

FINANCIAL SECTION

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Chatham County, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Chatham County, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Chatham County's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the Chatham County ABC Board which, represents 100%, respectively, of the net assets, fund balance and revenues of the component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us and, our opinion, insofar as it related to the amounts included for the Chatham County ABC Board, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the Chatham County ABC Board were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Chatham County, North Carolina, as of June 30, 2012, and the respective changes in financial position and cash flows, where appropriate, thereof, and the respective budgetary comparison for the General Fund and Impact Fees Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2012, on our consideration of Chatham County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Law Enforcement Officers' Special Separation Allowance and the Other Post-Employment Benefits' Schedules of Funding Progress and Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of Chatham County, North Carolina as a whole. The introductory section, combining and individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 31, 2012

Management's Discussion and Analysis

As management of Chatham County, we offer readers of Chatham County's financial statements this narrative overview and analysis of the financial activities of Chatham County for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements, which follow this narrative.

Financial Highlights

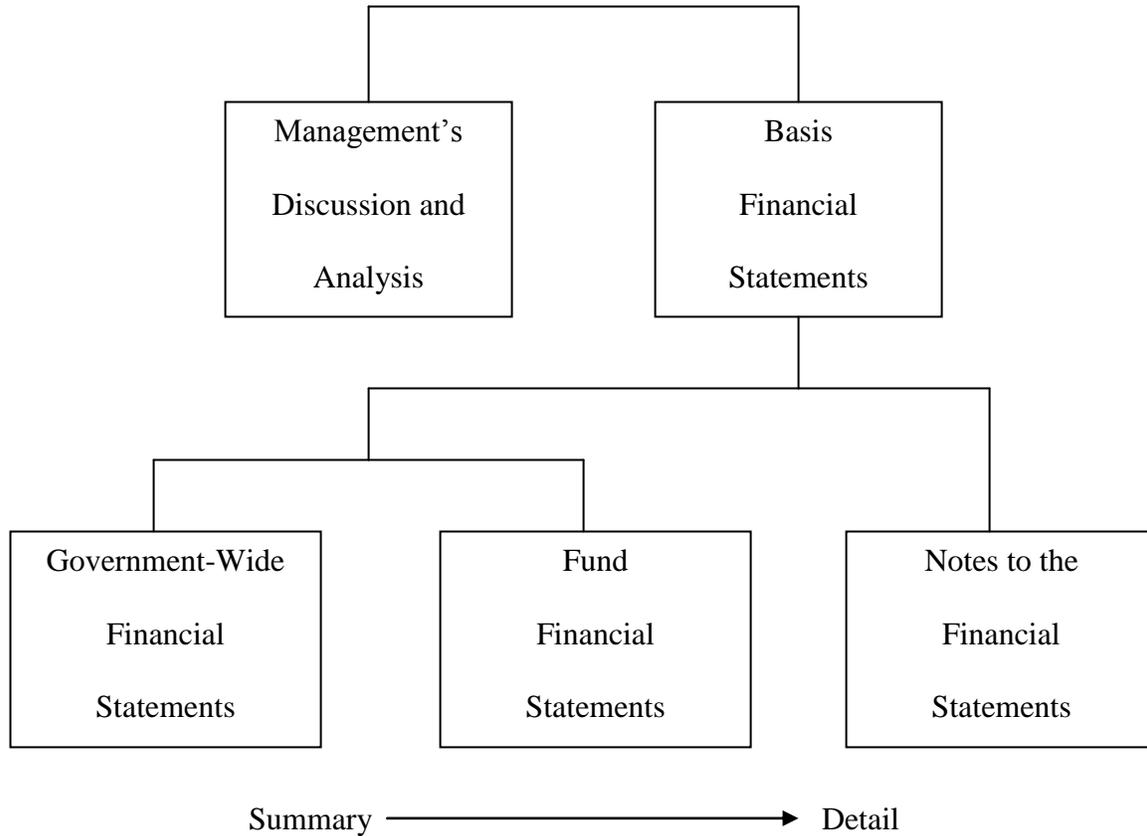
- The assets of Chatham County exceeded its liabilities at the close of the fiscal year by \$124,382,062 (*net assets*). The assets of the governmental activities exceeded liabilities by \$66,967,487, and the assets of the business-type activities exceeded liabilities by \$57,414,575.
- The government's total net assets decreased by \$930,469, primarily due to increased spending on school related capital projects. As of the close of the current fiscal year, Chatham County's governmental funds reported combined ending fund balances of \$65,981,041, a decrease of \$188,407 in comparison with the prior year. Approximately 14.5 percent of this total amount, or \$9,554,773, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$17,267,856, or 20 percent of total General Fund expenditures for the fiscal year.
- Chatham County's total debt increased by \$6,070,702 during the current fiscal year.
- Chatham County maintained its Aa2 bond rating from Moody's and its AA+ bond rating from Standard and Poor's.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Chatham County's basic financial statements. The County's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the County through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Chatham County.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **Government-Wide Financial Statements**. They provide both short and long-term information about the County's financial status.

The next statements (Exhibits C to K) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government. These statements provide more detail than the government-wide statements. There are four parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, 3) the proprietary fund statements, and 4) the fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. Following the notes is the **required supplemental information**. This section contains funding information about the County's pension plans. After the required supplemental information, **supplemental schedules** are provided to show details about the County's nonmajor governmental funds and the Internal Service Fund, all of which are added together in one column on the basic financial statements. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the County's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the County's financial status as a whole.

The two government-wide statements are the Statement of Net Assets and the Statement of Activities. Net assets are the difference between the County's total assets and total liabilities. Measuring net assets is one way to gauge the County's financial condition. Over time, increases or decreases in net assets help to determine whether the County's financial position is improving or deteriorating. The Statement of Activities presents information which shows how the County's net assets changed during the most recent fiscal year.

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the County's basic services such as public safety, human services, education, parks and recreation, and general administration. Property taxes, sales and other taxes, and State and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. These include the utility and solid waste management services offered by Chatham County. The final category is the component unit. Although legally separate from the County, the Chatham County Board of Alcoholic Beverage Control is important to the County because the County is financially accountable for the Board by appointing its members and because the Board is required to distribute its profits to the County.

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Chatham County, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the County's budget ordinance. All of the funds of Chatham County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the County's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Chatham County adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the governmental funds' Statement of Revenues, Expenditures, and Changes in Fund Balance.

Proprietary Funds. Chatham County has two kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Chatham County uses enterprise funds to account for its utility activity and for its solid waste management operations. These funds are the same as those separate activities shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the functions of the County. The County uses an Internal Service Fund to account for one activity – its Self-Insurance Fund. Because this operation benefits predominantly governmental rather than business-type activities, the Internal Service Fund has been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Proprietary fund financial statements provide separate information for the utility and solid waste management activities, both of which are considered to be major funds of the County.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Chatham County has six fiduciary funds, a Pension Trust Fund, and five agency funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 26 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Chatham County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 66-68 of this report.

Government-Wide Financial Analysis

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the County as a whole.

Chatham County Statement of Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	\$ 78,717,334	\$ 76,501,451	\$ 27,515,140	\$ 26,226,077	\$ 106,232,474	\$ 102,727,528
Capital assets	<u>101,339,333</u>	<u>95,731,600</u>	<u>52,866,417</u>	<u>53,815,075</u>	<u>154,205,750</u>	<u>149,546,675</u>
Total assets	<u>180,056,667</u>	<u>172,233,051</u>	<u>80,381,557</u>	<u>80,041,152</u>	<u>260,438,224</u>	<u>252,274,203</u>
Liabilities:						
Long-term liabilities outstanding	100,982,745	92,629,727	20,966,361	22,486,233	121,949,106	115,115,960
Other liabilities	<u>12,106,435</u>	<u>10,054,857</u>	<u>2,000,621</u>	<u>1,790,855</u>	<u>14,107,056</u>	<u>11,845,712</u>
Total liabilities	<u>113,089,180</u>	<u>102,684,584</u>	<u>22,966,982</u>	<u>24,277,088</u>	<u>136,056,162</u>	<u>126,961,672</u>
Net Assets:						
Invested in capital assets, net of related debt	23,297,981	32,810,111	30,745,494	32,259,505	54,043,475	65,069,616
Restricted	7,002,729	7,136,044	-	-	7,002,729	7,136,044
Unrestricted	<u>36,666,777</u>	<u>29,602,312</u>	<u>26,669,081</u>	<u>23,504,559</u>	<u>63,335,858</u>	<u>53,106,871</u>
Total net assets	<u>\$ 66,967,487</u>	<u>\$ 69,548,467</u>	<u>\$ 57,414,575</u>	<u>\$ 55,764,064</u>	<u>\$ 124,382,062</u>	<u>\$ 125,312,531</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of Chatham County exceeded liabilities by \$124,382,062 as of June 30, 2012. The County's net assets decreased by \$930,469 for the fiscal year ended June 30, 2012. A portion of the County's net assets represents the County's investment in capital assets (e.g. land, buildings, machinery, and equipment), net of any related debt still outstanding that was issued to acquire those items. Chatham County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Chatham County's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. A portion of Chatham County's net assets \$7,002,729 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$63,335,858 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

Several particular aspects of the County's financial operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a collection percentage of 97.84%.
- The continued accumulation of funds in the Capital Improvement Reserve Fund – The Board of Commissioners continued to set aside an equivalent of five cents on the tax rate to fund future capital projects, including a new library completed in 2012 and judicial facility which is scheduled to be completed in 2013.

The County's total revenues and expenses for governmental and business-type activities are reflected in Figure 3.

Chatham County Changes in Net Assets

Figure 3

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 5,494,812	\$ 4,825,238	\$ 9,977,812	\$ 9,794,810	\$ 15,472,624	\$ 14,620,048
Operating grants and contributions	10,898,295	10,818,468	140,971	-	11,039,266	10,818,468
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	61,548,697	59,903,369	-	-	61,548,697	59,903,369
Local option sales tax	8,190,337	7,879,070	-	-	8,190,337	7,879,070
Other taxes	672,927	667,747	-	-	672,927	667,747
Grants and contributions, not restricted to specific programs	2,077,526	1,680,291	-	-	2,077,526	1,680,291
Investment earnings	154,371	157,610	49,293	42,246	203,664	199,856
Other	443,116	966,652	-	-	443,116	966,652
Total revenues	89,480,081	86,898,445	10,168,076	9,837,056	99,648,157	96,735,501
Expenses:						
General government	6,973,789	10,222,252	-	-	6,973,789	10,222,252
Public safety	19,891,626	18,684,461	-	-	19,891,626	18,684,461
Economic and physical development	2,750,430	2,784,443	-	-	2,750,430	2,784,443
Human services	15,694,203	16,811,310	-	-	15,694,203	16,811,310
Cultural and recreational	743,753	1,287,933	-	-	743,753	1,287,933
Education	43,711,018	27,098,335	-	-	43,711,018	27,098,335
Interest on long-term debt	4,076,098	4,203,953	-	-	4,076,098	4,203,953
Utility	-	-	4,909,100	5,790,341	4,909,100	5,790,341
Southeast Water District	-	-	757,410	-	757,410	-
Solid waste management	-	-	2,851,055	2,860,614	2,851,055	2,860,614
Total expenses	93,840,917	81,092,687	8,517,565	8,650,955	102,358,482	89,743,642
Increase in net assets before transfers	(4,360,836)	5,805,758	1,650,511	1,186,101	(2,710,325)	6,991,859
Transfers	-	(106,355)	-	106,355	-	-
Extraordinary item - insurance recovery	1,779,856	2,475,000	-	-	1,779,856	2,475,000
Change in net assets	(2,580,980)	8,174,403	1,650,511	1,292,456	(930,469)	9,466,859
Net Assets:						
Beginning of year - July 1	69,548,467	61,374,064	55,764,064	54,471,608	125,312,531	115,845,672
End of year - June 30	\$ 66,967,487	\$ 69,548,467	\$ 57,414,575	\$ 55,764,064	\$ 124,382,062	\$ 125,312,531

Governmental Activities. Governmental activities decreased the County's net assets by \$2,580,980. Increased spending on projects for Chatham County schools accounted for this decrease, including renovations and additions to school facilities.

Business-Type Activities. Business-type activities increased Chatham County's net assets by \$1,650,511.

Financial Analysis of the County's Funds

As noted earlier, Chatham County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of Chatham County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Chatham County's financing requirements. Specifically, fund balance available for appropriation can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of Chatham County. At the end of the current fiscal year, Chatham County's fund balance available in the General Fund was \$22,579,847, while total fund balance was \$27,089,604. As a measure of the General Fund's liquidity, it may be useful to compare both available fund balance and total fund balance to total fund expenditures. Available fund balance represents 26.4 percent of total General Fund expenditures, while total fund balance represents 31.6 percent of that same amount.

At June 30, 2012, the governmental funds of Chatham County reported a combined fund balance of \$65,981,041, a .3 percent decrease over last year.

The Impact Fees Fund balance decreased by \$1,818,653 and the Capital Improvement Capital Project Reserve Fund balance increased by \$3,818,402. A transfer was made from the impact fee fund to cover the debt service payment for new school facilities resulting in a decrease in the fund balance. The increase in the Capital Improvement Reserve Fund was the result of a net transfer from the General Fund into the Capital Improvement Reserve Fund.

General Fund Budgetary Highlights. During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Total amendments to the General Fund increased revenues by \$1,621,962 and expenditures by \$3,952,638.

Operating revenues of the General Fund were \$2,893,835 more than the final budgeted amount. Although property tax revenue and sales tax revenue exceeded budgeted amounts by \$1,438,767 and \$220,337 respectively the County saw a decline in anticipated restricted intergovernmental revenue of \$187,221.

The actual expenditures within the General Fund totaled \$4.7 million less than appropriated.

Proprietary Funds. Chatham County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Utility Fund at the end of the fiscal year amounted to \$22,070,396 and those for the Solid Waste Management Fund equaled \$4,241,723 while the Southeast Water District Fund equaled \$356,962. The net assets for the Utility Fund increased \$1,556,232, and the Solid Waste Management Fund's net assets increased \$291,576 while the Southeast Water District Fund decreased \$197,297 for the year ended June 30, 2012.

Capital Asset and Debt Administration

Capital Assets. Chatham County's capital assets for its governmental and business-type activities as of June 30, 2012, total \$154,205,750 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, vehicles, and infrastructure for utility and solid waste management services.

Major capital asset transactions during the year include:

- Purchased new vehicles and equipment for the Sheriff's Department
- Construction of new judicial facility. Construction is expected to be completed in the fall of 2013.

Chatham County's Capital Assets (Net of Depreciation)

Figure 4

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Non-Depreciable Assets:						
Land	\$ 10,468,462	\$ 7,386,222	\$ 916,528	\$ 916,528	\$ 11,384,990	\$ 8,302,750
Construction in progress	51,959,881	52,204,348	21,512,673	21,369,450	73,472,554	73,573,798
Depreciable Assets:						
Buildings	36,454,682	33,090,546	1,746,726	2,099,169	38,201,408	35,189,715
Infrastructure:						
Wells and water lines	-	-	27,455,252	28,746,402	27,455,252	28,746,402
Equipment and vehicles	2,456,308	3,050,484	1,235,238	683,526	3,691,546	3,734,010
Total	<u>\$ 101,339,333</u>	<u>\$ 95,731,600</u>	<u>\$ 52,866,417</u>	<u>\$ 53,815,075</u>	<u>\$ 154,205,750</u>	<u>\$ 149,546,675</u>

Additional information on the County's capital assets can be found in Note 2 of the Basic Financial Statements.

Long-Term Debt. As of June 30, 2012, Chatham County had total bonded debt outstanding of \$9,547,000 all of which is debt backed by the full faith and credit of the County. In addition, the County incurred additional installment debt in the amount of \$20,766,407, consisting of \$6,717,498 Limited Obligation Bonds and \$14,048,910 interim financing for the new judicial facility.

Chatham County's Outstanding Debt General Obligation Bonds and Other Long-Term Obligations

Figure 5

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 6,385,000	\$ 8,120,000	\$ 3,162,000	\$ 3,200,000	\$ 9,547,000	\$ 11,320,000
Other long-term obligations	97,911,077	88,093,680	18,228,966	20,202,661	116,140,043	108,296,341
Total	<u>\$104,296,077</u>	<u>\$ 96,213,680</u>	<u>\$ 21,390,966</u>	<u>\$ 23,402,661</u>	<u>\$ 125,687,043</u>	<u>\$ 119,616,341</u>

Chatham County's bonded debt decreased by \$1,773,000 during the past fiscal year, due to principal payments on existing debt.

As mentioned in the financial highlights section of this document, Chatham County maintained its Aa2 bond rating from Moody's Investor Service to and its AA+ rating from Standard & Poor's Corporation.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Chatham County is \$707,594,158.

Additional information regarding Chatham County's long-term debt can be found in Note 2 of the Basic Financial Statements.

Economic Factors and Next Year's Budgets and Rates

- As of 2010, the latest data available, Chatham County has the second highest per capita income in the state - 32% higher than the state average.
- In spite of job losses, Chatham County's unemployment rate (7% in August 2012) trends well below the state (9.2%) and nation (8.2%). The August 2012 rate is 0.7% lower than the August 2011 rate. The County's August 2012 rate ranked third lowest among other counties in the state.
- The County's property tax rate remained the same from FY 2012 to 2013: 62.19 cents/\$100 valuation of property. Property values are projected to increase 1.9% overall, as follows:
 - Real property, 2.4% increase
 - Public utility values, 0% increase
 - Motor vehicles, 7% increase; and
 - Personal property, 1.5% decrease (because of the loss in leased Townsend Poultry equipment and depreciation of other business equipment).
- Data for FY 2013 is not available, but in FY 2012, the third year of its revaluation cycle, Chatham County ranked 17th out of 100 counties in property valuation per capita at \$137,379 (which is 33% higher than the state average). As many counties in the state and nation, Chatham County's sales assessment ratio is above 100%. Commissioners have opted to delay implementation of the next revaluation until FY 2016.
- The sales tax distributed based on where collected grew by 2.2% compared to 6.4% statewide growth. The County is projecting that sales tax revenues will be about 1% higher in FY 2013.
- Building permit revenue decreased 19% between FY 2011 and FY 2012, but overall the number of residential permits increased 7%. The decrease in revenue results from several large commercial projects in FY 2011, including the Chatham County Justice Center. After declining every year since the recession, Register of Deeds' stamps, which are paid when properties are sold within the County, were up 6% in FY 2012 and 23% in the final quarter of FY 2012. Both of these revenue sources were conservatively budgeted in FY 2013 at 3% less than FY 2012 projected levels.
- Recent business and industry announcements, especially in the western part of the County, are encouraging. Large expansions of Galloway Ridge and Carolina Meadows retirement communities are estimated to add approximately 50 jobs and \$43 million to the tax base by the end of FY 2012-2013 (most of the increase is already reflected in the property tax base). The recent announcement of Wal-Mart promises to increase the tax base (amount not yet disclosed), add about 300 jobs and substantially increase locally collected sales tax.

Budget Highlights for the Fiscal Year Ending June 30, 2013

Governmental Activities. During the past four years, the County and the various agencies it funds, including the school system, have taken numerous steps to ensure the provision of critical services without overburdening taxpayers.

The County anticipated significant reductions in state-shared revenues and cost shifting from the state in FY 2011-2012 that did not materialize. With the exception of funding for health services, the state has not balanced its budget on the backs of local government.

The same cannot be said for education. Because of reductions in state funding, Chatham County Schools now spends approximately \$1,000 less per student than in FY 2008-2009 (source: Department of Public Instruction Statistical Profile). During this time, Chatham County has increased local funding and worked closely with the school system to manage the deep cuts. The County increased its support of education again in FY 2012-2013. The budget included an \$800,000 increase to fund increased enrollment and help close a projected budget deficit.

Prior to FY 2012-2013, 19 County positions have been cut (though only four people have been laid off) and County employees have absorbed additional work. The FY 2012-2013 budget cut an additional four positions. Only one of these was filled.

Because of the unpredictable economy and its effect on local revenues, the threats to the school system budget, and the fact that many local residents were dealing with job loss, the County has not increased employee pay and benefits in four years. As the pay study conducted in 2008 showed, County employees were already behind their counterparts by 15%. For the County to remain competitive in salaries, implementation of the 2008 pay study was essential. These pay adjustment, implemented in FY 2012-2013, cost \$1,302,058 in the General Fund.

The prior year budget (FY 2011-2012) was prepared under the Board of Commissioners' direction to cut \$1.5 million from the County budget. Commissioners approved a funding reduction strategy that asked all County agencies, except the school system, to identify proposed cuts. The manager recommended and the board approved cuts that maintained mandated services, but reduced discretionary spending. This defensive action, plus additional targeted cuts identified by the Board of Commissioner during its annual budget retreat this year, placed the County in the position to absorb significant increases in the FY 2012-2013 budget that will advance the County without raising taxes. These included:

- \$800,000 in school current expense
- \$1,302,058 for pay study implementation (General Fund only)
- \$837,415 to operate the new justice center for six months
- \$1,275,328 for increased debt reserve contribution for the new jail and retirement of school and community college debt (the debt model requires that retired debt be transferred to the reserve less the \$226,119 savings from delaying the high school one year).

Request for Information

This report is designed to provide an overview of the County's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, County of Chatham, Post Office Box 608, Pittsboro, North Carolina 27312.