

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, 2008. 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, 2008, by \$363,346,111 (*net assets*). Of this amount, \$64,207,041 (*unrestricted net assets*) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net assets increased by \$6,232,529. This increase is due primarily to a decrease in capital project expenditures in the Public Works Fund and a reduction in funding of outside agencies' projects from the Title III Fund.
- At June 30, 2008, the unreserved fund balance for the General Fund was \$53,149,632 or 148% of total General Fund expenditures and transfers to other funds. This represents an increase of \$4,892,587 or 10% 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, 2008. 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,

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 \$363,555,196 at June 30, 2008.

The largest portion of the County's net assets (59%) 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 (16%) of unrestricted net assets (\$64,207,041) 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	
	6/30/2008	6/30/2007	6/30/2008	6/30/2007	6/30/2008	6/30/2007
Cash and investments	\$161,802,316	\$158,385,731	\$1,326,257	\$1,404,529	\$163,128,573	\$159,790,260
Receivables	10,073,752	10,597,212	43,114	40,058	10,116,166	10,637,270
Internal balances	88,016	130,328	(88,016)	(130,328)		
Other assets	3,641,287	3,082,653	18,274	13,096	3,659,561	3,095,749
Interfund loan balances	2,361,529	2,361,529	(2,361,529)	(2,361,529)		
Capital assets	208,319,872	206,299,495	5,504,796	5,384,506	213,824,668	211,684,001
Total assets	386,286,772	380,856,948	4,442,896	4,350,332	390,728,968	385,207,280
Noncurrent liabilities	16,872,548	17,329,142			16,872,548	17,329,142
Other liabilities	10,447,971	10,708,971	63,038	55,586	10,511,009	10,764,557
Total liabilities	27,320,519	28,038,113	63,038	55,586	27,383,557	28,093,699
Net assets:						
Invested in capital assets	208,319,872	206,299,495	5,504,796	5,384,506	213,824,668	211,684,001
Restricted	85,314,402	87,599,787			85,314,402	87,599,787
Unrestricted	65,331,979	58,919,553	(1,124,938)	(1,089,760)	64,207,041	57,829,793
Total net assets	\$358,966,253	\$352,818,835	\$4,379,858	\$4,294,746	\$363,346,111	\$357,113,581

Douglas County's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	6/30/2008	6/30/2007	6/30/2008	6/30/2007	6/30/2008	6/30/2007
Revenues:						
Program revenues:						
Charges, fees and fines	\$14,975,904	\$14,807,193	\$1,978,179	\$1,908,514	\$16,954,083	\$16,715,707
Operating grants and contributions	63,494,806	60,274,316		302,337	63,494,806	60,576,653
Capital contributions			664,387		664,387	
General revenues:						
Property taxes	7,505,829	6,985,626			7,505,829	6,985,626
Grants and contributions not restricted to specific programs	26,420,505	26,611,362			26,420,505	26,611,362
Unrestricted investment earnings	6,468,338	9,365,375	64,797	58,903	6,533,135	9,424,278
Total revenues	118,865,382	118,043,872	2,707,363	2,269,754	121,572,745	120,313,626
Expenses:						
General government	24,499,159	26,470,243			24,499,159	26,470,243
Public safety	24,015,165	23,129,754			24,015,165	23,129,754
Highways and streets	24,686,312	28,071,514			24,686,312	28,071,514
Sanitation	3,700,068	4,044,886			3,700,068	4,044,886
Health and welfare	22,951,469	23,584,522			22,951,469	23,584,522
Culture and recreation	7,092,345	7,538,083			7,092,345	7,538,083
Conservation	1,343,613	1,401,630			1,343,613	1,401,630
Education	5,185,592	5,228,454			5,185,592	5,228,454
Interest on long-term debt	82,357	86,755			82,357	86,755
Sewer			557,963	539,392	557,963	539,392
Recreational facility			2,037,088	1,962,142	2,037,088	1,962,142
Total expenses	113,556,080	119,555,841	2,595,051	2,501,534	116,151,131	122,057,375
Increase (decrease) in net assets before transfers	5,309,302	(1,511,969)	112,312	(231,780)	5,421,614	(1,743,749)
Gain on sale of assets	810,915				810,915	
Transfers	27,200	26,900	(27,200)	(26,900)		
Increase (decrease) in net assets	6,147,417	(1,485,069)	85,112	(258,680)	6,232,529	(1,743,749)
Net assets - July 1	352,818,836	354,303,904	4,294,746	4,553,426	357,113,582	358,857,331
Net assets - June 30	<u>\$358,966,253</u>	<u>\$352,818,835</u>	<u>\$4,379,858</u>	<u>\$4,294,746</u>	<u>\$363,346,111</u>	<u>\$357,113,582</u>

Governmental activities. Governmental activities increased net assets by \$6,147,417. Activities contributing materially to the increase in net assets are the decrease in Public Works capital project expenditures and the reduction in funding for outside agencies projects from the Title III funds.

Business-type activities. Business-type activities increased net assets by \$85,112. This increase is the result of capital contributions to the Salmon Harbor moorage facilities.

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 \$160,839,118 an increase of \$2,557,970 over the prior year. Approximately 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 \$53,149,632, while total fund balance reached \$54,008,235. Unreserved fund balance represents 148% of total general fund expenditures and transfers to other funds.

The General Fund's unreserved fund balance increased by \$4,892,587 in 2007-08 and \$3,095,115 in 2006-07. Approximately 65% of the General Fund 2007-08 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. The Act was amended and reauthorized October, 2008 to provide funding through fiscal 2012. The Board of County Commissioners continues to manage resources to build reserves until the funding for county services can be stabilized.

The Public Works fund balance decreased by \$5,540,229 including change in inventory. This decrease is due largely to the continued expenditures on a multi-year bridge replacement/repair project funded by the Oregon Transportation Investment Act (OTIA). The total project is in excess of \$22 million. At the end of the current fiscal year, the unreserved fund balance of the Public Works Fund was \$76,437,559.

The Public Safety fund balance increased \$216,475 to \$1,722,308. While revenues and transfers in to the Public Safety Fund increased about \$700,000, expenditure increases were also up as a result of negotiated salary and benefits increases for law enforcement employees resulting in the net increase in fund balance.

The Health & Social Services fund balance increased \$681,595 to \$1,909,606. The increase was due predominately from an increase in intergovernmental program revenues from the State of Oregon.

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-Idleld Sewer). The most significant change in 2007-08 was capital contributions to the Salmon Harbor Fund for new moorage docks.

General Fund Budgetary Highlights

Total appropriations in the General Fund's final amended budget were \$727,973 higher than the original budget. During the 2007-08 fiscal, the County ran a supplemental budget increasing expenditures in the Information Technology Department by \$132,120, the District Attorney's Office by \$60,000, the Museum by \$305,608, the Surveyor by \$63,000 and the transfers out to the Dog Control Fund by \$21,950. These additional appropriations were to authorize the expenditure of \$727,973 in unanticipated additional resources to the County.

Service revenue is less than budgeted primarily due to services in the Planning and Building departments being about 25% under budget. This is reflective of the slow growth in the County this past year.

Although the Solid Waste budget reflected over \$400,000 for new equipment, these expenditures were delayed due to the uncertainty of the reauthorization of the federal Secure Rural Schools funding.

The General Fund budget anticipated \$2 million from the State of Oregon for economic development that was to be passed on to local governmental entities for state approved projects in fiscal 2008. The fact that these projects were not funded is reflected in the budget to actual differences in intergovernmental revenues and nondepartmental expenditures.

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, 2008 amounts to \$213,824,668 (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 \$2,140,667.

Capital Assets at Year-End (net of depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land	\$12,248,938	\$12,248,938	\$921,221	\$921,221	\$13,170,159	\$13,170,159
Buildings & improvements	27,739,093	28,374,982	4,538,446	4,427,754	32,277,539	32,802,736
Furniture and equipment	9,637,117	10,752,382			9,637,117	10,752,382
Vehicles & heavy equipment	7,611,400	7,928,390	45,129	35,531	7,656,529	7,963,921
Dams	21,260,061	21,636,345			21,260,061	21,636,345
Infrastructure	100,567,206	105,467,261			100,567,206	105,467,261
Construction in progress	29,256,057	19,891,197			29,256,057	19,891,197
Totals	\$208,319,872	\$206,299,495	\$5,504,796	\$5,384,506	\$213,824,668	\$211,684,001

The following table reconciles the changes in capital assets:

	Governmental	Business-Type	Total
	Activities	Activities	
Beginning balance	\$451,745,675	\$13,938,002	\$465,683,677
Additions	13,370,697	500,393	13,871,090
Retirements	(221,507)		(221,507)
Depreciation	(256,574,993)	(8,933,599)	(265,508,592)
Ending balance	\$208,319,872	\$5,504,796	\$213,824,668

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 \$1,475,365 in notes payable for industrial development within the County. This is \$91,321 less than the \$1,566,686 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 Secure Rural Schools and Community Self-Determination Act, which provides annual revenue to replace declining timber harvest revenues. The Act was reauthorized for another four years in October, 2008. The county received approximately \$24.7 million for general government operations and \$14.4 million for roads and bridges in 2007-08. These funds represent over 45% of the county's revenues. Funding from this source in 2008-09 is anticipated to be approximately 90% of the fiscal 2008 amount.
- 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 2008 was 8.4%. This compares unfavorably to the state and national average unemployment rate of 5.5%.
- 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 4.7%. 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 change in population of the County the past year was negligible.

These are among the factors that were considered in preparing the County's budget for fiscal 2009.

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.