

Management's Discussion and Analysis

The following discussion and analysis is intended to serve as an overview of the County's financial activities for the fiscal year ended June 30, 2011. 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 the end of the current fiscal year, by \$366,530,851 (net assets). Of this amount, \$84,427,915 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's overall financial position decreased by \$1,884,637. This decrease is primarily attributable to a decrease in federal funding.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund is \$68,769,862 or 260% of total General Fund expenditures and transfers to other funds.

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.

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. 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 declining.

The *Statement of Activities* presents information showing how the County's net assets changed during the most recent fiscal year. 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 result in cash flows in future fiscal periods.

Both government-wide financial statements 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 Salmon Harbor facility operation is a business-type activity of the County.

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 4-H Extension District, although also legally separate, functions for all practical purposes as a department of the County, and therefore has been

included as an integral part of the primary government. 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 various individual governmental funds for GAAP (generally accepted accounting principles) basis presentation. 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, Health and Social Services Fund and Title III 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 an enterprise fund to account 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 information on 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; postemployment healthcare benefits to retirees; and budgetary comparative schedules for the County's major funds. Required supplementary information can be found beginning on page 44 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 \$366,530,851 at the end of the current fiscal year.

The largest portion of the County's net assets (51%) 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 26% of the County's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance (23%) of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

Net assets decreased \$1,884,637 during fiscal year 2011. This is due primarily to a decrease in federal funding.

Douglas County's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	6/30/2011	Restated 6/30/2010	6/30/2011	6/30/2010	6/30/2011	Restated 6/30/2010
Cash and investments	\$197,527,020	\$188,522,273	\$763,820	\$987,684	\$198,290,840	\$189,509,957
Receivables	9,272,311	9,151,966	180,917	21,120	9,453,228	9,173,086
Internal balances	135,259	46,032	(135,259)	(46,032)		
Other assets	3,655,583	3,183,082	24,205	16,194	3,679,788	3,199,276
Interfund loan balances	2,361,529	2,361,529	(2,361,529)	(2,361,529)		
Capital assets	181,109,374	190,935,328	5,377,687	5,013,888	186,487,061	195,949,216
Total assets	394,061,076	394,200,210	3,849,841	3,631,325	397,910,917	397,831,535
Noncurrent liabilities	17,228,171	17,140,593			17,228,171	17,140,593
Other liabilities	14,078,816	12,208,643	73,079	66,811	14,151,895	12,275,454
Total liabilities	31,306,987	29,349,236	73,079	66,811	31,380,066	29,416,047
Net assets:						
Invested in capital assets	181,109,374	190,935,328	5,377,687	5,013,888	186,487,061	195,949,216
Restricted	95,615,875	94,067,399			95,615,875	94,067,399
Unrestricted	86,028,840	79,848,247	(1,600,925)	(1,449,374)	84,427,915	78,398,873
Total net assets	\$362,754,089	\$364,850,974	\$3,776,762	\$3,564,514	\$366,530,851	\$368,415,488

Douglas County's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	6/30/2011	Restated 6/30/2010	6/30/2011	6/30/2010	6/30/2011	Restated 6/30/2010
Revenues:						
Program revenues:						
Charges, fees and fines	\$15,163,096	\$13,082,325	\$1,619,753	\$1,587,710	\$16,782,849	\$14,670,035
Operating grants and contributions	61,837,105	60,854,231	251,180	279,063	62,088,285	61,133,294
Capital contributions			399,178	238,475	399,178	238,475
General revenues:						
Property taxes	8,523,575	8,443,416			8,523,575	8,443,416
Grants and contributions not restricted to specific programs	19,282,732	22,297,282			19,282,732	22,297,282
Unrestricted investment earnings	1,844,199	3,088,505	12,371	14,597	1,856,570	3,103,102
Total revenues	106,650,707	107,765,759	2,282,482	2,119,845	108,933,189	109,885,604
Expenses:						
General government	21,070,812	21,484,862			21,070,812	21,484,862
Public safety	23,853,599	23,677,630			23,853,599	23,677,630
Highways and streets	21,653,779	23,258,720			21,653,779	23,258,720
Sanitation	2,869,455	3,230,276			2,869,455	3,230,276
Health and welfare	27,857,819	26,512,045			27,857,819	26,512,045
Culture and recreation	6,578,149	6,506,764			6,578,149	6,506,764
Conservation	1,165,109	1,320,783			1,165,109	1,320,783
Education	3,651,014	4,134,983			3,651,014	4,134,983
Interest on long-term debt	68,137	73,039			68,137	73,039
Recreational facility			2,070,234	1,937,711	2,070,234	1,937,711
Total expenses	108,767,873	110,199,102	2,070,234	1,937,711	110,838,107	112,136,813
Increase (decrease) in net assets before gain on sale of assets	(2,117,166)	(2,433,343)	212,248	182,134	(1,904,918)	(2,251,209)
Gain on sale of assets	20,281	15,477			20,281	15,477
Increase (decrease) in net assets	(2,096,885)	(2,417,866)	212,248	182,134	(1,884,637)	(2,235,732)
Net assets - July 1	364,850,974	367,268,840	3,564,514	3,382,380	368,415,488	370,651,220
Net assets - June 30	\$362,754,089	\$364,850,974	\$3,776,762	\$3,564,514	\$366,530,851	\$368,415,488

Governmental activities. Governmental activities decreased net assets by \$2,096,885. The primary contributing factor to this decrease was a decrease in federal funding.

Business-type activities. Business-type activities increased net assets by \$212,248. The increase was the result of additional state and federal funding for the Salmon Harbor facility improvements.

Financial Analysis of County Funds

The County uses fund accounting to ensure 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.

At June 30, 2011, the County's governmental funds reported combined ending fund balances of \$188,011,948, an increase of 4% over the prior year. Of this ending balance, 51% is restricted for specific uses, 10% is committed or assigned to specific purposes, 2% is nonspendable because it is in the form of inventories and deposits. The remaining 37% is unassigned.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$68,769,862, while the total fund balance reached \$72,858,845. The current unassigned fund balance represents 260% of the total general fund expenditures and transfers to other funds.

Over half the General Fund revenues in fiscal 2011 came from the federal "Secure Rural Schools and Community Self-Determination Act" first passed by Congress in October, 2000. This Act replaced the timber revenues from logging on federal timber lands the County relied on as a primary source of General Fund support for many years. The County will receive the last payment under this Act in fiscal 2012. Since environmental issues have drastically curtailed logging on federal lands, the \$18 million General Fund received from the Act in fiscal year 2011 will drop to less than \$5 million when the County reverts to timber receipts in fiscal 2013. 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 increased by \$870,015 in fiscal year 2011. This increase is due to the County reducing major construction projects and moving to maintaining existing infrastructure. This fund also receives approximately half its revenues from the "Secure Rural Schools and Community Self-Determination Act" which is due to expire with fiscal 2012. This fund's revenues are restricted to use for construction and maintenance of County roads and bridges. At the end of the current fiscal year, the nonspendable balance in this fund was \$2,424,656 and the restricted balance was \$82,991,915.

The Public Safety fund balance increased from \$1,123,134 in fiscal year 2010 to \$1,126,231 in fiscal year 2011 reflecting a slight increase of \$3,097. This increase was due primarily to positions being vacant for part of the year.

The Health & Social Services fund balance increased \$1,362,387 to \$7,004,253. The largest portion (\$6,854,253) of this balance is restricted for the specific uses for which the funding was received. The increased balance is due predominately from an increase in health and social service program revenues received from the State of Oregon.

The Title III fund balance increased \$5,551 in 2011 from \$4,276,906 to \$4,282,457. The increase is from decreased spending in this fund.

Proprietary funds. The County's proprietary funds provide the same type of information found in the government-wide financial statements, for its enterprise fund (Salmon Harbor). Salmon Harbor facility includes an R.V. resort, dry camping, fueling stations, docks for fishing and boat moorage. During 2011, Salmon Harbor constructed and opened a new Event Center. Both state and federal grant funding contributed to the new facility.

General Fund Budgetary Highlights

Total appropriations in the final amended General Fund budget were \$57,023 higher than the original budget. This increase was the result of unanticipated grant revenues from state and federal sources added through a supplemental budget.

Several departments in General Fund show actual expenditures under budget variances larger than anticipated because of layoffs related to revenue shortfalls and management's choices not to fill positions when they became vacant. County departments have been asked by the Board of Commissioners to find ways to work more efficiently with less and prepare for continued reductions in departmental budgets due to the potential loss of federal safety net funding.

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, 2011 was \$186,487,061 (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 decrease (additions, deductions and depreciation) in capital assets was \$9,462,155.

Capital Assets at Year-End (net of depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$12,132,028	\$12,248,938	\$921,221	\$921,221	\$13,053,249	\$13,170,159
Buildings & improvements	25,854,109	26,407,741	4,354,161	3,986,489	30,208,270	30,394,230
Furniture and equipment	5,953,537	7,190,611			5,953,537	7,190,611
Vehicles & heavy equipment	6,875,277	7,083,265	102,305	106,178	6,977,582	7,189,443
Dams	20,131,209	20,507,493			20,131,209	20,507,493
Infrastructure	102,060,220	108,620,056			102,060,220	108,620,056
Construction in progress	8,102,994	8,877,224			8,102,994	8,877,224
Totals	\$181,109,374	\$190,935,328	\$5,377,687	\$5,013,888	\$186,487,061	\$195,949,216

The following table reconciles the changes in capital assets:

	Governmental	Business-Type	Total
	Activities	Activities	
Beginning balance	\$467,087,911	\$9,578,289	\$476,666,200
Additions	2,210,145	611,391	2,821,536
Reductions	(2,003,273)		(2,003,273)
Accumulated depreciation	(286,185,409)	(4,811,993)	(290,997,402)
Ending balance	\$181,109,374	\$5,377,687	\$186,487,061

Additional information on the County's capital assets can be found in note 3C beginning on page 31 of this report.

Long-term Debt. At June 30, 2011, the County had \$1,191,184 in notes payable for industrial development within the County. This is \$88,677 less than the \$1,279,861 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 34 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", (safety net) which provides annual revenue to replace declining timber harvest revenues. The Act was reauthorized at a progressively reduced funding level for another four years in October, 2008. The County anticipates the funding for fiscal year 2012 will drop from \$18 million to \$9 million in the General Fund and from \$10.5 million to \$5.8 million in the Public Works Fund. If the Act is not renewed, final funding will be in fiscal year 2012.
- The decline in the local economy shows little sign of recovery for the immediate future. The County's unemployment rate for the month of June 2011 was 13.2%. This compares unfavorably to the state average unemployment rate of 9.4% which is higher than the national average of 9.2%.
- 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). During the economic downturn, PERS losses reached a record amount. This resulted in combined employer and employee pickup rates going from 21.72%-24.43% in fiscal 2011 to 24.6%-27.31% for fiscal 2012.
- The County has a permanent tax rate of \$1.11 per thousand of assessed valuation. This permanent tax rate was established with the passage of statewide constitutional property tax limitation measures during a time when the County was receiving sufficient timber harvest revenues to support many County services without property tax assistance. Also, as part of the statewide measures, the increase in assessed value was limited to 3% per year, or market value, whichever is lower. It would be very difficult, if not impossible, for the County to replace a significant portion of the loss of federal funding with property taxes. Currently, property taxes represent about 8% of overall County revenues and are committed, in whole, to support public safety services.
- 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 year 2012.

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.