

OFFICE OF MANAGEMENT AND FINANCE

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ACCOUNTS PAYABLE/PURCHASING

PAYROLL

440-4247

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December 27, 2012

To the Board of County Commissioners and the Citizens of Douglas County:

Oregon law requires local governments to publish a complete set of financial statements presented in conformity with U.S. generally accepted accounting principles and audited in accordance with generally accepted auditing standards by a firm of certified public accountants licensed to perform audits of a municipal corporation. We are pleased to submit this Comprehensive Annual Financial Report (CAFR) of Douglas County, Oregon for the fiscal year ended June 30, 2012 in accordance with this requirement.

This report consists of management's representations concerning the finances of Douglas County, Oregon. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the county has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the presentation of the County's financial statements in conformity with generally accepted accounting principles. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Douglas County's financial statements have been audited by Kenneth Kuhns & Co., Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Kenneth Kuhns & Co. has concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Douglas County's financial statements are fairly presented in conformity with generally accepted accounting principles. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the County's financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not

only on the fair presentation of the financial statements, but also on the County's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the County's separately issued Single Audit Report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements MD&A compliments this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The County was incorporated January 7, 1852. It extends from sea level at the Pacific Ocean to Mt. Thielsen (9,182 feet high) in the Cascade Range. The Umpqua River marks the dividing line between northern and southern Oregon, and its entire watershed lies within the County's boundaries. Douglas County contains the largest stand of old growth timber in the world. It has a land area of 5,071 square miles. The County is empowered to levy a property tax on both real and personal property.

The County operates under a three member Board of Commissioners. The Board is responsible for passing ordinances and resolutions, adopting the budget, appointing committees, and overseeing the day-to-day operations of the government. Board members serve four-year terms with two members' terms expiring simultaneously and the third member's term being staggered.

The financial reporting entity, Douglas County, includes all funds of Douglas County, as well as two component units. Component units are legally separate entities for which Douglas County is financially accountable. The County provides a full range of services, including sheriff's patrol and correction services; prosecution of criminals; justice courts; juvenile services; emergency management; construction and maintenance of roads, highways, bridges and other infrastructure; property assessment; tax collection; public health and mental health services; land use planning; election services; records maintenance; solid waste disposal; park maintenance; and a public library.

The annual budget serves as the foundation for the County's financial planning and control. The County adheres to Oregon Local Budget Law in the preparation, adoption and execution of the budget. The Board of Commissioners appoints a County Budget Officer to oversee the annual budget process. Requests submitted by County departments to the Budget Officer are used as the starting point for developing a proposed budget. The Budget Officer then presents the proposed budget to the County's Budget Committee for review and approval sometime in May. After approval by the Budget Committee, the Board of Commissioners is required to hold a public hearing on the approved budget and adopt a final budget by no later than June 30, the close of the preceding fiscal year. The County Board of Commissioners adopts the budget by department for those funds having more than one department and by major expenditure classification for those funds with only one department. The expenditure appropriations lapse at the end of the fiscal year. Additional resources and corresponding appropriations may be added to the budget during the fiscal year through a supplemental budget process. Original and supplemental budgets may be modified during the fiscal year by the use of appropriation transfers between categories. The Board of Commissioners must approve any supplemental budget and any appropriation transfer in a public meeting. Budget to actual comparisons are

provided in this report for each individual fund for which an appropriated annual budget has been adopted.

Local economy

For years, Douglas County's economic base relied heavily on the lumber and wood products industry. This is not surprising when you consider that slightly over half of the County's land is owned by the federal government and is managed by the Bureau of Land Management and the Federal Forest Service.

With the decline of the wood products industry, Douglas County has made a concerted effort to bring new industry to the area to diversity the local economy. The population of the County has grown slowly. Current population is 107,795 as compared to a population of 101,300 in 2002. The increase in population has been largely from the migration of retirement age people from other states. The unemployment rate for the month of June 2012 in Douglas County was at 12%. While this was considerably higher than both the state rate of 8.5% and the national rate of 8.2%, it is considerably lower than Douglas County's 2009 rate of 17.2%.

Financial Outlook

Douglas County heads into fiscal 2013 with a continuing focus on maintenance of services. In 1992, environmental concerns brought timber sales to a near standstill. In 1995 the County began receiving federal revenues authorized through special legislation (Secure Rural Schools and Community Self-determination Act) that replaced lost revenues to communities dependent on timber revenues. Modified versions of this first legislation were passed in 2000 and again in 2008. The legislation, modified to reflect a continuing annual reduction in funding, was reauthorized for one final year in July, 2012. Title I of this reauthorization will provide the County a little over \$14 million for operations in fiscal 2013. This is down from \$39 million provided from this funding source in fiscal 2008.

Long-term financial planning

Federal funding through the Secure Rural Schools and Community Self-determination Act has accounted for a significant portion of the County's operating revenues for the last few years. The expiration of these payments along with the continued reduction in timber harvesting creates a major challenge for the County. The Board of Commissioners continues to work with elected officials to find solutions. During previous years, in anticipation of the potential loss of revenues, the Board worked to build fund balances in the General Fund and the Public Works Fund. In order to maintain levels of service during the current year, the County was required to use a portion of these fund balances. The Board continues to work with County departments and citizens to develop options regarding revenue replacement and/or reductions in services in future years.

Awards and acknowledgements

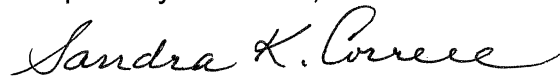
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2011. This was the 24th consecutive year that the County has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and

efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the services of the employees in the Finance Department. We extend our sincere appreciation to all in the department who assisted and contributed to the preparation of this report. Acknowledgment should also be given to the Board of Commissioners for their support in planning and conducting the financial operations of the County.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Sandra K. Correll".

Sandra K. Correll
Chief Financial Officer