

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, 2015. 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 11.

Financial Highlights

- Douglas County's assets exceeded its liabilities at the end of the current fiscal year, by \$276,034,551 (total net position). Of this amount, \$31,905,207 (unrestricted net position) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's overall financial position decreased by \$49,441,800. This decrease is attributable to a reduction in federal funding, depreciation expense on capital assets and the implementation of GASB Statements No. 68 and No. 71.
- The County reduced the beginning net position July 1, 2014, as restated, in the amount of \$44,233,853, due to the implementation of GASB Statements No. 68 and No. 71.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund is \$48,173,259 or 161% 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 Position* presents information on all of the County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. Changes in net position 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 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 11 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 position 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 13 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 beginning on page 17 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 County maintains one fiduciary fund. The

Agency fund reports resources held by the County in a custodial capacity for individuals, private organizations and other governments. The basic fiduciary fund financial statement can be found on page 20 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 21 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 52 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

The County implemented Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 in the year ending June 30, 2015. The effects of GASB 68 and GASB 71 are shown as a prior period adjustment in the financial statements for the year ending June 30, 2015. Prior year information has not been restated.

Net position, over time, may serve as a useful indicator of a government's financial position. Douglas County's assets, including capital assets net of depreciation, exceeded its liabilities by \$276,034,551 at the end of the current fiscal year.

The largest portion of the County's net position (62%) 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 27% of the County's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance (11%) of unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

Net position decreased \$49,441,800 during fiscal year 2015. The decrease is due primarily to a reduction in federal funding, depreciation expense on capital assets and the implementation of GASB Statements No. 68 and No. 71.

Douglas County's Net Position

	Governmental Activities		Business-Type Activities		Total	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Current and other assets	\$175,733,893	\$188,640,457	(\$1,365,491)	(\$1,552,731)	\$174,368,402	\$187,087,726
Capital assets	165,621,980	168,812,389	4,781,654	4,861,316	170,403,634	173,673,705
Total assets	341,355,873	357,452,846	3,416,163	3,308,585	344,772,036	360,761,431
Deferred outflows of resources	6,997,120		32,568		\$7,029,688	
Noncurrent liabilities	41,674,389	20,312,263	35,144		41,709,533	20,312,263
Other liabilities	13,166,306	14,932,080	46,051	40,737	13,212,357	14,972,817
Total liabilities	54,840,695	35,244,343	81,195	40,737	54,921,890	35,285,080
Deferred inflows of resources	20,803,253		42,030		\$20,845,283	
Net position:						
Net investment in capital assets	165,621,980	168,812,389	4,781,654	4,861,316	170,403,634	173,673,705
Restricted	73,725,710	82,072,417			73,725,710	82,072,417
Unrestricted	33,361,355	71,323,697	(1,456,148)	(1,593,468)	31,905,207	69,730,229
Total net position	\$272,709,045	\$322,208,503	\$3,325,506	\$3,267,848	\$276,034,551	\$325,476,351

Douglas County's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Revenues:						
Program revenues:						
Charges, fees and fines	\$15,002,567	\$14,236,585	\$1,937,909	\$1,692,257	\$16,940,476	\$15,928,842
Operating grants and contributions	29,619,786	39,380,073	272,541	198,171	29,892,327	39,578,244
Capital grants and contributions	3,560,423	14,160,628			3,560,423	14,160,628
General revenues:						
Property taxes	9,686,638	9,369,387			9,686,638	9,369,387
Grants and contributions not restricted to specific programs	10,431,699	10,763,122			10,431,699	10,763,122
Unrestricted investment earnings	1,294,892	1,642,140	7,082	4,710	1,301,974	1,646,850
Total revenues	69,596,005	89,551,935	2,217,532	1,895,138	71,813,537	91,447,073
Expenses:						
General government	15,812,377	18,942,528			15,812,377	18,942,528
Public safety	20,151,110	24,881,447			20,151,110	24,881,447
Highways and streets	17,734,963	19,850,948			17,734,963	19,850,948
Sanitation	3,473,890	3,322,074			3,473,890	3,322,074
Health and welfare	9,012,469	18,944,045			9,012,469	18,944,045
Culture and recreation	5,577,848	6,165,594			5,577,848	6,165,594
Conservation	1,148,972	1,266,786			1,148,972	1,266,786
Education	2,035,069	2,114,652			2,035,069	2,114,652
Interest on long-term debt	50,088	54,122			50,088	54,122
Recreational facility			2,078,265	1,922,743	2,078,265	1,922,743
Total expenses	74,996,786	95,542,196	2,078,265	1,922,743	77,075,051	97,464,939
Increase (decrease) in net position before gain on sale of assets	(5,400,781)	(5,990,261)	139,267	(27,605)	(5,261,514)	(6,017,866)
Gain on sale of assets	53,567				53,567	
Increase (decrease) in net position	(5,347,214)	(5,990,261)	139,267	(27,605)	(5,207,947)	(6,017,866)
Net position - July 1 as previously reported	322,208,503	328,198,764	3,267,848	3,295,453	325,476,351	331,494,217
Prior period adjustment	(44,152,244)		(81,609)		(44,233,853)	
Net Position - July 1 as restated	278,056,259	328,198,764	3,186,239	3,295,453	281,242,498	331,494,217
Net position - June 30	\$272,709,045	\$322,208,503	\$3,325,506	\$3,267,848	\$276,034,551	\$325,476,351

Governmental activities. Governmental activities decreased net position by \$49,499,458. The primary contributing factor to this decrease was a reduction in federal funding, depreciation expense on capital assets and implementation of GASB Statements No. 68 and No. 71.

Business-type activities. Business-type activities increased net position by \$57,658 primarily a result of a recovering economy increasing revenues.

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, unassigned 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, 2015, the County's governmental funds reported combined ending fund balances of \$150,400,300, a decrease of 7.5% from the prior year. Of this ending balance, 49% is restricted for specific uses, 18% is committed or assigned to specific purposes, and 1% is nonspendable because it is in the form of inventories and deposits. The remaining 32% 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 \$48,173,259, while the total fund balance was \$54,729,300. The current unassigned fund balance represents 161% of the total general fund expenditures and transfers to other funds.

Forty one percent of the General Fund revenues in fiscal 2015 came from the federal "Secure Rural Schools and Community Self-Determination Act" first passed by Congress in October, 2000. In 2015, legislation was passed reauthorizing the Act but with each year's funding being less than the funding in the previous year. 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. Environmental issues continue to keep timber harvesting very low and a return to support from timber revenues under current restrictions would not be adequate to maintain current service levels to County citizens. The Douglas County Board of County Commissioners continues to work with other elected officials to find funding solutions for Douglas County.

The Public Works Fund received approximately 37% of its revenue from the "Secure Rural Schools and Community Self Determination Act" in fiscal 2015. The fund balance decreased by \$4,778,890 in fiscal year 2015. Public Works revenues are restricted to use for construction, maintenance and operations on County roads. The fund balance is being used to maintain a level of service where costs of the services exceed the current revenues.

The Public Safety fund balance decreased \$250,779 from \$1,903,226 in fiscal year 2014 to \$1,652,447 in fiscal year 2015. The decrease is primarily due to the use of restricted intergovernmental funding for jail services.

The Health and Social Services fund balance decreased \$3,685,754 in fiscal 2015 due to closing out mental health and developmental disability program services, after returning the programs to the state in the prior year.

The Title III fund balance increased \$291,565 in 2015 due to increased revenues resulting from the reauthorization of the "Secure Rural Schools and Community Self-Determination Act".

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.

General Fund Budgetary Highlights

Actual intergovernmental revenues in the General Fund were higher than budgeted due to the two year reauthorization of the Secure Rural Schools and Community Self-Determination Act. Since the Act had expired and reauthorization not anticipated at the time the budget was adopted, the County estimated it would receive timber harvest revenues of approximately \$2.5 million. Subsequently, the Act was reauthorized for two more years and the County received \$8.8 million under the Act.

Several departments in the General Fund show actual expenditures under budget variances larger than anticipated because of management's choices not to fill positions when they became vacant or because of other operating budgeted savings. 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 loss of federal funding. The variances between budget and actual in the nondepartmental and transportation appropriations are the result of unspent pass-thru grants.

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, 2015 was \$170,403,634 (net of accumulated depreciation). This investment in capital assets includes land and right of way, buildings and systems, improvements, machinery and equipment, roads and bridges, park and recreational facilities. The County's net decrease in capital assets was \$3,270,071.

Capital Assets at Year-End (net of depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land & right of way	\$11,812,136	\$11,894,136	\$921,221	\$921,221	\$12,733,357	\$12,815,357
Buildings & improvements	24,567,268	24,829,658	3,811,716	3,873,151	28,378,984	28,702,809
Furniture & equipment	2,740,779	3,552,795			2,740,779	3,552,795
Vehicles & heavy equipment	6,347,105	6,150,557	48,717	66,944	6,395,822	6,217,501
Dams	18,626,072	19,002,356			18,626,072	19,002,356
Infrastructure	94,129,945	97,762,673			94,129,945	97,762,673
Construction in progress	7,398,675	5,620,214			7,398,675	5,620,214
Totals	\$165,621,980	\$168,812,389	\$4,781,654	\$4,861,316	\$170,403,634	\$173,673,705

The following table reconciles the changes in capital assets:

	Governmental	Business-Type	Total
	Activities	Activities	
Beginning balance	\$485,943,636	\$10,419,376	\$496,363,012
Additions	6,935,326	175,302	\$7,110,628
Reductions	(2,192,205)		(\$2,192,205)
Accumulated depreciation	(325,064,777)	(5,813,024)	(\$330,877,801)
Ending balance	\$165,621,980	\$4,781,654	\$170,403,634

Additional information on the County's capital assets can be found in note 3C beginning on page 34 of this report.

Long-term Debt. The County assists smaller government agencies with their debt service payments for industrial development within the County. At June 30, 2015, the County had \$1,070,870 in notes payable. This is \$83,223 less than the \$1,154,093 owing June 30 of the prior year.

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 36 of this report.

Economic Factors and Next Year's Budgets and Rates

- For many years, the single most significant source of revenue to the County was from timber harvesting. In 1992, environmental issues brought timber sales to a near standstill. In 1995, temporary federal legislation to compensate counties and schools affected by the protection of the spotted owl was passed. In 2000, Congress enacted the "Secure Rural Schools and Community Self-Determination Act" which assisted all timber communities affected by declining harvests on federal lands. The Act was reauthorized at a progressively reduced funding level for another four years in October, 2008. Since that time, the reauthorization of these payments has been made one year at a time and always at a continuing reduced amount. In April, 2015, the Act was again reauthorized for two years, with a 5% reduction in prior year's funding level.
- The County's unemployment rate for the month of June 2015 was 7.7%. While this compares unfavorably to the state average unemployment rate of 5.5% and the national average of 5.3%, the steady decline in annual unemployment rates from a high of 17.2% in 2009 to 7.7% in 2015, may be an indication the local economy is slowly improving.
- During the last few years, the increasing pension cost of the Oregon Public Employees Retirement System (PERS) has had a significant impact on County personnel costs. PERS has again notified the County that rates beginning July 1, 2015 will increase 4.12% of payroll for Tier 1 and Tier 2 members and decrease between 1.33% and 2.71% of payroll for OPSRP members.
- 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 14.5% 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 2015-16.

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.