

Douglas County, Oregon

Management's Discussion and Analysis

(MD&A)

We offer this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2005. 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, 2005, by \$362,833,468 (*net assets*). Of this amount, \$54,076,965 (*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 \$18,293,318. This increase is due primarily to state funding that will be used to renovate county bridges.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$43,222,599 or 174% of total General Fund expenditures.

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: 1) government-wide financial statements, 2) fund financial statements, and 3) 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 government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the 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 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.

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. The 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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.

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.

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.

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.

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.

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 \$362,833,468.

The largest portion of the County's net assets (57%) 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 28% of the County's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance (15%) of *unrestricted net assets* (\$54,076,965) 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	
	6/30/2005	6/30/2004	6/30/2005	6/30/2004	6/30/2005	6/30/2004
Cash and investments	\$166,617,750	\$145,765,479	\$1,205,198	\$1,386,672	\$167,822,948	\$147,152,151
Receivables	7,122,442	7,347,589	40,608	26,678	7,163,050	7,374,267
Internal balances	146,182		(146,182)			
Other assets	3,663,925	3,192,973	14,831	21,370	3,678,756	3,214,343
Interfund loan balances	2,361,529	2,361,529	(2,361,529)	(2,361,529)		
Capital assets	201,416,885	200,857,392	6,012,331	5,844,712	207,429,216	206,702,104
Total assets	381,328,713	359,524,962	4,765,257	4,917,903	386,093,970	364,442,865
Noncurrent liabilities	13,649,975	12,474,899			13,649,975	12,474,899
Other liabilities	9,563,066	7,386,606	47,461	41,210	9,610,527	7,427,816
Total liabilities	23,213,041	19,861,505	47,461	41,210	23,260,502	19,902,715
Net assets:						
Invested in capital assets	201,416,885	200,857,392	6,012,331	5,844,712	207,429,216	206,702,104
Restricted	101,327,287	81,619,046			101,327,287	81,619,046
Unrestricted	55,371,500	57,319,008	(1,294,535)	(1,100,008)	54,076,965	56,219,000
Total net assets	\$358,115,672	\$339,795,446	\$4,717,796	\$4,744,704	\$362,833,468	\$344,540,150

Douglas County's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	6/30/2005	6/30/2004	6/30/2005	6/30/2004	6/30/2005	6/30/2004
Revenues:						
Program revenues:						
Charges, fees and fines	\$11,483,171	\$12,470,737	\$1,728,482	\$1,638,466	\$13,211,653	\$14,109,203
Operating grants and contributions	79,187,360	57,968,857			79,187,360	57,968,857
Capital contributions	635,443	1,837,500			635,443	1,837,500
General revenues:						
Property taxes	6,194,146	5,702,210			6,194,146	5,702,210
Grants and contributions not restricted to specific programs	24,963,801	24,458,015	423,963	281,233	25,387,764	24,739,248
Gain on sale of assets	240,500				240,500	
Unrestricted investment earnings	4,481,310	1,183,245	36,755	32,111	4,518,065	1,215,356
Total revenues	<u>127,185,731</u>	<u>103,620,564</u>	<u>2,189,200</u>	<u>1,951,810</u>	<u>129,374,931</u>	<u>105,572,374</u>
Expenses:						
General government	26,999,463	23,937,853			26,999,463	23,937,853
Public safety	19,895,326	19,619,694			19,895,326	19,619,694
Highways and streets	23,575,513	23,612,089			23,575,513	23,612,089
Sanitation	5,662,893	1,007,499			5,662,893	1,007,499
Health and welfare	20,367,441	20,009,226			20,367,441	20,009,226
Culture and recreation	6,270,108	6,215,442			6,270,108	6,215,442
Conservation	1,104,040	995,030			1,104,040	995,030
Education	4,913,530	4,833,697			4,913,530	4,833,697
Interest on long-term debt	95,191	92,854			95,191	92,854
Sewer			505,431	456,770	505,431	456,770
Recreational facility			1,692,677	1,587,054	1,692,677	1,587,054
Total expenses	<u>108,883,505</u>	<u>100,323,384</u>	<u>2,198,108</u>	<u>2,043,824</u>	<u>111,081,613</u>	<u>102,367,208</u>
Increase (decrease) in net assets before transfers	18,302,226	3,297,180	(8,908)	(92,014)	18,293,318	3,205,166
Transfers	18,000	23,000	(18,000)	(23,000)		
Increase (decrease) in net assets	18,320,226	3,320,180	(26,908)	(115,014)	18,293,318	3,205,166
Net assets - July 1	<u>339,795,446</u>	<u>336,475,266</u>	<u>4,744,704</u>	<u>4,859,718</u>	<u>344,540,150</u>	<u>341,334,984</u>
Net assets - June 30	<u>\$358,115,672</u>	<u>\$339,795,446</u>	<u>\$4,717,796</u>	<u>\$4,744,704</u>	<u>\$362,833,468</u>	<u>\$344,540,150</u>

Governmental activities. Governmental activities increased net assets by \$18,320,226. This increase was primarily the result of increased funding from the state for the renovation of county bridges.

Business-type activities. Business-type activities decreased net assets by \$26,908. This decrease is primarily the result of increased operating costs associated with the Salmon Harbor Marina facility.

Financial Analysis of County Funds

As noted earlier, the 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 \$166,665,087 an increase of \$18,320,226 over the prior year. Over 96% 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 \$43,222,599, while total fund balance reached \$44,008,352. Unreserved fund balance represents 122% of total general fund expenditures and transfers to other funds.

The fund balance of the County's General Fund increased by \$620,639 in 2004-05. This increase is primarily attributable to the conservative budgeting practices of the governing board over the last few years.

The Public Works fund balance increased by \$19,933,086 including change in inventory. This increase is due primarily to additional funding from the State of Oregon for bridge projects. At the end of the current fiscal year, the unreserved fund balance of the Public Works Fund was \$94,574,488.

The Public Safety fund balance decreased \$341,121 to \$1,399,476. This decrease was due primarily to a decrease in charges for services, licenses and fines.

The Health & Social Services fund balance increased \$78,449 to \$4,215,704. This increase was due primarily to the increase in charges for services.

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). Operations in these funds did not change significantly from the prior year.

General Fund Budgetary Highlights

Total appropriations in the General Fund's final amended budget were \$1,937,500 higher than the original budget. Major components of the increase were as follows:

- \$1,500,000 transfer to the Capital Projects Fund to complete the new fairgrounds convention center;
- \$300,000 transfer to the Employee Benefit Trust Fund to increase self-insurance reserves as recommended in the current actuarial report; and
- \$137,500 additional program costs in Building and Planning that were reflected in additional fee revenues from added services.

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, 2005 amounts to \$207,429,213 (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 \$727,109.

Capital Assets at Year-End (net of depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Land	\$12,097,215	\$12,021,314	\$921,221	\$921,221	\$13,018,436	\$12,942,535
Buildings & improvements	25,056,933	25,319,665	5,069,054	4,901,006	30,125,987	30,220,671
Furniture and equipment	1,108,477	1,244,238			1,108,477	1,244,238
Vehicles & heavy equipment	8,196,757	8,611,764	22,056	22,485	8,218,813	8,634,249
Dams	22,388,915	22,765,199			22,388,915	22,765,199
Infrastructure	115,332,534	118,457,919			115,332,534	118,457,919
Construction in progress	17,236,051	12,437,293			17,236,051	12,437,293
Totals	\$201,416,882	\$200,857,392	\$6,012,331	\$5,844,712	\$207,429,213	\$206,702,104

The following table reconciles the changes in capital assets:

	Governmental Activities	Business-Type Activities	Total
Beginning balance	\$417,751,659	\$13,281,439	\$431,033,098
Additions	13,203,700	540,415	13,744,115
Retirements	(3,566,889)		(3,566,889)
Depreciation	(225,971,588)	(7,809,523)	(233,781,111)
Ending balance	<u>\$201,416,882</u>	<u>\$6,012,331</u>	<u>\$207,429,213</u>

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

Long-term Debt. As of year-end, the County had \$1,742,210 in notes payable for industrial development within the County. The change of \$70,890 from the prior year was due to an additional loan in the amount of \$152,319 from the Oregon Department of Economic Development for water system improvements on Bolin Island less payments on loans in the amount of \$81,429 made during the 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 32 of this report.

Economic Factors and Next Year's Budgets and Rates.

- The single most significant source of county revenue is the federal Rural Schools and Community Self-Determination Act, which provides funds in lieu of declining timber harvest revenues. The approximately \$50 million from this funding source will increase 1% annually until fiscal 2006-07 when

the Act expires. Continuation of this Act beyond 2006-07 will require future congressional action. These funds represent over 45% of the county's revenues.

- Although the local economy is beginning to diversify, the County is still heavily dependent on the wood products industry. At the close of the fiscal year, the County's unemployment rate was 8.3%, which is a slight decrease from the rate of 9.2% a year ago. This compares unfavorably to the state's average unemployment rate of 6.6% and the national average rate of 5.0%.
- County-issued building residential building permits increased 17% from the previous fiscal year.
- Total assessed value (the basis of property tax revenues) within the County increased 6%. This reflects only a slight growth on top of the constitutional 3% limit on increases to assessed valuations of existing property. Property taxes represent only 6% of overall County revenues.
- Inflationary trends for the county are comparable to national indices.

All of these factors were considered in preparing the County's budget for fiscal year 2005-06.

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.