

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, 2012

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, 2012.

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, 2012. 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, Harnett 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 2012 population was estimated at 63,870. By 2032, the State estimates that the County's population will grow to 90,977.

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 3,766 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. The regional prosperity has enabled Chatham County to currently rank 2nd highest among the state's 100 counties in per capita income and 3rd lowest in unemployment. Within the County, the manufacturing sector accounts for the largest percentage of jobs, just under 20 percent. Major manufacturers include Arauco, Performance Fibers, and Moncure Plywood. Various service industries 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 fourteenth in the state in income from livestock, dairy and poultry and ranks twenty fourth 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. The County ranks number two in the state in beef cattle (third in overall cattle production) and eleventh 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 as the economy improves. The Chatham Economic Development Corporation is also working with the developers of two large projects, one consisting of over 7,000 acres in eastern Chatham planning a mixed use development centered on a mid-tech business campus and the other an assemblage in western Chatham designed for large industrial users.

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 allowing the Pittsboro-Siler City Convention & Visitors Bureau (CVB), the county's official destination

marketing organization (DMO), to strategize marketing campaigns to a variety of target audiences.

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 six golf courses, with a disc golf course under construction. Chatham County is also home to North Carolina's only five-star, five-diamond restaurant and one of only two five-star, five-diamond inns in the state.

Domestic tourism in Chatham County generated an economic impact of \$27.73 million in 2011. This was a 10.8% change from 2010. Total payroll generated by the tourism industry in Chatham County reached \$3.22 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 \$33.02 tax saving to each county resident. Chatham County's visitor-related economic impact tied with Davidson County for the highest increase in the state; all 100 counties generated an increase and seven, including Chatham County experienced double-digit growth. (all economic impact data compiled by U.S. Travel Association).

The considerable increase is likely partially due to the addition of two new wineries and multiple visitor-related businesses that have opened in Chatham County while the CVB staff size of one and budget have remained relatively the same. The CVB has had the opportunity to market the wineries and current lodging as a 'trail' and that has generated interest in the destination for visitors to have various choices of places to stay and explore. New eateries have opened as well as retail; both types of businesses enhance the visitor's itinerary and maximize a trip, particularly considering the cost for refueling vehicles for travel.

The DMO/CVB has continued to teach social media marketing and has been very proactive in requesting to learn about new visitor-related businesses before opening dates in order to guide them on marketing to visitors and collaborating with other visitor-related businesses, both competitors and complementary types. While working with competitors was not always a common concept, the creation of the trails has led to local businesses working together, referring one another, and also working with other area businesses that would be to the benefit of all. The DMO's Social Media Academy has taught more than simply Facebook, Twitter, and other social media products. The focus has been to work with these (primarily small) independently-owned businesses to foster marketing skills and collaboration while sharing tools to assist them in succeeding in obtaining a larger market share through targeting visitors, consumers beyond the local community, to broaden the tax base. The CVB has also provided its visitor-related businesses opportunities for partnership marketing beyond obvious partnerships with N.C. Division of Tourism, Film and Sports Development: 3/50 project; Small Business Saturday, an American Express program; N.C. Department of Environment and Natural Resources N.C. Green Travel Recognition program; and several others)

Over the past 33 months, the travel industry has made up 57 percent of the jobs lost during the great recession, while the rest of the economy has only made up less than half of the jobs lost. This is because companies in the travel industry have added jobs at a 19 percent faster pace than employers in other sectors of the economy since the employment recovery began in the beginning of 2010 (U.S. Travel Association, October 2012).

Furthermore, the CVB has worked with professors at two universities in North Carolina (North Carolina State University and East Carolina University's Center for Sustainable Tourism) to work on various initiatives. The CVB has educated and worked closely with an NCSU professor for NCSU to apply for grant funding for an innovative rural entrepreneurship program. The CVB consulted on the creation of the People-First Tourism program and Chatham County is one of three counties in North Carolina (Mountains, Piedmont, Coastal counties) to participate, a tourism endeavor with promise and the funding to support micro-tourism businesses. Active participation, the creation of new tours, development of micro-entrepreneurs in tourism, and an opportunity to showcase various parts of the county that are occasionally overlooked is a part of the strategic tourism campaign. After a full year in operation as well as a complete

fiscal year in terms of grant funding (N.C. Rural Economic Development Center), we will have an opportunity to assess the financial impact of People-First Tourism. Moreover, the DMO works to promote

new events and create new initiatives to expand the tourism program, regardless of whether occupancy tax is generated (solely for the CVB's budget) and/or sales tax for the county; that is, day trip and overnight guests are welcome and marketed to by the DMO. A major event in 2013 that launches in June and will repeat annually through 2017 is the IRONMAN competition. It launches for the first time in North Carolina in Chatham County and of the three athletic activities, swimming (entirely in Chatham County) and cycling (partially takes place in Chatham County) will be reason for much visitor-related economic impact and media spotlight on region, which we continue to garner via national and regional media to date prior to the IRONMAN competition.

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 North Carolina Bed & Breakfast and Heart of North Carolina Wine Trails, 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, two wine shops, a brewery, 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 seven 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

OVERVIEW:

In fiscal year 2012, Chatham County continued its efforts to effectively manage resources and implement efficiencies to hold the line on property taxes, even though a growing percentage of the county's budget (almost 75%) was mandated by the state and federal government.

Budget decisions reflected goals of the Board of Commissioners, which identified education and public safety as priority services and sought overall reductions in other areas.

Departments provided lists of possible budget cuts, which helped reduce the continuation budget by 4% over the previous year. These cuts provided a cushion to help offset another round of major state budget cuts in K-12 education.

COUNTY ORDINANCES: The County Attorney's Office completed the codification of all county ordinances, which included indexing the ordinances and completing a legal review to ensure compliance

with state law. The indexed ordinances are accessible to the public at www.chathamnc.org and a book in the County Attorney's Office.

OPEN GOVERNMENT: Chatham County further expanded its Open Government efforts by posting on its website all contracts and agreements approved by the Board of Commissioners, starting Jan. 1, 2012. Look for a link to the list under the Open Government tab at www.chathamnc.org.

EDUCATION:

The county's budget included a 4% increase for Chatham County Schools to help offset major state budget cuts to education. This helped the school system avoid layoffs of all but two filled positions.

Several K-12 facility projects were completed in fiscal year:

- Upgrades of auditorium sound and lighting systems in Jordan-Matthews and Chatham Central High Schools;
- Removal of asbestos floor tiles in five schools; and
- Replacement of outdated indoor bleachers at the three high schools;

Chatham County Schools also made progress on several multi-year facility projects involving several schools, including renovation of restrooms, outdoor paving (sidewalks, play areas and roadways), and roof replacement.

OTHER COUNTY FACILITIES:

HISTORIC COURTHOUSE: In fiscal year 2012, the county started the rebuilding of the Historic Courthouse in Pittsboro that was severely damaged by fire in March 2010. The Board of Commissioners approved plans to fully restore the courthouse, including adding finishes that are more in keeping with the original 1881 structure. The project should be completed by February 2013.

JUSTICE CENTER: The county continued construction of the new 87,093-square-foot Justice Center that will house courtroom and offices for court officials. The facility is ahead of schedule and should be completed in late fall of 2012.

NEW JAIL: Due to major overcrowding at the existing jail in Pittsboro, the county initiated plans for construction of a new jail that will be located on county-owned property about five miles west of Pittsboro. Design work was completed and construction should be completed in the summer of 2014.

911 ENHANCEMENTS: Chatham County renovated a building in Siler City to serve as a fully functioning Backup 911 Center, which would be used if the main 911 Center in Pittsboro should be disabled for any reason. The project was completed on time and under budget using restricted 911 revenues. The county also installed a new 911 phone system to improve redundancy, mobility and security of the network.

LAW ENFORCEMENT PARKING: Chatham County expanded the parking area and improved driveways around the Law Enforcement Center and the Emergency Operations Center to improve safety and relieve congestion.

NORTHEAST PARK OPENING: In August 2011, Chatham County hosted the grand opening of Northeast District Park. The 66-acre park's first phase includes a walking trail, baseball field, multipurpose field (soccer, football, etc.), tennis courts, playground, picnic shelter, concession building and restrooms. Nearly \$840,000 in public and private grant funds helped cover the cost of the park's development.

BRIAR CHAPEL PARK: Near the end of fiscal year 2012, the county took ownership of a 62-acre park in northeastern Chatham that Briar Chapel development was required to develop as part of its approved compact community plan. The county will use recreation fees paid by Briar Chapel to begin work on needed enhancements, such as construction of a restroom, concessions building and fencing and lighting of ball fields.

WATER SYSTEM: Chatham County initiated work to connect to the City of Durham's water system, which will provide additional water for the Northeast portion of the County.

GENERAL COUNTY PROGRAMS & SERVICES:

ENVIRONMENTAL QUALITY: The county successfully completed the consolidation of Solid Waste & Recycling, Erosion Control and Land & Water Resources under a new department called Environmental Quality. The changes better utilize staff expertise for related functions and saved \$115,000 in the fiscal year 2012 budget.

JOB GROWTH: The Chatham Economic Development Corporation worked with: five new businesses that created 160 jobs and invested \$2.55 million; 13 expanding companies that created 253 jobs and invested \$114.6 million; and 102 entrepreneurs who created 78 jobs and invested \$2.8 million. This is a total of 120 businesses that created 491 jobs valued at \$13.1 million. New and expanding businesses invested \$117.15 million in capital, a significant improvement over \$19 million in fiscal year 11 and \$1 million in fiscal year 10.

PRE-PERMITTING MEETINGS: To make the permitting process more customer-friendly for new and expanding businesses, Chatham County began holding pre-application meetings at the request of potential applicants. The meetings allow business owners to meet with staff from various permit-related offices before they begin the application process. As of February 2012, more than 54 businesses had taken advantage of the meetings which help troubleshoot potential problems early in the process.

PERMIT CHECKLIST: The county developed and posted a bilingual checklist on the website to help residents better understand the rules and permits required for various kinds of building projects.

RECYCLING AWARD: The Solid Waste and Recycling Division received the 2012 Outstanding Rural Recycling Program Award from the Carolina Recycling Association, which recognized just one rural program in North Carolina or South Carolina for its efforts in 2011.

ELECTRONICS RECYCLING: The county expanded its electronics recycling program in support of the state banning the disposal televisions and computer equipment in landfills after July 1, 2011. E-Cycle Stations were set up at the 12 Collection Centers to collect electronics up to 50 pounds and TVs/monitors up to 25 inches (diagonal measure).

TOURISM SPENDING : An annual statewide report showed that Chatham tied for first place among all 100 counties for the highest increase in tourism spending in 2011. Domestic tourism in Chatham County generated an economic impact of \$27.73 million in calendar year 2011, up 10.8% from 2010. Total payroll generated by the tourism industry in Chatham County reached \$3.22 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, a \$33.02 tax saving for each county resident.

TOURISM PROMOTION: The Pittsboro-Siler City Convention & Visitors Bureau (CVB) continued its track record of winning awards for its marketing and innovative strategies, including working with a North Carolina State professor to be one of just three counties to receive grant monies for an innovative rural entrepreneurship program, People-First Tourism. The CVB also created the Heart of North Carolina Wine Trail, which complements the Heart of North Carolina Bed & Breakfast Trail.

HOMES IN NEED: Chatham County continued work on two Community Development Block Grants for housing rehabilitation and received two Housing Finance Agency housing rehabilitation grants, a total of more than \$1.1 million in grant funds. These projects will help at least 37 low-income residents make critical repairs or upgrades, such as obtaining indoor plumbing or heating.

FAMILY HISTORY: Chatham Community Library volunteers began offering special help during specific hours on Thursdays for those doing family history research, including helping them use the library's array of genealogy databases.

TOWN TAX COLLECTIONS: Effective Feb. 1, 2012, the Chatham County Tax Office started collecting property taxes for the Town of Siler City, with residents receiving just one property tax bill for town and county taxes. The County now collects property taxes for all municipalities within the County.

POULTRY FARMERS: The Chatham County Center of Cooperative Extension provided special programs and helped secure funding to help poultry farmers impacted by the closing of poultry processing plants. The efforts will help these farmers transition to other agricultural income sources.

SHERIFF HONORS: For fiscal year 2012 Chatham County Sheriff Richard Webster served as President of the North Carolina Sheriff's Association.

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, 2011. This was the 23rd 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 members of the Finance Department throughout the preparation of this report. We would like to thank the entire county staff for the 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, 2012*

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, 2011

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.



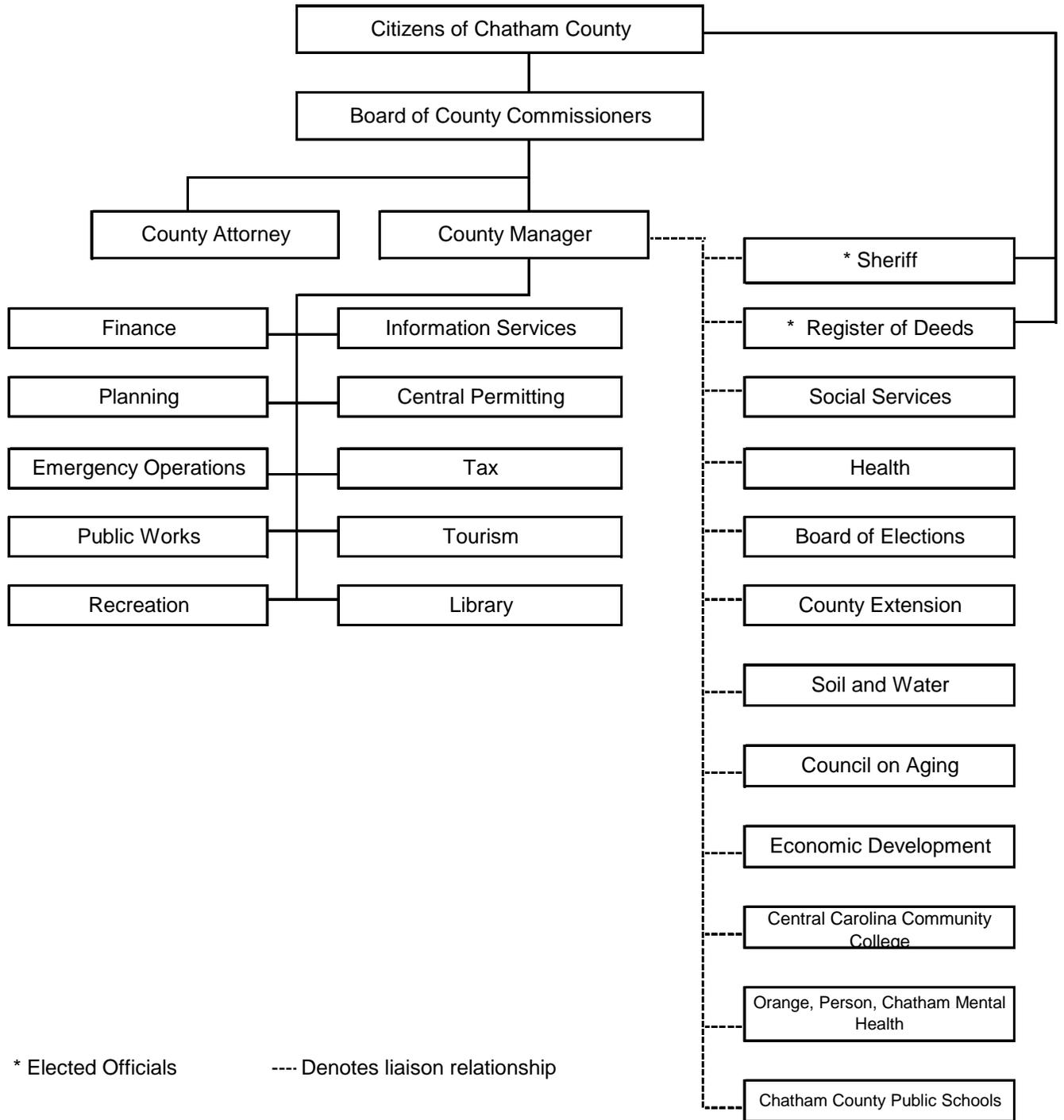
Christopher P. Morrell

President

Jeffrey R. Emer

Executive Director

**Chatham County
 Organization Chart
 Fiscal Year Ended June 30, 2012**



* Elected Officials

---- Denotes liaison relationship