Public Works Director</i>
<i>Frances Wilson</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, 2010

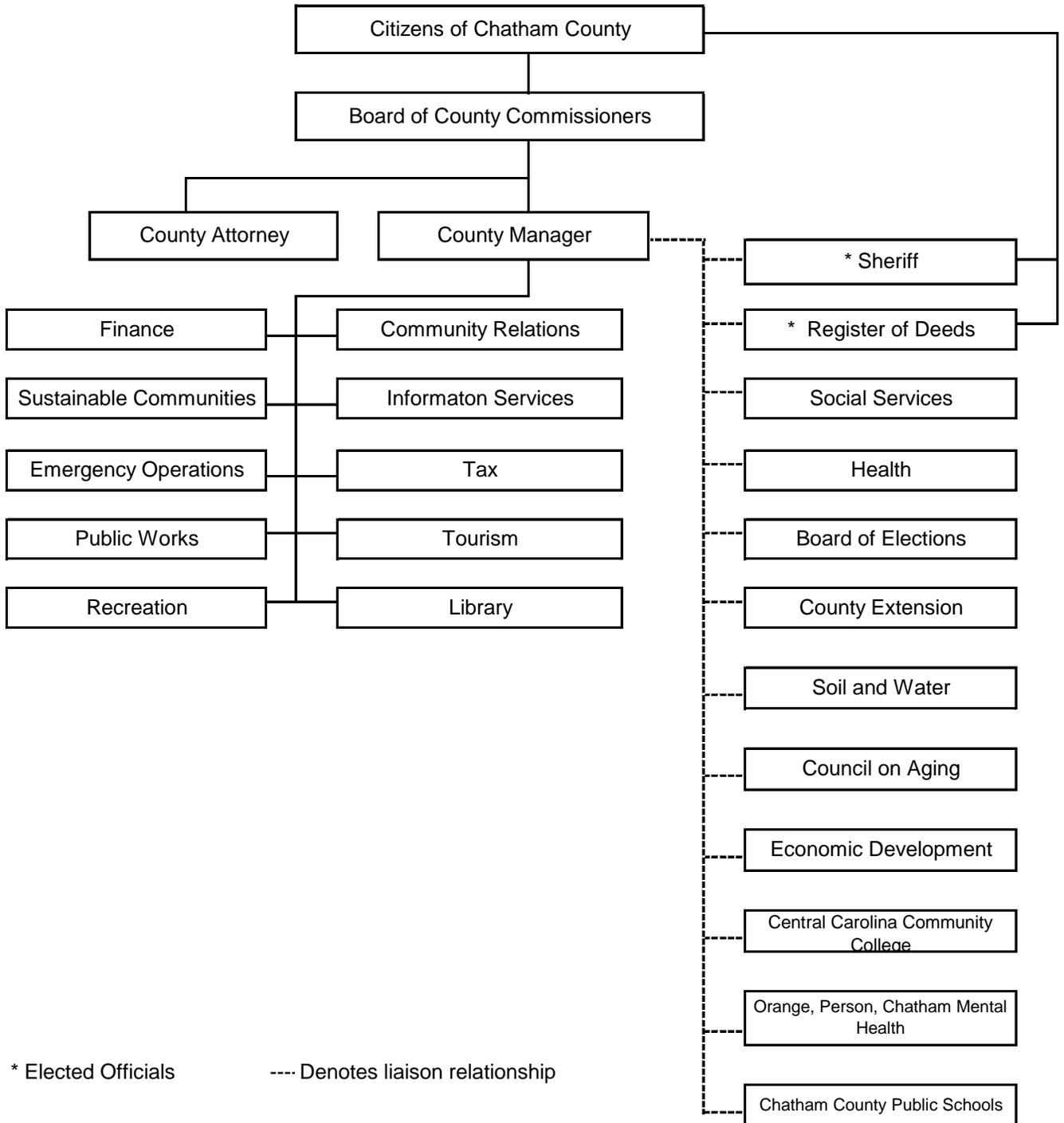
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

**Chatham County
 Organization Chart
 Fiscal Year Ended June 30, 2011**



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