

Management's Discussion and Analysis

As management of Douglas County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the letter of transmittal, which begins on page i, and the financial statements, which begin on page 10.

Financial Highlights

- Douglas County's assets exceeded its liabilities at June 30, 2007, by \$347,357,581 (*net assets*). Of this amount, \$48,073,793 (*unrestricted net assets*) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net assets decreased by \$6,929,749. This decrease is due primarily to the increase in the county landfill closure and postclosure liability (an increase of \$5,622,000) and a decrease in cash and investments as a result of a multi-year project in progress to renovate county bridges.
- At June 30, 2007, the unreserved fund balance for the General Fund was \$48,257,045 or 126% of total General Fund expenditures and transfers to other funds. This represents an increase of \$3,095,115 or 6.8% from the previous year.

Overview of the Financial Statements

This discussion is intended to serve as an introduction to Douglas County's basic financial statements. The County's basic financial statements are comprised of three components:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

The report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to private-sector business reporting. One of the strengths of the new *government-wide financial statements* is that they eliminate what has had the appearance of double counting of internal service fund (charge-back) operations. These statements reflect the charged expenses in the programs for which services were provided, but do not reflect the expenses a second time as the costs that comprise these charges.

The *Statement of Net Assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. The County's capital assets (land, buildings, equipment and infrastructure) are included in this statement and reported net of their accumulated depreciation. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information showing how the County's net assets changed during the fiscal year ended June 30, 2007. Changes in net assets are reported when the underlying events giving rise to the change occur, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items, for example, uncollected property taxes and earned but unused vacation leave, which will only result in cash flows in future fiscal periods.

Both government-wide financial statements (*Statement of Net Assets* and *Statement of Activities*) distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental

activities of the Douglas County include general government, public safety, highways and streets, sanitation, health and welfare, culture and recreation, conservation and education. The business-type activities of the County include a sewer treatment plant and the Salmon Harbor facility operation.

The government-wide financial statements include not only the County itself (known as the *primary government*), but also a legally separate Hospital Facility Authority for which the County is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found beginning on page 10 of this report.

Fund financial statements. 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. Douglas County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: *governmental funds, proprietary funds, and fiduciary funds.*

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. A reconciliation of the governmental funds balance sheet to the government-wide statement of net assets and a reconciliation of the governmental funds statement of revenues, expenditures and changes in fund balance to the government-wide statement of activities have been included in this report.

The County maintains 16 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Public Works Fund, Public Safety Fund and Health and Social Services Fund, all of which are considered to be major governmental funds. Data from the remaining governmental funds (non-major governmental funds) are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for all funds. A budgetary comparison schedule has been provided for each fund to demonstrate compliance with this budget.

The basic governmental fund financial statements and respective reconciliations can be found beginning on page 12 of this report.

Proprietary funds. The County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for its sewer treatment plant operations and for the operation of the Salmon Harbor facility. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its risk management activities and fleet operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, but in greater detail. The enterprise fund financial statements provide separate information for the sewer treatment plant operations and the operation of the Salmon Harbor facility. The Salmon Harbor Fund is considered to be a major fund. The internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the proprietary and internal service funds is provided in the form of combining statements and fund schedules

elsewhere in this report. The basic proprietary fund financial statements can be found on beginning on page 16 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support County programs. The accounting used for fiduciary funds is similar to that used for proprietary funds. The basic fiduciary fund financial statement can be found on page 19 of this report.

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 can be found beginning on page 20 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its employees; and budgetary comparative schedules for the County's major funds. Required supplementary information can be found on page 39 of this report.

Combining and individual fund statements and schedules for nonmajor funds can be found immediately following the required supplementary information.

Government-wide Financial Analysis

Net assets, over time, may serve as a useful indicator of a government's financial position. Douglas County's assets, including its capital assets net of depreciation, exceeded its liabilities by \$347,357,581 at June 30, 2007.

The largest portion of the County's net assets (61%) reflects its investment in capital assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Approximately 25% of the County's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance (14%) of unrestricted net assets (\$48,073,793) may be used to meet the government's ongoing obligations to citizens and creditors.

Douglas County's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	6/30/2007	6/30/2006	6/30/2007	6/30/2006	6/30/2007	6/30/2006
Cash and investments	\$158,385,731	\$164,142,279	\$1,404,529	\$1,278,638	\$159,790,260	\$165,420,917
Receivables	10,597,212	8,448,705	40,058	41,691	10,637,270	8,490,396
Internal balances	130,328	115,424	(130,328)	(115,424)		
Other assets	3,082,653	3,207,534	13,096	29,151	3,095,749	3,236,685
Interfund loan balances	2,361,529	2,361,529	(2,361,529)	(2,361,529)		
Capital assets	206,299,495	201,914,503	5,384,506	5,726,588	211,684,001	207,641,091
Total assets	<u>380,856,948</u>	<u>380,189,974</u>	<u>4,350,332</u>	<u>4,599,115</u>	<u>385,207,280</u>	<u>384,789,089</u>
Noncurrent liabilities	27,085,142	21,303,450			27,085,142	21,303,450
Other liabilities	10,708,971	9,152,620	55,586	45,689	10,764,557	9,198,309
Total liabilities	<u>37,794,113</u>	<u>30,456,070</u>	<u>55,586</u>	<u>45,689</u>	<u>37,849,699</u>	<u>30,501,759</u>
Net assets:						
Invested in capital assets	206,299,495	201,914,503	5,384,506	5,726,588	211,684,001	207,641,091
Restricted	87,599,787	96,447,581			87,599,787	96,447,581
Unrestricted	49,163,553	51,371,820	(1,089,760)	(1,173,162)	48,073,793	50,198,658
Total net assets	<u>\$343,062,835</u>	<u>\$349,733,904</u>	<u>\$4,294,746</u>	<u>\$4,553,426</u>	<u>\$347,357,581</u>	<u>\$354,287,330</u>

Douglas County's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	6/30/2007	6/30/2006	6/30/2007	6/30/2006	6/30/2007	6/30/2006
Revenues:						
Program revenues:						
Charges, fees and fines	\$14,807,193	\$13,494,523	\$1,908,514	\$1,782,403	\$16,715,707	\$15,276,926
Operating grants and contributions	60,274,316	59,190,528	302,337	376,331	60,576,653	59,566,859
Capital contributions						
General revenues:						
Property taxes	6,985,626	6,541,686			6,985,626	6,541,686
Grants and contributions not restricted to specific programs	26,611,362	25,443,814			26,611,362	25,443,814
Unrestricted investment earnings	9,365,375	5,610,501	58,903	35,731	9,424,278	5,646,232
Total revenues	<u>118,043,872</u>	<u>110,281,052</u>	<u>2,269,754</u>	<u>2,194,465</u>	<u>120,313,626</u>	<u>112,475,517</u>
Expenses:						
General government	26,470,243	26,668,475			26,470,243	26,668,475
Public safety	23,129,754	21,355,931			23,129,754	21,355,931
Highways and streets	28,071,514	25,739,885			28,071,514	25,739,885
Sanitation	9,230,886	9,495,022			9,230,886	9,495,022
Health and welfare	23,584,522	22,202,806			23,584,522	22,202,806
Culture and recreation	7,538,083	6,880,841			7,538,083	6,880,841
Conservation	1,401,630	1,197,024			1,401,630	1,197,024
Education	5,228,454	5,052,799			5,228,454	5,052,799
Interest on long-term debt	86,755	91,037			86,755	91,037
Sewer			539,392	543,981	539,392	543,981
Recreational facility			1,962,142	1,793,854	1,962,142	1,793,854
Total expenses	<u>124,741,841</u>	<u>118,683,820</u>	<u>2,501,534</u>	<u>2,337,835</u>	<u>127,243,375</u>	<u>121,021,655</u>
Increase (decrease) in net assets before transfers	(6,697,969)	(8,402,768)	(231,780)	(143,370)	(6,929,749)	(8,546,138)
Gain on sale of assets						
Transfers	26,900	21,000	(26,900)	(21,000)		
Increase (decrease) in net assets	(6,671,069)	(8,381,768)	(258,680)	(164,370)	(6,929,749)	(8,546,138)
Net assets - July 1	<u>349,733,904</u>	<u>358,115,672</u>	<u>4,553,426</u>	<u>4,717,796</u>	<u>354,287,330</u>	<u>362,833,468</u>
Net assets - June 30	<u>\$343,062,835</u>	<u>\$349,733,904</u>	<u>\$4,294,746</u>	<u>\$4,553,426</u>	<u>\$347,357,581</u>	<u>\$354,287,330</u>

Governmental activities. Governmental activities decreased net assets by \$6,671,069. This decrease was primarily the result of an increase in the closure and postclosure estimate of the county landfill and current expenditures on the multi-year project to renovate county bridges.

Business-type activities. Business-type activities decreased net assets by \$258,680. This decrease is the result of an increase in operating costs and a reduction in state funding for operation of the Salmon Harbor Marina facility.

Financial Analysis of County Funds

Douglas County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$158,281,148 a decrease of \$5,367,092 over the prior year. Over 95% of this total ending balance constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to deposits, notes receivable, advances to other funds unpaid by year-end, and inventories.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$48,257,045, while total fund balance reached \$49,041,387. Unreserved fund balance represents 126% of total general fund expenditures and transfers to other funds.

The General Fund's unreserved fund balance increased by \$3,095,115 in 2006-07 and \$1,939,331 in 2005-06. Approximately 65% of the General Fund 2006-07 revenues came from federal funding called the "Secure Rural Schools and Community Self-Determination Act of 2000". This Act was due to expire in fiscal 2006-07. In May 2007 Congress extended the Act for one additional year. This extension will provide funding through fiscal 2007-08. The Board of County Commissioners continues to manage resources to build reserves until funding can be stabilized.

The Public Works fund balance decreased by \$7,895,546 including change in inventory. This decrease is due largely to expenditures on a multi-year bridge replacement/repair project funded by the Oregon Transportation Investment Act (OTIA). The total project is in excess of \$20 million. At the end of the current fiscal year, the unreserved fund balance of the Public Works Fund was \$82,963,549.

The Public Safety fund balance decreased \$47,455 to \$1,505,833. Revenues to the Public Safety Fund remained fairly consistent with the previous year, while expenditures increased as a result of negotiated salary and benefits increases for law enforcement employees causing a decrease in fund balance.

The Health & Social Services fund balance decreased \$1,799,133 to \$1,228,011. The decrease was due to the use of reserves to continue mental health services to the public after program assistance from the State of Oregon was reduced.

Proprietary funds. The County's proprietary funds provide the same type of information found in the government-wide financial statements, for its two enterprise funds (Salmon Harbor and Glide-Idleyld Sewer). The most significant change was the reduction of \$73,944 in operating assistance provided by the State of Oregon to Salmon Harbor operations in 2006-07.

General Fund Budgetary Highlights

Total appropriations in the General Fund's final amended budget were \$463,259 higher than the original budget. During the 2006-07 fiscal, the County ran a supplemental budget increasing revenues and expenditures in the Building Department by \$308,052; the Planning Department by \$118,954; and the Commission on Children and Families by \$36,253. During fiscal 2006-07 the County's Building Department began issuing building permits inside the City of Roseburg (a program previously operated by the City of Roseburg). They added five full-time employees to operate the program. Anticipated expenditures were \$242,852 for personal services and \$65,200 for other expenditures. Also, during the year, the Planning Department assumed the inspection and issuance of subsurface sewage permits from the State of Oregon DEQ. The department added three full-time employees to operate the program. Anticipated expenditures for personal services were \$89,454 and \$29,500 for other operating costs. The Commission on Children and Families had an unanticipated carryover of Healthy Start grant revenues of \$36,253 from 2005-06 and increased their appropriation in the 2006-07 fiscal year to include distribution of these funds.

Capital Asset and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business type activities as of June 30, 2007 amounts to \$211,684,001 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, roads and bridges, park and recreational facilities. The County's net increase (additions, deductions and depreciation) in capital assets was \$4,042,910.

Capital Assets at Year-End (net of depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Land	\$12,248,938	\$12,248,938	\$921,221	\$921,221	\$13,170,159	\$13,170,159
Buildings & improvements	28,374,982	28,601,818	4,427,754	4,762,116	32,802,736	33,363,934
Furniture and equipment	10,752,382	2,103,464			10,752,382	2,103,464
Vehicles & heavy equipment	7,928,390	8,142,578	35,531	43,251	7,963,921	8,185,829
Dams	21,636,345	22,012,630			21,636,345	22,012,630
Infrastructure	105,467,261	110,537,961			105,467,261	110,537,961
Construction in progress	19,891,197	18,267,114			19,891,197	18,267,114
Totals	\$206,299,495	\$201,914,503	\$5,384,506	\$5,726,588	\$211,684,001	\$207,641,091

The following table reconciles the changes in capital assets:

	Governmental Activities	Business-Type Activities	Total
Beginning balance	\$437,475,099	\$13,911,246	\$451,386,345
Additions	15,304,924	26,756	15,331,680
Retirements	(1,304,348)		(1,304,348)
Depreciation	(245,446,180)	(8,553,496)	(253,999,676)
Ending balance	<u>\$206,029,495</u>	<u>\$5,384,506</u>	<u>\$211,414,001</u>

Additional information on the County's capital assets can be found in note 3C beginning on page 30 of this report.

Long-term Debt. As of year-end, the County had \$1,566,686 in notes payable for industrial development within the County. This is \$88,909 less than the \$1,655,595 owing June 30 of the prior year due to payments on loans.

Douglas County has no outstanding bonded debt.

Additional information on the County's long-term debt can be found in note 3F beginning on page 32 of this report.

Economic Factors and Next Year's Budgets and Rates

- The single most significant source of county revenue is from the federal Rural Schools and Community Self-Determination Act, which provides annual revenue to replace declining timber harvest revenues. Unless Congress acts to continue this funding, this funding will expire in fiscal 2007-08. The county received approximately \$24.7 million for general government operations and \$14.5 million for roads and bridges in 2006-07. These funds represent over 45% of the county's revenues. Funding from this source in 2007-08 is anticipated to be comparable to 2006-07.
- The local economy, although slowly beginning to diversify, is still heavily dependent on the wood products industry. The County's unemployment rate for the month of June 2007 was 7.4%. This compares unfavorably to the state's average unemployment rate of 5.3% and the national average rate of 4.6%.
- During the last few years, a significant impact in personnel costs throughout the County has been the sharp increase in the cost for the Oregon Public Employees Retirement System (PERS). Although the state legislature took action to change the program and thereby reduce the unfunded accrued liability causing the large funding increases, many law suits were filed as a result of the state's action. Decisions regarding part of the suits have yet to be handed-down. The contribution percentages to PERS remain a significant part of the County's personnel costs.
- Total taxable assessed value (the basis of property tax revenues) within the County increased 5.5%. This reflects a slight growth on top of the constitutional 3% limit on increases to assessed valuations of existing property. Property taxes represent about 6% of overall County revenues and are used to help support the Public Safety Fund.
- The population of the County increased less than 1% during the past year.

These are among the factors that were considered in preparing the County's budget for fiscal year 2007-08.

Requests for Information

This financial report is designed to provide a general overview of Douglas County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Office of Management and Finance, 1036 SE Douglas Ave., Roseburg, Oregon 97470.