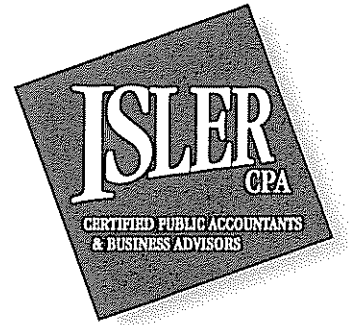


FINANCIAL SECTION





INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Josephine County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Josephine County, Oregon (County) as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2006, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 10 through 17, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining, and individual major and nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U S Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining, individual major and nonmajor fund financial statements, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

ISLER CPA

by. 

Paul Nielson, CPA, a member of the firm

Eugene, Oregon
November 15, 2006

JOSEPHINE COUNTY, OREGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the County's comprehensive annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year ended June 30, 2006. This discussion and analysis is intended to serve as an introduction of the County's basic financial statement. It is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the County's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund issues.

We encourage readers to consider the information presented here in conjunction with our letter of transmittal beginning on page 2 of this report.

Financial Highlights

- The assets of Josephine County exceeded its liabilities at the close of the most recent fiscal year by \$51.9 million (total net assets).
- The County's total net assets increased by \$23.0 million compared with the prior year. New accounting rules required the addition of Infrastructure (roads, bridges, culverts) to the County's capital assets, which accounts for \$14.9 million of the increase to total net assets.
- At June 30, 2006 the County's governmental funds reported combined ending fund balances of \$25,624,098 an increase of \$2,390,844 in comparison to the prior year.
- Josephine County's total outstanding debt for bonds, leases, and loans decreased by \$901,008 in comparison to the prior year as a result of normal loan payments. No new debt was issued during the year.

Overview of the Financial Statements

The basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the County's finances, in a manner similar to a private-sector business. All of the County's activities are reported in the government-wide statements, except for activities accounted for in fiduciary funds because resources of those funds are not available to support the County's own programs.

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 statement of activities presents information showing how the County's net assets changed during the fiscal year. All of the changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

JOSEPHINE COUNTY, OREGON

Revenues are recognized when earned and expenses are recorded at the time liabilities are incurred. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., uncollected taxes).

These two government-wide financial statements report the County's net assets and the change in net assets. Net assets, which represent the difference between assets and liabilities, are one measure of the County's financial health, or financial position. Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether its financial position is improving or deteriorating. However, to assess the overall health of the County, you need to consider additional non-financial factors such as changes in the property tax base and changes in the County's economy.

The government-wide financial statements of the County are divided into the following two categories:

1. Governmental activities. This includes the basic services provided by the County to its citizens, such as public assistance programs, public safety and public health. O&C funds, property taxes, federal grants, and state grants finance most of these activities. The County's internal service funds, which provide services to other County departments, are included in governmental activities because these services predominately benefit governmental programs rather than business-type functions.

2. Business-type activities. The County charges fees to customers to help cover the costs of certain services it provides. These activities include the Jail Commissary and the two airports.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's most significant funds (not the County as a whole). Funds are accounting mechanisms the County uses to keep track of specific sources of funding and spending for particular purposes. Similar to other state and local governments, the County uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements.

All of the County's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Most of the County's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances remaining at year end that are available for spending. Thus, the governmental fund statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long term focus of the government-wide statements, we provide information following the governmental fund statements that reconciles the government-wide focus to the governmental fund focus.

The County maintains over fifty individual governmental funds. Information is presented separately in the governmental fund financial statements for the five major governmental funds, including the general fund. Data from the other 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.

JOSEPHINE COUNTY, OREGON

Proprietary funds. Services for which the County charges customers a fee, similar to a business operation, are generally reported in proprietary funds. Proprietary fund statements, like the government-wide statements, provide both long-term and short-term financial information. The County's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. We use internal service funds (the other type of proprietary fund) to report activities that provide services to the County's other programs and activities (such as the County's Central Motor Pool).

The proprietary fund financial statements provide separate information for the Airports Fund, which is the County's only major proprietary fund. The Jail Commissary Fund is the sole remaining proprietary fund and is presented alongside the major fund. The internal service funds are combined into aggregated presentations. Individual fund data for each of the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds account for resources held for the benefit of parties outside the government. The County is the trustee, or fiduciary, for these funds. Fiduciary funds are accounted for in a manner similar to proprietary funds. All of the County's fiduciary activities are reported in a separate statement of changes in fiduciary net assets. These activities have been excluded from the County's government-wide financial statements because the County cannot use these assets to finance its operations.

Notes to the Financial Statements

The basic financial statements also include notes, which provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents a section of required supplementary information (RSI) which contains budget-to-actual comparison schedules for the County's general fund and the major special revenue funds. The combining financial statements referred to earlier are presented immediately following the required supplementary information. These combining statements provide details about our nonmajor governmental funds, enterprise funds, and internal service funds, each of which are added together and presented in single columns in the basic financial statements.

A statistical section containing selected financial, economic, and demographic information is presented immediately following the combining statements.

Government-wide Financial Analysis

Net Assets. Net assets may serve over time as a useful indicator of a government's financial position. Josephine County's combined net assets for the current fiscal year were approximately \$51.9 million as shown in Table 1. The largest portion of this balance consists of capital assets (land, buildings, equipment, and the addition this year of infrastructure). Since the County uses its capital assets to provide services to citizens, this amount is not available for future spending.

JOSEPHINE COUNTY, OREGON

An additional portion of the County’s net assets represent resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$11.6 million which indicates that reservations of net assets exceed total net assets.

Table 1
Josephine County’s Net Assets – as of June 30
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current & Other Assets	\$35.7	\$31.7	\$0.3	\$0.6	\$36.0	\$32.3
Capital Assets	52.1	36.5	1.9	1.7	54.0	38.2
Total Assets	87.8	68.2	2.2	2.3	90.0	70.5
Long-term Liabilities	30.5	34.4	-	-	30.5	34.4
Other Liabilities	7.5	7.1	0.1	0.1	7.6	7.2
Total Liabilities	38.0	41.5	0.1	0.1	38.1	41.6
Net Assets:						
Invested in Capital Assets, net of related debt	41.3	24.9	1.9	2.0	43.2	26.9
Restricted	20.3	18.1	-	-	20.3	18.1
Unrestricted	(11.8)	(16.3)	0.2	0.2	(11.6)	(16.1)
Total Net Assets	\$49.8	\$26.7	\$2.1	\$2.2	\$51.9	\$28.9

Changes in Net Assets. The County’s combined change in net assets for the current fiscal year was an increase of \$7.6 million as shown in Table 2. Several governmental activities had an increase in net assets and several had a decrease in net assets.

The major increase in net assets occurred in the County General Fund (\$1.8 million) and the County Public Works Fund (\$1.6 million) due mainly to reductions in personal service expense.

The major decrease occurred in the Payroll Reserve Fund (\$0.9 million) due to a higher number of accrued vacation payouts to employees who either retired or were transferred to private, non-profit agencies during the privatization of the County Mental Health and Community Action programs.

Net assets for business-type activities decreased slightly as a result of normal operations.

JOSEPHINE COUNTY, OREGON

Table 2
Josephine County's Changes in Net Assets
For the year ended June 30
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for Services	\$9.1	\$9.5	\$0.4	\$0.4	\$9.5	\$9.9
Operating Grants and Contributions	43.0	46.2	0.1	0.6	43.1	46.8
General Revenues:						
Property Taxes	4.0	3.9	-	-	4.0	3.9
Other Taxes	1.0	0.9	-	-	1.0	0.9
Unrestricted Grants and Contributions	11.8	11.5	-	-	11.8	11.5
Other Revenue	0.4	0.3	-	-	0.4	0.3
Total Revenues	69.3	72.3	0.5	1.0	69.8	73.3
Expenses:						
General Government	4.2	8.0	-	-	4.2	8.0
Public Safety	16.1	15.2	0.1	0.1	16.2	15.3
Public Works	5.9	7.5	-	-	5.9	7.5
Culture and Recreation	3.4	3.5	0.6	0.5	4.0	4.0
Community Development	4.6	2.5	-	-	4.6	2.5
Health & Human Services	26.1	27.6	-	-	26.1	27.6
Interest on long-term debt	1.2	1.4	-	-	1.2	1.4
Total Expenses	61.5	65.7	0.7	0.6	62.2	66.3
Increase in Net Assets						
Before Transfers	7.8	6.6	(0.2)	0.4	7.6	7.0
Transfers	(0.1)	-	0.1	-	-	-
Increase in Net Assets	7.7	6.6	(0.1)	0.4	7.6	7.0
Net Assets July 1, 2005	26.7	20.1	2.2	1.8	28.9	21.9
Add Infrastructure (Note 1G)	15.4	-	-	-	15.4	-
Net Assets June 30, 2006	\$49.8	\$26.7	\$2.1	\$2.2	\$51.9	\$28.9

Financial Analysis of the County's Funds

As noted earlier, Josephine 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 of near-term inflows, outflows, and resources available for spending. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may

JOSEPHINE COUNTY, OREGON

serve as a useful measure of the County'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 \$25.6 million, an increase of \$2.4 million over the prior year. Approximately 92% of this total amount constitutes unreserved fund balance, which is available for spending on governmental programs at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it represents amounts which have already been committed.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance in the general fund was \$4.1 million, and increase of approximately \$1.5 million from the prior year. The majority of this increase was the result of reducing the number of employees, mostly in management positions, and reducing employee benefits, mainly the County's deferred compensation match.

The Public Works fund balance increased by \$1.5 million mainly due to reductions in personal service expenditures from vacancies, new hires, and elimination of the deferred compensation match, as well as a slight increase in gas tax revenue.

The Mental Health fund balance decreased slightly due to reductions in state grant revenues.

The Regional Hospital Program fund balance increased by \$199,815 due to lower than normal disbursements for acute care costs for indigents.

The County Bridge Construction fund balance decreased by \$91,888 in the course of normal operations.

Proprietary Funds. Total proprietary fund net assets decreased by \$63,813 due mainly to depreciation of capital improvements paid from federal funding at the County's two airports.

Fiduciary Funds. Fiduciary funds account for resources held for the benefit of parties outside the government. Net assets of all fiduciary funds are reported as held in trust for particular purposes.

General Fund Budgetary Highlights

The general fund increase of \$296,824 between the original adopted budget and the final budget was primarily due to expenditure of additional funds received from federal and state grants.

Actual expenditures in the general fund were less than the final budgeted expenditures by \$3.8 million. The difference between budget and actual was found mostly in personal services due reduction in benefits paid to employees, vacancies and new hires. In addition, the Forestry Department project for purchase of conservation easements for fire mitigation, funded by Title III dollars, was budgeted but not realized.

Capital Assets

The County's investment in capital assets for its governmental and business-type activities as of June 30, 2006 was \$54.0 million (net of accumulated depreciation). This investment in capital

JOSEPHINE COUNTY, OREGON

assets includes land, buildings, improvements, infrastructure, equipment, and construction in progress. This year the County began to include Infrastructure (roads, bridges, culverts) as part of its capital assets. This increased capital assets by \$14.9 million (net of accumulated depreciation).

Major capital asset events during the fiscal year included the following:

- \$1.04 million to complete the Marlsan Landfill cap
- \$296,125 for construction equipment in Public Works
- \$249,000 to re-roof the Courthouse and Justice Building
- \$247,000 for equipment upgrades in Public Safety
- \$112,756 for two busses in Public Transportation

The County's net investment in capital assets increased approximately 2% for the fiscal year, with the exception of the addition of infrastructure. Additional information on capital assets can be found in Note 4 of this report.

Debt Administration

The County's total bonded debt outstanding as of June 30, 2006 was \$23.3 million. The outstanding balance represents prior year funding for the construction of the Adult Jail and for the PERS unfunded actuarial liability, both of which are backed by the full faith and credit of the County. There was no new bonded debt issued during the fiscal year.

Under state law, Josephine County has a general obligation debt limitation of 2% of the real market value of taxable property in the county. As of June 30, 2006 the County's general obligation bonded debt of \$10.2 million was well below the legal limitation.

The County's last bond sale in 2001 received a rating of "Aaa" from Moody's Investor Service. Additional information about the County's long-term debt can be found in Note 5 of this report.

Economic Factors and Next Year's Budget

Josephine County is faced with some major financial issues, which impact both current and future budgets. These are discussed in the following paragraphs.

O & C Funding Expires Soon. The largest source of Josephine County general fund revenues is the federal Secure Rural Schools and Community Self-Determination Act (O & C replacement funds or Public Law 106-393), which became law on October 30, 2000. This law provides revenue to counties and schools in rural areas in lieu of declining O & C and Forest Service receipts. This money is necessary because a very large percentage of Josephine County is forestland that is not subject to property taxes. It is estimated that Josephine County will receive approximately \$15 million for the budget year of 2006-07.

The O & C money represents an extremely vital source of revenue for the County, especially for the County's general fund where it is over 56% of available resources. The funding under PL 106-393 only lasts through fiscal year 2006-07, and Congressional action will be required to renew it. The Board of County Commissioners is working to ensure continuation of these payments and, along with County Department Heads and Elected Officials, is making

JOSEPHINE COUNTY, OREGON

contingency plans in case the program is continued at a lower level or is completely discontinued by Congress.

Local Government Funding Constraints. With the passage of statewide constitutional property tax limitations of Ballot Measures 5 and 47/50, Josephine County's ability to solve its financial problems through tax measures is severely constrained. The County is locked in at the \$.5867 permanent tax rate and it would be almost impossible to increase that rate. One possible solution is to form County Service Districts, which if approved by voters, would have their own permanent rate. Moreover, Josephine County has the lowest permanent tax rate in the state. The second lowest rate is Curry County with a rate of \$.5996. Other neighboring counties, Coos (\$1.0799), Douglas (\$1.1124) and Jackson (\$2.0099), all have substantially higher rates. Josephine County's low tax rate is in part a reflection of the dependence on the now uncertain O & C funds at the time the rates were made permanent.

The tax rate constraint mentioned above limits assessed value increases to 3% per year, or market value, whichever is lower. No property may increase in value more than 3% in any year unless it is substantially revised or seeks voluntary rezoning. The cap on assessed values and the requirement to assess new construction similarly to existing properties has continued to increase the gap between market value and assessed value. Property value is increasing faster than 3%, and the artificial constitutional gap keeps the tax rate from responding to the real increases in total value. The limitation of assessed values keeps the current tax rate from producing sufficient revenue. Rising population, increased public demand for services and inflationary pressures are causing operating costs to increase faster than revenues, and this situation is projected to cause very significant budget gaps in the future, even if the O & C funds are renewed at the same level.

Health Care Premiums. Like most employers and individuals, Josephine County has been faced with double-digit increases in recent years in the health care premiums it pays (in part) for its employees. Even small increases in this item have a major impact on the County.

Declining State Funding. Josephine County receives a large number of grants from the State. The total budget for 2006-07 for state grants is \$12.4 million. These grants help fund various programs operated by the County, primarily in the Public Health and Community Justice departments. Due to cutbacks at the State, grants expected to be received by these departments are down from the prior year, and this trend could continue unless Oregon's economy improves enough to provide the State with more tax revenues.

Requests for Information

This financial report is designed to provide a general overview of the 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 addressed to Josephine County Finance Department, 500 NW 6th St, Grants Pass, OR, 97526.

DID YOU KNOW?

Grants Pass, the Josephine County seat, is guarded by a towering 18 foot tall caveman, complete with a club. The fiberglass statue was erected by the city's "Caveman Club" in 1971 following nearly five decades of boosterism based on the theme. Beginning in 1922, local shopkeepers would march down Main Street wearing animal skins and furs and dragging ceremonial clubs to boost business.

While the Grants Pass High School sports teams continue to compete as Cavemen and Lady Cavers, the city prefers other forms of promotion. More popular now is the slogan "Where the Rogue River Runs," a reference to the local wild and scenic river with white-water, fishing, and jet boat recreational opportunities. (Source: Oregon State Archives)



BASIC FINANCIAL STATEMENTS



JOSEPHINE COUNTY, OREGON

**Statement of Net Assets
June 30, 2006**

	Primary Government		Total
	Governmental	Business-Type	
	Activities	Activities	
Assets:			
Cash & Investments	\$ 30,382,212	\$ 213,994	\$ 30,596,206
Taxes Receivable	218,481	-	218,481
Other Receivables	1,985,220	64,099	2,049,319
Internal Balances	3,860	(3,860)	-
Due From Other Governments	2,334,660	-	2,334,660
Inventories	742,960	35,362	778,322
Other Assets	61,850	-	61,850
Capital Assets:			
Land	9,800,413	611,814	10,412,227
Buildings & Improvements	33,299,170	3,916,485	37,215,655
Equipment	9,642,693	5,000	9,647,693
Infrastructure	66,705,792	-	66,705,792
Construction in Progress	46,775	52,668	99,443
Less - Accumulated Depreciation	(67,400,988)	(2,718,136)	(70,119,124)
Total Assets	87,823,098	2,177,426	90,000,524
Liabilities:			
Accounts Payable	2,816,116	76,207	2,892,323
Accrued Payroll Liabilities	2,367,310	2,561	2,369,871
Accrued Interest Payable	82,144	-	82,144
Claims Payable	352,859	-	352,859
Due to Other Governments	34,616	-	34,616
Unearned Revenue	1,839,349	-	1,839,349
Noncurrent Liabilities:			
Due in One Year:			
Bonds Payable	1,075,000	-	1,075,000
Leases Payable	92,250	-	92,250
Loans Payable	28,912	-	28,912
Compensated Absences	878,400	-	878,400
Landfill Closure Costs	137,785	-	137,785
Due in More Than One Year:			
Bonds Payable	22,242,404	-	22,242,404
Loans Payable	417,849	-	417,849
Compensated Absences	2,027,082	-	2,027,082
Landfill Closure Costs	3,643,105	-	3,643,105
Total Liabilities	38,035,181	78,768	38,113,949
Net Assets:			
Invested in Capital Assets, net of related debt	41,314,844	1,867,831	43,182,675
Restricted - expendable for:			
General Government	563,827	-	563,827
Public Safety	1,079,160	-	1,079,160
Public Works	11,087,257	-	11,087,257
Culture and Recreation	325,482	-	325,482
Community Development	2,555,043	-	2,555,043
Health & Human Services	4,060,452	-	4,060,452
Debt Service	243,033	-	243,033
Restricted - nonexpendable	414,672	-	414,672
Unrestricted	(11,855,853)	230,827	(11,625,026)
Total Net Assets	\$ 49,787,917	\$ 2,098,658	\$ 51,886,575

The notes to the financial statements are an integral part of this statement.

JOSEPHINE COUNTY, OREGON

**Statement of Activities
For the Year Ended June 30, 2006**

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
Governmental Activities:				
General Government	\$ 4,230,673	\$ 5,642,574	\$ 5,519,717	\$ 6,931,618
Public Safety	16,124,831	20,420	2,527,925	(13,576,486)
Public Works	5,912,624	126,396	7,764,080	1,977,852
Culture and Recreation	3,340,311	1,468,255	425,335	(1,446,721)
Community Development	4,603,135	1,205,988	4,363,707	966,560
Health & Human Services	26,047,563	670,162	22,358,760	(3,018,641)
Interest on long-term debt	1,299,545	-	39,497	(1,260,048)
Total Governmental Activities	<u>\$ 61,558,682</u>	<u>\$ 9,133,795</u>	<u>\$ 42,999,021</u>	<u>\$ (9,425,866)</u>
Business-type Activities:				
Public Safety	66,547	70,346	-	3,799
Culture and Recreation	608,669	405,188	69,542	(133,939)
Total Business-type Activities	<u>675,216</u>	<u>475,534</u>	<u>69,542</u>	<u>(130,140)</u>
Total Primary Government	<u>\$ 62,233,898</u>	<u>\$ 9,609,329</u>	<u>\$ 43,068,563</u>	<u>\$ (9,556,006)</u>

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Changes in Net Assets:			
Net (Expense) Revenue	\$ (9,425,866)	\$ (130,140)	\$ (9,556,006)
General Revenues:			
Property Taxes	3,957,320	-	3,957,320
Other taxes	1,001,933	-	1,001,933
Grants and Contributions not restricted to specific programs	11,802,368	-	11,802,368
Unrestricted Interest and Investment Earnings	413,838	9,327	423,165
Transfers - Internal Activities	(57,000)	57,000	-
Change in Net Assets	<u>7,692,593</u>	<u>(63,813)</u>	<u>7,628,780</u>
Net Assets - July 1, 2005, as previously reported	26,748,237	2,162,471	28,910,708
Adjustment to begin reporting infrastructure assets (Note 1G)	15,347,087	-	15,347,087
Net Assets - July 1, 2005, as adjusted	<u>42,095,324</u>	<u>2,162,471</u>	<u>44,257,795</u>
Net Assets - June 30, 2006	<u>\$ 49,787,917</u>	<u>\$ 2,098,658</u>	<u>\$ 51,886,575</u>

The notes to the financial statements are an integral part of this statement.

JOSEPHINE COUNTY, OREGON
Governmental Funds

Balance Sheet
June 30, 2006

	General Fund	Public Works	Mental Health	Regional Hospital
Assets				
Current Assets				
Cash & Investments	\$ 4,370,172	\$ 6,757,282	\$ 625,252	\$ 2,698,067
Taxes Receivable	146,511	-	-	-
Other Receivables	1,363,422	4,354	79,712	-
Due From Other Governments	1,025,943	758,993	98,391	-
Due From Other Funds	2,650,923	89,375	1,321,484	252,314
Inventories	-	701,776	-	-
Other Assets	-	-	-	-
Total Assets	\$ 9,556,971	\$ 8,311,780	\$ 2,124,839	\$ 2,950,381
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	\$ 741,675	\$ 264,406	\$ 241,106	\$ 128,008
Accrued Payroll Liabilities	1,903,167	106,916	87,859	-
Due To Other Governments	-	-	-	-
Due To Other Funds	950,526	167,905	977,959	816,529
Unearned Revenue	1,825,948	-	-	-
Total Liabilities	5,421,316	539,227	1,306,924	944,537
Fund Balances:				
Reserved for:				
Participant Distributions	-	-	-	1,472,338
Permanent Endowment	-	-	-	-
Debt Service	-	-	-	-
Unreserved, Reported in :				
General Fund	4,135,655	-	-	-
Special Revenue Funds	-	7,772,553	817,915	533,506
Debt Service Funds	-	-	-	-
Capital Project Funds	-	-	-	-
Permanent Funds	-	-	-	-
Total Fund Balances	4,135,655	7,772,553	817,915	2,005,844
Total Liabilities and Fund Balances	\$ 9,556,971	\$ 8,311,780	\$ 2,124,839	\$ 2,950,381

The notes to the financial statements are an integral part of this statement.

JOSEPHINE COUNTY, OREGON
Governmental Funds

Balance Sheet (Continued)
June 30, 2006

	County Bridge Construction	Other Governmental Funds	Total Governmental Funds
Assets			
Current Assets			
Cash & Investments	\$ 3,316,286	\$ 9,478,199	\$ 27,245,258
Taxes Receivable	-	71,970	218,481
Other Receivables	-	284,641	1,732,129
Due From Other Governments	-	451,333	2,334,660
Due From Other Funds	-	216,981	4,531,077
Inventories	-	-	701,776
Other Assets	-	61,850	61,850
Total Assets	\$ 3,316,286	\$ 10,564,974	\$ 36,825,231
Liabilities and Fund Balances			
Liabilities:			
Accounts Payable	\$ -	\$ 1,157,850	\$ 2,533,045
Accrued Payroll Liabilities	-	162,483	2,260,425
Due To Other Governments	-	34,616	34,616
Due To Other Funds	1,582	1,419,790	4,334,291
Unearned Revenue	-	212,808	2,038,756
Total Liabilities	1,582	2,987,547	11,201,133
Fund Balances:			
Reserved for:			
Participant Distributions	-	-	1,472,338
Permanent Endowment	-	414,672	414,672
Debt Service	-	191,243	191,243
Unreserved, Reported in :			
General Fund	-	-	4,135,655
Special Revenue Funds	-	5,811,846	14,935,820
Debt Service Funds	-	764,474	764,474
Capital Project Funds	3,314,704	234,968	3,549,672
Permanent Funds	-	160,224	160,224
Total Fund Balances	3,314,704	7,577,427	25,624,098
Total Liabilities and Fund Balances	\$ 3,316,286	\$ 10,564,974	\$ 36,825,231

The notes to the financial statements are an integral part of this statement.

JOSEPHINE COUNTY, OREGON
Governmental Funds

**Reconciliation of the Balance Sheet
to the Statement of Net Assets
as of June 30, 2006**

Fund Balances - Governmental Funds		\$ 25,624,098
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital Assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:</p>		
Governmental capital assets	116,441,191	
less accumulated depreciation	<u>(64,924,490)</u>	51,516,701
<p>Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds:</p>		
Property Taxes		199,407
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.</p>		
Bonds Payable	(23,317,404)	
Leases Payable	(92,250)	
Loans Payable	(446,761)	
Accrued Interest Payable	(82,144)	
Compensated Absences	(2,905,482)	
Lanfill Closure Costs	<u>(3,780,890)</u>	(30,624,931)
<p>Internal service funds are used by management to charge the costs of certain activities to individual funds. Net assets of the internal service funds that are reported with governmental activities.</p>		
		<u>3,072,642</u>
Net Assets of Governmental Activities		<u>\$ 49,787,917</u>

The notes to the financial statements are an integral part of this statement.

JOSEPHINE COUNTY, OREGON
Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2006

	General Fund	Public Works	Mental Health	Regional Hospital
Revenues:				
Taxes	\$ 3,569,644	\$ 4,545,919	\$ -	\$ -
Fees and Charges for Services	5,258,540	126,396	292,210	-
Intergovernmental Revenues	16,162,715	2,316,981	7,014,354	1,866,471
Interfund Charges for Services	-	425,303	-	-
Other Revenues	636,116	478,174	36,767	98,783
Total Revenues	25,627,015	7,892,773	7,343,331	1,965,254
Expenditures:				
Current:				
General Government	3,108,458	-	-	-
Public Safety	15,339,425	-	-	-
Public Works	-	6,385,134	-	-
Culture & Recreation	-	-	-	-
Community Development	2,319,243	-	-	-
Human Services	3,982,033	-	8,088,966	1,192,660
Debt Service - Principle	-	-	-	-
Debt Service - Interest	-	-	-	-
Total Expenditures	24,749,159	6,385,134	8,088,966	1,192,660
Excess of Revenues Over (Under)				
Expenditures	877,856	1,507,639	(745,635)	772,594
Other Financing Sources (Uses):				
Transfers In	1,703,643	-	1,354,307	-
Transfers Out	(1,106,600)	(17,700)	(670,002)	(572,779)
Total Other Financing Sources (Uses)	597,043	(17,700)	684,305	(572,779)
Net Change in Fund Balance	1,474,899	1,489,939	(61,330)	199,815
Fund Balances - July 1, 2005	2,660,756	6,282,614	879,245	1,806,029
Fund Balances - June 30, 2006	<u>\$ 4,135,655</u>	<u>\$ 7,772,553</u>	<u>\$ 817,915</u>	<u>\$ 2,005,844</u>

The notes to the financial statements are an integral part of this statement.

JOSEPHINE COUNTY, OREGON
Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
For the Fiscal Year Ended June 30, 2006

	County Bridge Construction	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ -	\$ 1,411,755	\$ 9,527,318
Fees and Charges for Services	-	3,163,056	8,840,202
Intergovernmental Revenues	-	20,633,045	47,993,566
Interfund Charges for Services	-	1,517,925	1,943,228
Other Revenues	134,681	843,048	2,227,569
Total Revenues	134,681	27,568,829	70,531,883
Expenditures:			
Current:			
General Government	-	2,412,987	5,521,445
Public Safety	-	2,307,938	17,647,363
Public Works	226,569	1,148,367	7,760,070
Culture & Recreation	-	3,441,299	3,441,299
Community Development	-	2,629,206	4,948,449
Human Services	-	13,290,656	26,554,315
Debt Service - Principle	-	1,089,747	1,089,747
Debt Service - Interest	-	995,898	995,898
Total Expenditures	226,569	27,316,098	67,958,586
Excess of Revenues Over (Under)			
Expenditures	(91,888)	252,731	2,573,297
Other Financing Sources (Uses):			
Transfers In	-	1,314,439	4,372,389
Transfers Out	-	(2,187,761)	(4,554,842)
Total Other Financing Sources (Uses)	-	(873,322)	(182,453)
Net Change in Fund Balance	(91,888)	(620,591)	2,390,844
Fund Balances - July 1, 2005	3,406,592	8,198,018	23,233,254
Fund Balances - June 30, 2006	<u>\$ 3,314,704</u>	<u>\$ 7,577,427</u>	<u>\$ 25,624,098</u>

The notes to the financial statements are an integral part of this statement.

JOSEPHINE COUNTY, OREGON
Governmental Funds

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2006**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	2,390,844
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
Expenditures for capital assets	2,413,370	
less current year depreciation	(1,919,055)	494,315
<p>Expenses in the statement of activities that do not require current financial resources and are not reported as expenditures in individual funds</p>		
Loss on disposal of capital assets		(88,190)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in individual funds.</p>		
Change in deferred property tax revenues		(22,146)
<p>The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while repayment of long-term debt principal consumes current financial resources of governmental funds. However, neither transaction has any effect on net assets</p>		
Long-term principal repaid	1,209,689	
Amortization of deferred interest bonds	(308,681)	901,008
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and , therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences	1,621,095	
Landfill closure costs	1,241,435	
Accrued interest on debt	5,034	2,867,564
Adjustment to reflect the consolidation of internal service funds to governmental funds		1,149,198
Change in net assets of governmental activities	\$	7,692,593

The notes to the financial statements are an integral part of this statement.

JOSEPHINE COUNTY, OREGON
Proprietary Funds

Statement of Net Assets
June 30, 2006

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Airports Fund	Nonmajor Enterprise (Jail Commissary)	Total Current Year	Total Prior Year	
Assets:					
Current Assets:					
Cash & Investments	\$ 106,574	\$ 107,420	\$ 213,994	\$ 216,157	\$ 3,136,954
Accounts Receivable	64,099	-	64,099	117,023	62,455
Due From Other Funds	10,730	-	10,730	-	259,694
Inventories	35,362	-	35,362	18,728	41,184
Total Current Assets	216,765	107,420	324,185	351,908	3,500,287
Capital Assets:					
Land	611,814	-	611,814	611,814	-
Buildings and Improvements	3,916,485	-	3,916,485	3,962,204	-
Equipment	5,000	-	5,000	17,882	3,053,652
Construction in Progress	52,668	-	52,668	-	-
Less - Accumulated Depreciation	(2,718,136)	-	(2,718,136)	(2,614,175)	(2,476,498)
Total Capital Assets, net of Accumulated Depreciation	1,867,831	-	1,867,831	1,977,725	577,154
Total Assets	2,084,596	107,420	2,192,016	2,329,633	4,077,441
Liabilities:					
Current Liabilities:					
Accounts Payable	73,299	2,908	76,207	135,363	283,071
Accrued Payroll Liabilities	2,561	-	2,561	2,355	106,885
Claims Payable	-	-	-	-	352,859
Due to Other Funds	14,590	-	14,590	29,444	261,984
Total Liabilities	90,450	2,908	93,358	167,162	1,004,799
Net Assets:					
Invested in Capital Assets	1,867,831	-	1,867,831	1,977,725	577,154
Unrestricted	126,315	104,512	230,827	184,746	2,495,488
Total Net Assets	\$ 1,994,146	\$ 104,512	\$ 2,098,658	2,162,471	\$ 3,072,642

The notes to the financial statements are an integral part of this statement.

JOSEPHINE COUNTY, OREGON
Proprietary Funds

Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Airports Fund	Nonmajor Enterprise (Jail Commissary)	Total Current Year	Total Prior Year	
Revenues:					
Fees and Charges for Services	\$ 395,637	\$ 70,346	\$ 465,983	\$ 315,963	\$ 1,477,875
Interfund Charges for Services	-	-	-	-	6,903,657
Other Revenues	9,551	-	9,551	37,828	256,120
Total Revenues	405,188	70,346	475,534	353,791	8,637,652
Expenses:					
Personal Services	77,674	-	77,674	72,854	3,396,156
Materials & Services	341,728	65,469	407,197	355,589	3,474,203
Depreciation	162,355	-	162,355	162,620	284,896
Interfund Payment for Services	26,912	1,078	27,990	40,053	557,381
Total Expenses	608,669	66,547	675,216	631,116	7,712,636
Operating Income (Loss)	(203,481)	3,799	(199,682)	(277,325)	925,016
Nonoperating Revenues:					
Intergovernmental revenues	5,443	-	5,443	238,568	84,711
Interest Income	4,909	4,418	9,327	4,476	78,920
Total Nonoperating Revenues	10,352	4,418	14,770	243,044	163,631
Net Income (Loss) Before Contributions and Transfers	(193,129)	8,217	(184,912)	(34,281)	1,088,647
Capital grant contributions	64,099	-	64,099	327,063	-
Transfers In	57,000	-	57,000	37,000	245,470
Transfers Out	-	-	-	-	(165,900)
Change in Net Assets	(72,030)	8,217	(63,813)	329,782	1,168,217
Total Net Assets - July 1, 2005	2,066,176	96,295	2,162,471	1,832,689	1,904,425
Total Net Assets - June 30, 2006	1,994,146	104,512	2,098,658	2,162,471	\$ 3,072,642

The notes to the financial statements are an integral part of this statement.

JOSEPHINE COUNTY, OREGON
Proprietary Funds

Statement of Cash Flows
for the year ended June 30, 2006

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	Airports Fund	Nonmajor Enterprise (Jail Commissary)	Total Current Year	Total Prior Year	
Cash Flows from Operating Activities					
Cash received from users	\$ 421,197	\$ 70,346	\$ 491,543	\$ 292,317	\$ 8,931,092
Cash received from other sources	9,551	-	9,551	37,828	256,120
Cash paid to suppliers	(438,418)	(70,779)	(509,197)	(570,390)	(4,892,011)
Cash paid to employees	(77,468)	-	(77,468)	(76,503)	(3,387,227)
Net cash provided by operating activities	<u>(85,138)</u>	<u>(433)</u>	<u>(85,571)</u>	<u>(316,748)</u>	<u>907,974</u>
Cash Flows from Non-capital Financing Activities					
Transfers in	57,000	-	57,000	37,000	245,470
Transfers out	-	-	-	-	(165,900)
Intergovernmental Receipts	5,443	-	5,443	332,060	-
Net cash provided by noncapital and related financing activities	<u>62,443</u>	<u>-</u>	<u>62,443</u>	<u>369,060</u>	<u>79,570</u>
Cash Flows from Capital Financing Activities					
Capital Grant Contributions	64,099	-	64,099	578,910	-
Purchase of capital assets	(52,461)	-	(52,461)	(621,352)	(107,409)
Net cash provided by capital and related financing activities	<u>11,638</u>	<u>-</u>	<u>11,638</u>	<u>(42,442)</u>	<u>(107,409)</u>
Cash Flows from Investing Activities					
Interest income received	4,909	4,418	9,327	4,476	78,920
Net cash provided by investing activities	<u>4,909</u>	<u>4,418</u>	<u>9,327</u>	<u>4,476</u>	<u>78,920</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(6,148)	3,985	(2,163)	14,346	959,055
Cash and Cash Equivalents - July 1, 2005	112,722	103,435	216,157	201,811	2,177,899
Cash and Cash Equivalents - June 30, 2006	<u>\$ 106,574</u>	<u>\$ 107,420</u>	<u>\$ 213,994</u>	<u>\$ 216,157</u>	<u>\$ 3,136,954</u>

Reconciliation of Net Operating Income (Loss)
to Net Cash Provided by Operating Activities

Operating Income (Loss)	\$ (203,481)	\$ 3,799	\$ (199,682)	\$ (277,325)	\$ 1,009,727
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	162,355	-	162,355	162,620	284,896
(Increase) Decrease in accounts receivable	52,924	-	52,924	(23,646)	(17,321)
(Increase) Decrease in due from other funds	(10,730)	-	(10,730)	-	482,287
(Increase) Decrease in inventories	(16,634)	-	(16,634)	(18,728)	(117)
Increase (Decrease) in accounts payable	(106,181)	2,829	(103,352)	(167,414)	(340,348)
Increase (Decrease) in payroll payable	44,402	-	44,402	(3,649)	8,929
Increase (Decrease) in due to other funds	(7,793)	(7,061)	(14,854)	11,394	(331,545)
Increase (Decrease) in claims payable	-	-	-	-	(188,534)
Total adjustments	<u>118,343</u>	<u>(4,232)</u>	<u>114,111</u>	<u>(39,423)</u>	<u>(101,753)</u>
Net cash provided by operating activities	<u>\$ (85,138)</u>	<u>\$ (433)</u>	<u>\$ (85,571)</u>	<u>\$ (316,748)</u>	<u>\$ 907,974</u>

The notes to the financial statements are an integral part of this statement.

JOSEPHINE COUNTY, OREGON
Fiduciary Funds

Statement of Fiduciary Net Assets
June 30, 2006

	Trust and Agency Funds
Assets:	
Cash & Investments	\$ 6,799,978
Taxes Receivable	1,986,615
Accounts Receivable	224,113
Due From Other Funds	311,678
Total Assets	<u>\$ 9,322,384</u>
Liabilities:	
Accounts Payable	\$ 1,722,896
Due To Other Governments	2,135,755
Due To Other Funds	502,314
Money Held for Others	4,961,419
Total Liabilities	<u>\$ 9,322,384</u>

The notes to the financial statements are an integral part of this statement.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of Josephine County have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The significant accounting policies of the county are described below.

A. Reporting Entity:

Josephine County was formed under the predecessor chapter to Oregon Revised Statutes (ORS) 202, and its present “home rule” charter, effective January 5, 1981, was adopted under Article VI, Section 10 of the Oregon State Constitution. Its boundaries are established by ORS 201.150. A Board of Commissioners consisting of three independently elected members governs the County.

Blended Component Units – As required by generally accepted accounting principles, these financial statements present the County and its blended component unit, 4H-Extension, for which the County is considered to be financially accountable.

A blended component unit, although a legally separate entity is, in substance, part of the County’s operations and so data from it is combined with data of the County. A board comprised of the County’s Commissioners governs this blended component. The 4H Extension is included in the non-major special revenue funds and, like the County, has a June 30 fiscal year-end. Separate financial statements for the County’s component unit can be obtained at the Finance Department.

B. Government-wide and Fund Financial Statements:

Government-wide Financial Statements – The Statement of Net Assets and Statement of Activities report information for all of the non-fiduciary activities of the County and its component unit. *Governmental activities*, which are primarily supported by intergovernmental revenues and taxes, are reported separately from *business-type activities*, which rely primarily upon fees charged to external parties.

The Statement of Activities demonstrates the extent to which direct expenses of the County’s functions/programs listed in the statement (such as General Government, Public Safety, Human Services etc.) are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or program. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or program and 2) grants and intergovernmental revenues that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items which are not specific program revenues are reported as general revenues in the Statement of activities.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Remaining governmental and enterprise funds are aggregated and reported as non-major funds.

The County reports the following major governmental funds:

General Fund – This is the County’s primary operating fund. It accounts for all financial resources of the general government, except for those requiring separate accounting in another fund.

Public Works Fund – The expenditures of this fund are restricted under Article IX of the Constitution of the State of Oregon for construction, reconstruction, improvement, repair, maintenance, operation, use and policing of public highways, roads and streets within the County. Major sources of revenue include motor fuel taxes and forest service receipts.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Mental Health Fund – This fund accounts for the main mental health operations and programs. Resources of this fund are primarily from federal and state grants and from alcohol tax. Expenditures are for mental health care activities.

Regional Hospital Fund – This fund accounts for moneys received for the provision of mental health beds for patients that require hospital commitment. Resources are received from the State of Oregon.

County Bridge Construction Fund – This fund was established July 1, 2004 to account for the expenditure of grant money received from the State to rebuild certain bridges in the County.

The County reports the following major enterprise fund:

Airports Fund – This fund accounts for the operations of the county’s airports located in Merlin, and Cave Junction, Oregon. User fees are the primary source of revenue. Expenditures are for the administration and maintenance of the airport buildings and grounds.

Additionally the County reports the following fund types:

Proprietary Funds – Account for the operations of predominantly self-supporting activities.

- Enterprise funds account for services rendered to the public on a user charge basis.
- Internal service funds account for services provided to other departments or agencies of the County or other governments, on a cost reimbursement basis.

Fiduciary Funds – Account for resources received and held by the County’s Treasurer in a fiduciary capacity.

C. Measurement Focus and Basis of Accounting:

Government-wide, Proprietary Fund, and Fiduciary Fund Financial Statements – The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied. In contrast, agency funds report only assets and liabilities and do not have a measurement focus.

The County applies all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. It does not apply FASB guidance issued subsequent to November 30, 1989 unless specifically adopted by the GASB.

Governmental Fund Financial Statements – All governmental fund types are accounted for using a *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Federal and state grants (to the extent that eligible expenditures are incurred), licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues within the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when the payment is due.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements in order to avoid double counting of revenues, expenditures and internal balances. Expenditures of the County's internal service funds are reported as direct expenses of the functions and programs that use the internally provided services. The primary items provided are building operation and maintenance, motor pool, self insurance, finance, personnel, legal, communications and technology support.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Airport and Jail Commissary enterprise funds and the County's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When program expenses are incurred for which both restricted and unrestricted net assets are available to finance the program, it is the County's policy to first apply restricted resources to such programs, followed by unrestricted resources.

D. Cash and Investments:

Investments included in cash and investments are reported at fair value. The County invests primarily in the State of Oregon Local Government Investment Pool and U.S. Government and Agencies Securities. Oregon Revised Statutes authorize all County investments. Interest earned from pooled investments is allocated based upon a fund's portion of the total average daily investment balance. The County maintains depository insurance under Federal depository insurance coverage and state and financial institution collateral pools for its cash deposits and investments, except for the Local Government Investment Pool and U.S. government and agencies securities which are exempt from statutes requiring insurance.

E. Receivables:

The County levies, collects, and distributes property taxes for all taxing districts within its boundaries. Property taxes attach as an enforceable lien on property as of July 1. All taxes are levied as of the lien date and are payable in three installments on November 15, February 15 and May 15. Property taxes receivable in governmental funds represent only the County's portion of uncollected property taxes. They are delinquent and are offset by deferred revenue in individual fund balance sheets. Accordingly, they are not recorded as revenue until received in individual funds.

For the year ended June 30, 2006, the County's tax levy did not exceed the Oregon constitutional limitation. All other districts' property taxes receivable is reported in the Trust and Agency Funds.

Special Assessments are recognized as receivable at the time property owners are assessed for property improvements. Delinquent receivables are those special assessments remaining unpaid after the date on which a penalty for non-payment is attached.

"Bancrofted" assessments occur when installments are two payments (one year) late. Such assessments receivable are offset by a deferred revenue account and, accordingly, have not been recorded as revenue.

Accounts and other receivables in governmental and proprietary fund types are recorded as revenue when earned, except for timber sales, which are recorded as revenue when the logging occurs.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

F. Inventories:

Governmental Funds – Inventory of parts and supplies is held by the Public Works Department and is valued at average cost. Inventories are recorded as expenditures when consumed rather than when purchased.

G. Capital Assets:

Capital assets, which include property, plant, and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

In accordance with GASB 34, the County began reporting infrastructure assets, effective July 1, 2005. Accordingly, Total Net Assets as of July 1, 2005 has been increased by \$15,347,087, which represents the \$66,414,936 cost of infrastructure assets, net of accumulated depreciation of \$51,067,849 on July 1, 2005.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	35
Vehicles and machinery	5 to 15
Office furniture and equipment	3 to 10
Computer equipment	3
Infrastructure	25 to 65

H. Landfill Closure and Post-closure Care Liabilities:

The County records landfill closure and post-closure costs as incurred over the life the related landfills. The estimated liability is reported in the government-wide statement of net assets.

I. Long-term Debt:

All County long-term debt is included in the government-wide financial statements. Long-term debt directly related to and expected to be paid from proprietary funds is also included in those funds. Long-term debt information is presented in Note 6.

J. Compensated Absences:

Accumulated vested compensated absences are accrued in the government-wide financial statements as earned by employees.

The County established the Payroll Liability Reserve Debt Service Fund for the purpose of accumulating resources to pay employees for time management leave, vacation leave, and sick leave. Resources are provided by other County funds, principally the major funds. Unused management leave and vacation leave is paid upon termination according to applicable union or non-union rules, and is recorded as an expenditure at time of payment. Sick pay, which does not vest, is recorded as an expenditure when it is taken.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

K. Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

L. Restricted Net Assets:

Restricted net assets reported in the Statement of Net Assets represent amounts for which constraints were imposed by creditors, grantors, contributors or laws or regulations.

M. Cash Flows Statement:

For purposes of the statement of cash flows, the proprietary fund types consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Accordingly, all County investments are considered to be cash equivalents.

N. Property Tax Calendar:

Property taxes attach as an enforceable lien on July 1 for real property and personal property. Taxes are levied as of July 1 and payable in three installments on November 15, February 15 and May 15. Real property taxes unpaid on May 16 are considered delinquent. The County levies, collects and distributes property taxes for all taxing jurisdictions within its boundaries. Uncollected taxes, including delinquent amounts, are deemed to be substantially collectible or recoverable through liens, and are recorded as revenue when received.

O. Comparative Data:

Comparative total data for the prior year have been presented only for the enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds.

NOTE 2 – CASH AND INVESTMENTS:

The County's cash and investments are comprised of the following at June 30, 2006:

Cash on hand	\$	12,222
Deposits with financial institutions		7,813,497
Investments		<u>29,570,465</u>
Total cash and investments		37,396,184
Less cash and investments in agency fund		<u>(6,799,978)</u>
Cash and investments, as reported in statement of net assets	\$	<u><u>30,596,206</u></u>

Deposits:

Deposits with financial institutions are bank demand deposits. The total bank balance, as shown on the banks' records at June 30, 2006, is \$8,743,840. Of these deposits, \$404,645 was covered by federal depository insurance, and \$8,339,195 was collateralized to the extent required by state law. Oregon laws require municipal corporations to obtain certificates of participation issued by a pool manager for amounts on deposit in excess of

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 2 – CASH AND INVESTMENTS: (Continued)

federal depository insurance, and the County held \$63,200,000 in certificates at June 30, 2006. Oregon Revised Statutes require the depository institution to maintain on deposit with a custodian bank collateral pool securities having a value of not less than 25% of the outstanding certificates of participation issued by the pool manager. Deposits in excess of federal depository insurance, even to the extent collateralized by certificates of participation, are considered uncollateralized by GASB Statement No. 40.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County does not have a policy for deposits custodial credit risk. As of June 30, 2006, \$8,339,195 of the County's bank balance of \$8,743,840 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 6,254,396
Uninsured and collateral held by pledging bank's collateral custodian but not in the County's name	<u>2,084,799</u>
Total uninsured	<u><u>\$ 8,339,195</u></u>

Investments:

State statutes authorize the County to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, commercial paper, and the Oregon Local Government Investment Pool, among others. The County has no investment policy that would further limit its investment choices.

At June 30, 2006, the County's investments consisted of:

	Fair Value	Percent
Investment in Oregon Local Government		
Investment Pool	\$ 22,629,719	76.5%
US Government Agency Securities:		
Federal Farm Credit Bank	1,001,171	3.4%
Federal Home Loan Mortgage Corporation	2,940,675	9.9%
Federal Home Loan Bank	2,000,000	6.8%
Federal National Mortgage Association	<u>998,900</u>	<u>3.4%</u>
Total investments	<u><u>\$ 29,570,465</u></u>	<u><u>100.0%</u></u>

The Oregon Local Government Investment Pool is an open-ended, no-load diversified portfolio pool. The fair value of the County's position in the pool is substantially the same as the value of the County's participant balance.

The Oregon Local Government Investment Pool is an external investment pool which is part of the Oregon Short-Term Fund. Investment policies are governed by the Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council. Investments are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board. The Oregon Short-Term Fund does not receive credit quality ratings from nationally recognized statistical rating organizations.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Oregon Short-Term Fund manages this risk by limiting the maturity of the investments held by the fund. Weighted average maturities of investments in the Oregon Short-Term Fund at June 30, 2006 were: 79% mature within 93 days, 10% mature from 94 days to one year, and 11% mature from one to three years.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 2 – CASH AND INVESTMENTS: (Continued)

As of June 30, 2006, maturities for the County's other investments are as follows:

	<u>Less Than One Year</u>	<u>One to Two Years</u>
U.S. Government Agency Securities:		
Federal Farm Credit Bank	\$ 1,001,171	\$ -
Federal Home Loan Mortgage Corporation	2,940,675	
Federal Home Loan Bank	2,000,000	
Federal National Mortgage Association	-	998,900
Total	<u>\$ 5,941,846</u>	<u>\$ 998,900</u>

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The County's U.S. Government agency securities investments are rated AAA by Standard and Poor's and Aaa by Moody's.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's investments in U.S. Government agency securities are held by the County's counterparty, not in the County's name.

NOTE 3 – INTERFUND RECEIVABLES AND PAYABLES:

The following is a listing of interfund receivables and payables by fund at June 30, 2006:

	<u>Receivable</u>	<u>Payable</u>
Governmental Funds:		
General Fund	\$ 2,650,923	\$ 950,526
Public Works Fund	89,375	167,905
Mental Health Fund	1,321,484	977,959
Regional Hospital Fund	252,314	816,529
County Bridge Construction Fund	-	1,582
Nonmajor governmental funds	216,981	1,419,790
Proprietary Funds:		
Airport Fund	10,730	14,590
Internal service funds	259,694	261,984
Fiduciary Funds		
	<u>311,678</u>	<u>502,314</u>
	<u>\$ 5,113,179</u>	<u>\$ 5,113,179</u>

Interfund balances resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and when the related payments between funds are made.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balances</u> <u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u> <u>June 30, 2006</u>
Governmental Activities:				
Capital Assets not being depreciated:				
Land	\$ 9,800,413	\$ -		\$ 9,800,413
Construction in Progress	-	46,775		46,775
Total Capital Assets not being depreciated	<u>9,800,413</u>	<u>46,775</u>	<u>-</u>	<u>9,847,188</u>
Capital Assets being depreciated:				
Building and Improvements	32,047,248	1,345,165	93,243	33,299,170
Equipment	9,807,016	833,486	997,809	9,642,693
Infrastructure	66,414,936	290,856		66,705,792
Total Capital Assets being depreciated:	<u>108,269,200</u>	<u>2,469,507</u>	<u>1,091,052</u>	<u>109,647,655</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	6,707,373	941,339	18,146	7,630,566
Equipment	8,413,937	553,151	973,976	7,993,112
Infrastructure	51,067,849	709,461		51,777,310
Total Accumulated Depreciation	<u>66,189,159</u>	<u>2,203,951</u>	<u>992,122</u>	<u>67,400,988</u>
Total Capital Assets being depreciated, net	<u>42,080,041</u>	<u>265,556</u>	<u>98,930</u>	<u>42,246,667</u>
Governmental Activities Capital Assets, net	<u>\$ 51,880,454</u>	<u>\$ 312,331</u>	<u>\$ 98,930</u>	<u>\$ 52,093,855</u>
Business-type Activities:				
Capital Assets not being depreciated:				
Land	\$ 611,814			\$ 611,814
Construction in Progress	-	52,668		52,668
Total Capital Assets not being depreciated	<u>611,814</u>	<u>52,668</u>	<u>-</u>	<u>664,482</u>
Capital Assets being depreciated:				
Building and Improvements	3,962,204		45,718	3,916,486
Equipment	17,882		12,882	5,000
Total Capital Assets being depreciated	<u>3,980,086</u>	<u>-</u>	<u>58,600</u>	<u>3,921,486</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	2,600,601	161,252	45,717	2,716,136
Equipment	13,574	1,103	12,677	2,000
Total Accumulated Depreciation	<u>2,614,175</u>	<u>162,355</u>	<u>58,394</u>	<u>2,718,136</u>
Total Capital Assets being depreciated, net	<u>1,365,911</u>	<u>(162,355)</u>	<u>206</u>	<u>1,203,350</u>
Business-type Activities Capital Assets, net	<u>\$ 1,977,725</u>	<u>\$ (109,687)</u>	<u>\$ 206</u>	<u>\$ 1,867,832</u>

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 4 – CAPITAL ASSETS: (Continued)

Depreciation expense was charged to functions/programs of the County as follows:

Governmental Activities:

Public Safety	\$ 552,277
Culture and Recreation	143,505
General Government	153,891
Human Services	100,531
Public Works	968,851
Internal Service Funds	<u>284,896</u>

Total Depreciation Expense, Governmental Activities	<u><u>\$ 2,203,951</u></u>
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Business-type Activities:

Airports	<u>\$ 162,355</u>
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Total Depreciation Expense, Business-type Activities	<u><u>\$ 162,355</u></u>
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NOTE 5 – SHORT-TERM DEBT:

The County issues short-term debt in order to meet current operational needs during months when property tax collections are slow. At September 6, 2005 the County issued \$1,500,000 in Tax and Revenue Anticipation Notes (TRAN) and again at October 7, 2005 the County issued \$1,500,000 in TRAN. Both issues carried an interest rate of 3.75% and were repaid on October 25, 2005. Activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
TRAN	\$ 0	\$ 3,000,000	\$ 3,000,000	\$ 0	\$ 0

NOTE 6 – LONG TERM OBLIGATIONS:

Changes in long-term obligations for the year ended June 30, 2006 are as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
General Government Activities:					
Bonds Payable:					
Adult Jail Facility Bond	\$ 10,875,000	\$ -	\$ 635,000	\$ 10,240,000	\$ 665,000
PERS Bond	13,143,723	308,681	375,000	13,077,404	410,000
Loans Payable:					
OHCSO Secured Treatment Facility Loan	359,399	-	14,288	345,111	14,540
Community Correction Building Loan	115,054	-	13,404	101,650	14,372
Crestview Loop	79,747	-	79,747	-	-
Lease Payable:					
Mental Health, Public Health, A&T System	184,500	-	92,250	92,250	92,250
Compensated Absences Payable	4,526,577	2,029,132	3,650,227	2,905,482	878,400
Solid Waste Facilities Closure and Monitoring Cost Payable	<u>5,022,325</u>	<u>-</u>	<u>1,241,435</u>	<u>3,780,890</u>	<u>137,785</u>
Governmental Activities Long-term Liabilities	<u><u>\$ 34,306,325</u></u>	<u><u>\$ 2,337,813</u></u>	<u><u>\$ 6,101,351</u></u>	<u><u>\$ 30,542,787</u></u>	<u><u>\$ 2,212,347</u></u>

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 6 – LONG TERM OBLIGATIONS: (Continued)

Bonds Payable:

Adult Jail Facility Bond – In 2000, after Josephine County voters approved levies for the construction of an adult jail facility, the County issued \$13,940,000 in Bonds for the construction of the facility. Interest rates on the bonds range from 4.20% to 4.875%. Payments are made annually with the final payment of \$1,137,894 due on June 1, 2018.

Future obligations of the Adult Jail Facility Bond are as follows:

Fiscal Year of Maturity	Principal			June 30, 2006
	Outstanding July 1, 2005	Paid During Year	Outstanding June 30, 2006	Future Interest
2005-06	\$ 635,000	\$ 635,000	\$ -	\$ -
2006-07	665,000	-	665,000	469,728
2007-08	690,000	-	690,000	441,465
2008-09	720,000	-	720,000	412,485
2009-10	755,000	-	755,000	382,245
2010-11	785,000	-	785,000	349,403
2011-12	820,000	-	820,000	314,470
2012-13	860,000	-	860,000	277,570
2013-14	900,000	-	900,000	237,580
2014-15	940,000	-	940,000	195,280
2015-16	985,000	-	985,000	150,630
2016-17	1,035,000	-	1,035,000	103,350
2017-18	1,085,000	-	1,085,000	52,894
	\$ 10,875,000	\$ 635,000	\$ 10,240,000	\$ 3,387,100

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 6 – LONG TERM OBLIGATIONS: (Continued)

PERS Bond – In fiscal year 2001-02 the County issued \$12,894,947 of Limited Tax Pension Obligation Revenue Bonds and transferred the net proceeds to the State of Oregon Public Employees Retirement System to cover the County’s unfunded actuarial liability at that time. Principal payments are due annually through June 1, 2024, and interest is payable in December and June of each year with rates ranging from 5.4% to 6.7%. Obligations maturing through June 1, 2018 and deferred interest obligations and are shown at matured value.

Future principal and interest maturities are as follows:

<u>Fiscal Year of Maturity</u>	<u>Principal</u>			<u>June 30, 2006 Future Interest</u>
	<u>Outstanding July 1, 2005</u>	<u>Matured and Paid During Year</u>	<u>Outstanding June 30, 2006</u>	
2005-06	\$ 375,000	\$ 375,000	\$ -	\$ -
2006-07	410,000	-	410,000	495,594
2007-08	450,000	-	450,000	495,594
2008-09	490,000	-	490,000	495,594
2009-10	530,000	-	530,000	495,594
2010-11	575,000	-	575,000	495,594
2011-12	620,000	-	620,000	495,594
2012-13	670,000	-	670,000	495,594
2013-14	720,000	-	720,000	495,594
2014-15	770,000	-	770,000	495,594
2015-16	825,000	-	825,000	495,594
2016-17	880,000	-	880,000	495,594
2017-18	940,000	-	940,000	495,594
2018-19	1,005,000	-	1,005,000	487,938
2019-20	1,130,000	-	1,130,000	426,381
2020-21	1,265,000	-	1,265,000	357,169
2021-22	1,415,000	-	1,415,000	279,687
2022-23	1,575,000	-	1,575,000	191,250
2023-24	1,485,000	-	1,485,000	92,812
	16,130,000	375,000	15,755,000	7,782,365
Less:				
Deferred Interest	(2,986,277)	(308,681)	(2,677,596)	-
	<u>\$ 13,143,723</u>	<u>\$ 66,319</u>	<u>\$ 13,077,404</u>	<u>\$ 7,782,365</u>

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 6 – LONG TERM OBLIGATIONS: (Continued)

Loans Payable:

OHCS D Secured Treatment Facility Loan – Obtained to acquire the Hugo Hills Secured Treatment Facility, the loan is payable in monthly installments of \$1,705 including interest at 1.75% per annum. The property is collateral for the loan. Annual requirement to repay the OHCS D loan are as follows:

Fiscal Year of Maturity	Principal			June 30, 2006 Future Interest
	Outstanding July 1, 2005	Paid During Year	Outstanding June 30, 2006	
2005-06	\$ 14,288	\$ 14,288	\$ -	\$ -
2006-07	14,540	-	14,540	5,923
2007-08	14,797	-	14,797	5,667
2008-09	15,058	-	15,058	5,406
2009-10	15,323	-	15,323	5,140
2010-11	15,594	-	15,594	4,870
2011-12	15,869	-	15,869	4,595
2012-13	16,149	-	16,149	4,315
2013-14	16,434	-	16,434	4,030
2014-15	16,724	-	16,724	3,740
2015-16	17,019	-	17,019	3,445
2016-17	17,319	-	17,319	3,145
2017-18	17,624	-	17,624	2,839
2018-19	17,935	-	17,935	2,528
2019-20	18,252	-	18,252	2,212
2020-21	18,574	-	18,574	1,890
2021-22	18,901	-	18,901	1,562
2022-23	19,235	-	19,235	1,229
2023-24	19,574	-	19,574	889
2024-25	19,919	-	19,919	544
2025-26	20,271	-	20,271	193
	<u>\$ 359,399</u>	<u>\$ 14,288</u>	<u>\$ 345,111</u>	<u>\$ 64,162</u>

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 6 – LONG TERM OBLIGATIONS: (Continued)

Community Correction Loan – In May 1997, the County purchased the 4th and D Street day reporting center with a mortgage payable to the seller of the property. The loan is payable in monthly installments of \$1,752 which includes interest at a rate of 7.00% per annum, and is collateralized by the property. The payments continue through November 2012.

Annual requirements to repay the loan are as follows:

Fiscal Year of Maturity	Principal			June 30, 2006
	Outstanding July 1, 2005	Paid During Year	Outstanding June 30, 2006	Future Interest
2005-06	\$ 13,404	\$ 13,404	\$ -	\$ -
2006-07	14,372		14,372	6,660
2007-08	15,411		15,411	5,621
2008-09	16,526		16,526	4,506
2009-10	17,720		17,720	3,312
2010-11	19,001		19,001	2,031
2011-12	18,620		18,620	357
	<u>\$ 115,054</u>	<u>\$ 13,404</u>	<u>\$ 101,650</u>	<u>\$ 22,487</u>

Crestview Sewer Treatment Plant – Annual installments of \$5,380, including interest at 4.5% per annum, were being made to USDA – Rural Development for the construction of the treatment plant. In June 2006, the remaining balance of \$77,956 was paid off.

Lease Payable:

Mental Health, Public Health, and A&T Systems Lease – This lease consists of an installment purchase of computers and software for Mental Health, Public Health, and Assessment and Taxation. The final payment of principal and interest was made in July 2006. Interest on the lease is 4.25% per annum.

Assets acquired by the lease have a cost of \$369,000 and are fully depreciated at June 30, 2006.

Annual requirements to repay the lease are as follows:

Fiscal Year of Maturity	Principal			June 30, 2006
	Outstanding July 1, 2005	Paid During Year	Outstanding June 30, 2006	Future Interest
2005-06	\$ 92,250	\$ 92,250	\$ -	\$ -
2006-07	92,250	-	92,250	1,960
	<u>\$ 184,500</u>	<u>\$ 92,250</u>	<u>\$ 92,250</u>	<u>\$ 1,960</u>

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 6 – LONG TERM OBLIGATIONS: (Continued)

Solid Waste Facilities Closure Costs:

The County owns the Kerby Landfill, which closed during fiscal year 1993-94, and the Marlsan Lagoon, which closed during fiscal year 1996-97. Monitoring of the Marlsan Lagoon includes a landfill that was closed in 1976.

State and federal laws and regulations require the County to place final cover on the landfill and lagoon sites when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites after closure. The \$3,780,890 reported as solid waste facilities closure costs liability at June 30, 2006, represents the best estimate of the County's liability for closure and post-closure care costs. These amounts are based on what it would cost to perform all closure and post-closure in 2006-07 and beyond. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 7 – RISK MANAGEMENT:

The County is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1987-88 the County established a self-insurance fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the self-insurance fund provides coverage for up to a maximum of \$100,000 for each general liability claim, \$100,000 for each automobile accident claim, \$25,000 for each property loss or damage, and the first \$400,000 for each workers compensation claim. The County purchases commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded the self-insurance retention (SIR) since the program began.

All funds of the County participate in the risk management program and make payments to the self-insurance fund based on estimates needed to pay prior and current year claims and to establish a reserve for catastrophic losses. The claims liability of \$352,859 reported in the self-insurance fund at June 30, 2006 is based on requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. The claims liability is based on an evaluation of outstanding claims, using past experience and current assessments of potential and probable exposure, as well as an estimate for incurred but not reported claims as of June 30, 2006. Changes in estimates of claims costs resulting from the County's continuous review process and differences between estimates and payment of claims are recognized in the results of operations of the self-insurance fund.

Changes in the insurance fund's claims liability amount in fiscal years 2006 and 2005 were:

	2005-06	2004-05
Balance July 1	\$ 541,393	\$ 527,800
Current year claims and changes in estimates	(171,825)	321,270
Claim Payments	(16,709)	(307,677)
Balance - June 30	\$ 352,859	\$ 541,393

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 8 – TRANSFERS:

Transfers are summarized as follows:

<u>Transfer from</u>	<u>Transfer To</u>					<u>Total</u>
	<u>Governmental Funds</u>					
	<u>General</u>	<u>Mental Health</u>	<u>Nonmajor</u>	<u>Enterprise</u>	<u>Internal Service</u>	
Governmental Funds:						
General		\$ 48,204	\$ 1,021,916		\$ 36,480	\$ 1,106,600
Public Works	17,700					17,700
Mental Health	612,314		57,688			670,002
Regional Hospital		572,779				572,779
Nonmajor	1,072,729	733,324	234,835	57,000	43,990	2,141,878
Proprietary Funds:						
Internal Service	900				165,000	165,900
Total	\$ 1,703,643	\$ 1,354,307	\$ 1,314,439	\$ 57,000	\$ 245,470	\$ 4,674,859

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9 – PENSION PLAN:

State of Oregon Public Employees Retirement System Plan:

Plan Descriptions – The County participates in the State of Oregon Public Employees Retirement System (PERS), a cost-sharing multiple-employer pension plan which provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The system is a statewide defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. PERS is administered under Oregon Revised Statutes Chapter 238 by the Public Employees Retirement Board. Participation by state government units, school districts, and community colleges is mandatory. Participation by most political subdivisions is optional but irrevocable if elected. A stand-alone financial report is not available for the County. However, the State of Oregon Public Employees Retirement System issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, 11410 SW 68th Parkway, PO Box 23700, Tigard, Oregon 97281-3700 or by calling (503) 598-PERS.

Funding Policy – PERS members are required to contribute 6% of their annual covered salary. The County is required to contribute an actuarially determined rate; the rate during the year ended June 30, 2006 was 14.12% of annual covered payroll. For the years ended June 30, 2005 and 2004, the County’s rate was 9.45%. The contribution requirements of plan members and the County are established and may be amended by the Public Employees Retirement Board.

Annual Pension Cost – For 2005-06, the County’s annual pension cost of \$3,160,779 for the system was equal to the County’s required and actual contributions.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 9 – PENSION PLAN: (Continued)

Three-Year Trend Information:

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$ 3,160,779	100%	\$ -
June 30, 2005	2,459,832	100%	-
June 30, 2004	2,423,100	100%	-

PERS Schedule of Funding Progress:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability</u>	<u>Unfunded Actuarial Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAL/ Payroll</u>
1995	\$ 19,329,308	\$ 28,626,892	\$ 9,297,584	68%	\$ 14,366,122	65%
1997	27,030,294	39,673,487	12,643,193	68%	17,448,107	72%
1999	60,134,408	71,316,282	11,181,874	84%	20,407,711	55%
2001	147,906,246	134,261,990	(13,644,256)	110%	24,089,894	-57%
2003	145,540,646	162,989,158	17,448,512	89%	24,640,335	71%

The County's pension liability and annual required contribution rate were determined by using the entry age cost method. The unfunded actuarial liability (UAL) created by this method, including gains and losses, is amortized as a level percentage of salary over a period commencing on the valuation date (2001, 2003, and 2005) and ending on December 31, 2027 using closed amortization. The actuarial assumptions include an investment return of 8.0% per year, projected salary increase of 4.25 %, health cost inflation graded from 8.5% in 2004 to 5% in 2011, and a consumer price inflation component of 3.25%.

The PERS Board utilizes a technique called asset smoothing to determine the actuarial value of assets. The actuarial value of assets is reported at fair market value, less a reserve equal to a pro-rata portion of the investment gains (losses) over the four-year period ending on the valuation date. Investment gains (losses), effective from January 1, 2000, are recognized at the rate of 25% per year. The actuarial value of assets is limited to a 10% corridor above and below the fair market value.

Deferred Compensation:

The County also has a deferred compensation plan for its employees. Employees may elect to contribute to their individual deferred compensation accounts, and the County matched the employee contribution up to 3% or 6%, depending on employee eligibility and classification. During fiscal year 2005-06 the County eliminated match from the plan for all employees except for elected officials. The County's deferred compensation cost for the year ended June 30, 2006 was \$301,932.

NOTE 10 – COMMITMENTS AND CONTINGENCIES:

The County is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. Claims for which an adverse judgment is probable and which can be reasonably estimated have been accrued in the County's Self-Insurance Fund. In the opinion of County management, based on the advice of legal counsel and the County's insurance agent with respect to such other litigation and claims, the ultimate disposition of these matters will not have a material adverse effect on the financial position or results of operations of the County.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
for the Year Ended June 30, 2006

NOTE 10 – COMMITMENTS AND CONTINGENCIES: (Continued)

Amounts receivable or received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any unforeseen disallowed claims, including amounts already collected, could become a liability of the General Fund or other applicable funds.

NOTE 11 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information:

The County budgets all funds except Fiduciary Funds and clearing accounts.

The County follows these procedures, which conform to Local Budget Law for Oregon, in establishing the budgetary data reflected in the financial statements:

1. Around May 1, the County’s Budget Officer and Board of County Commissioners submit a proposed budget to the County Budget Committee for the ensuing fiscal year starting July 1. The budget includes recommended expenditure category levels and the estimated revenues that will finance them.
2. The Budget Committee holds public hearings on the proposed budget and recommends a budget which is published at least two weeks prior to the adoption of the budget resolution by the County’s Board of Commissioners at a public hearing.
3. After a hearing and prior to July 1, the budget is enacted by a Commissioners’ resolution. If it is not enacted prior to July, the County has no authority to expend monies until the resolution is enacted.
4. The County’s appropriation resolution established the level of control for expenditures at the department level for the General Fund and Administrative Internal Service Fund and at the expenditure category level for all other funds. The departments are authorized to transfer appropriations between line items within a category, but transfers between categories and departments must be approved by the Board of Commissioners by resolution at a regular business session. All other revisions that increase the total appropriations of any department or fund, other than through the receipt of a designated grant, must be made using a supplemental budget. This process requires a hearing and enactment by the Board of Commissioners.
5. The budget for the department or fund receiving designated grant money is increased by resolution of the Board of County Commissioners at a regular weekly business session.
6. Formal budgetary review is employed as a management control device during the year for the General, Special Revenue, Debt Service, Capital Projects, Enterprise and Internal Service Funds.
7. Appropriations lapse at the end of the fiscal year.

The County adopted two supplemental budgets during the year.

The Building and Safety Electrical Inspection Fund had a budgetary over-expenditure of \$9,746 in the Materials and Services expenditure category.

Deficit Fund Equity:

On June 30, 2006 the following funds had deficit fund balances/net assets:

Fund	Amount
Josephine County Fair	\$ 135,752
Parks Operating Fund	64,650
ESCE Early Intervention Fund	5,081