

JOSEPHINE COUNTY, OREGON

FINANCIAL SECTION





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February 15, 2014

INDEPENDENT AUDITORS' REPORT

To the Board of County Commissioners
Josephine County
Josephine County, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, fiduciary activities, each major fund, and the aggregate remaining fund information of Josephine County, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents. The financial statements as of June 30, 2012, were audited by other auditors whose report dated December 28, 2012, issued an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, fiduciary activities, each major fund, and the aggregate remaining fund information of Josephine County, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

The County adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements.

Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis and schedule of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budgetary comparison schedules presented as Required Supplementary Information, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The schedule of expenditures of federal expenditures is presented for purposes of additional analysis as required by the 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 supplementary information, as listed in the table of contents, and the schedule of expenditures of federal expenditures, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, as listed in the table of contents and the schedule of federal expenditures, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

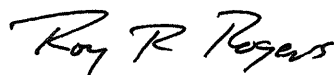
Other Information

The introductory and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Reports on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 15, 2014 on our consideration of the internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the reports 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 internal control over financial reporting or on compliance. The reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated February 15, 2014, on our consideration of compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.

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, 2013. 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 fiscal year by \$64.1 million (total net assets). The County's total net assets increased by \$3.6 million primarily due to capitalization of building projects and infrastructure for bridges and reduced spending of operational funds.
- At June 30, 2013, the County's governmental funds reported combined ending fund balances of \$20.8 million, an increase of \$1.4 million in comparison to the prior year.
- Unassigned fund balance for the General Fund was \$3.2 million, which represents a reserve of approximately 161 days, or 44.20% of total general fund expenditures plus transfers to other funds. This represents a 45 day increase from prior year.
- Josephine County's total outstanding debt for bonds and loans decreased by \$1.25 million in comparison to the prior year as a result of normal bond and loan payments.

Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to the County's basic financial statements and other required supplementary information. The basic financial statements consist of three components:

- 1) Government-wide financial statements
- 2) Fund financial statements
- 3) Notes to the financial statements

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. 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).

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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:

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 replacement 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.

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

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 thirty individual governmental funds. Information is presented separately in the governmental fund financial statements for the seven 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.

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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 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.

The proprietary fund financial statements provide separate information for the Airports Fund, which is the County's only major enterprise fund. The Jail Commissary Fund is the sole remaining enterprise 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. 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 Rqukkqp. Net rqukkqp may serve over time as a useful indicator of a government's financial position. Josephine County's net assets exceeded its liabilities for the current fiscal year by approximately \$64.1 million as shown in Table 1. Approximately 88% of this balance consists of capital assets (land, buildings, equipment, and infrastructure). Since the County uses its capital assets to provide services to citizens, this amount is not available for future spending. Approximately 12% of the County's net assets represent resources that are subject to restrictions on how they may be used.

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

	Governmental Activities		Business-type Activities		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current & Other Assets	\$27.6	\$26.6	\$0.5	\$0.4	\$28.1	\$27.0
Capital Assets	57.1	56.6	3.9	3.7	61.0	60.3
Total Assets	84.7	83.2	4.4	4.1	89.1	87.3
Long-term Liabilities	20.3	24.4	-	-	20.3	24.4
Other Liabilities	4.6	5.1	0.1	0.1	4.7	5.2
Total Liabilities	24.9	29.5	0.1	0.1	25.0	29.6
Net Rqukkqp:						
Invested in Capital Assets, net of related debt	52.2	50.8	4.0	3.7	56.2	54.5
Restricted	10.2	11.4	-	-	10.2	11.4
Unrestricted	(2.6)	(8.5)	0.3	0.3	(2.3)	(8.2)
Prior Period Adjustment	-	2.8	-	-	-	2.8
Total Net Rqukkqp	\$59.8	\$56.5	\$4.3	\$4.0	\$64.1	\$60.5

Changes in Net Rqukkqp The County's total change in net r qukkqp for the current fiscal year was an increase of \$6.4 million as shown in Table 2. This represents an increase in Total Net Rqukkqp of approximately 6% more than the prior year.

Governmental Activities had an increase in net r qukkqp of \$3.3 million. Total revenues decreased by \$0.4 million (1%) mostly due to unrestricted O&C grant reduction in Public Safety and other reductions in operating/capital grants. Total expenses decreased by \$12.6 million (26%) mostly as a result of Public Safety reductions due to loss of O&C funding and Public Works planned projects that ended during the fiscal year.

Business-type Activities had an increase in net r qukkqp of \$0.3 million. Total revenues were similar to last year at \$1.4 million. Total expenses increased by \$0.2 million mostly due to capital projects at county airports which are mostly funded through FAA grants.

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

	Governmental Activities		Business-type Activities		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program Revenues:						
Charges for Services	\$9.3	\$8.5	\$0.7	\$0.7	\$10.0	\$9.2
Operating Grants and Contributions	21.0	21.4	-	-	21.0	21.4
Capital Grants and Contributions	0.2	0.7	0.7	0.7	0.9	1.4
General Revenues:						
Property Taxes	4.7	4.9	-	-	4.7	4.9
Unrestricted Grants and Contributions	4.7	4.9	-	-	4.7	4.9
Other Revenue	0.1	0.0	-	-	0.1	0.0
Total Revenues	40.0	40.4	1.4	1.4	41.4	41.8
Expenses:						
General Government	3.7	4.2	-	-	4.2	4.2
Public Safety	13.0	20.4	0.1	0.1	20.5	20.5
Public Works	5.5	8.3	-	-	8.3	8.3
Culture and Recreation	2.3	2.6	0.8	0.8	3.4	3.4
Community Development	2.7	3.5	-	-	3.5	3.5
Health & Human Services	8.7	9.4	-	-	9.4	9.4
Interest on long-term debt	0.8	0.9	-	-	0.9	0.9
Total Expenses	36.7	49.3	0.9	0.9	50.2	50.2
Change in Net Rqulskpp	3.3	(8.9)	.3	0.5	3.6	(8.4)
Net Rqulskpp – July 1	53.7	62.6	4.0	3.5	57.7	66.1
Prior Period Adjustment	2.8	-	-	-	2.8	-
TOTAL Net Rqulskpp – July 1	56.5	62.6	4.0	3.5	60.5	66.1
Net Rqulskpp June 30	\$59.8	\$53.7	\$4.3	\$4.0	\$64.1	\$57.7

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 on near-term inflows, outflows, and resources available for spending. Such information is useful

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in assessing the County's financing requirements. In particular, fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year. The County's governmental funds reported combined ending fund balances of \$20.8 million, an increase of \$1.4 million over the prior year. Approximately 15.3% or \$3.2 million of this total amount constitutes an unassigned fund balance, which is available for spending on governmental programs at the County's discretion. About 79.3% or \$16.5 million of the fund balance are restricted or committed amounts that are constrained for a specific purpose by an external party or the County's highest level of decision making. The remaining 5.4% or \$1.1 million of fund balance is not available for new spending because it is classified as non-spendable.

The General Fund is the chief operating fund of the County, with an ending fund balance of \$3.2 million, an increase of \$760,617 from the prior year. Key events affecting the ending fund balance were as follows:

- Transfer of \$2.0 million to the Public Safety Fund for operation of the county public safety program and is \$1 million less than prior year.
- Increase of transfer out to Fairgrounds Fund of \$315,000 to cover revenue losses.

The ending fund balance needs to adequately cover expenditure requirements for the first few months of the new fiscal year since the major funding source of property taxes are received in November. This fund balance represents a reserve of approximately 161 days, or 44.20% of total general fund expenditures plus transfers to other funds, an increase to the prior year of 45 days.

The Public Works Fund ending fund balance was similar to the prior year. Revenues decreased by \$0.1 million and expenditures decreased slightly but were similar to prior year. Transfers increased to Public Safety Fund for Rural Road Patrol as allowed under Oregon House Bill 4175 of \$425,000 and decreased to the Roads and Bridges Reserve Fund by \$800,000 which was used for maintenance and repairs of county roads and bridges projects. Transfers to the Equipment Reserve Fund increased by \$150,000 and was used for heavy machinery replacements.

The Public Safety Fund comprises the departments of Sheriff, District Attorney and Juvenile Justice. The ending fund balance was \$4.8 million, an increase of \$1.3 million. The main revenue sources include a transfer from the General Fund of \$2.0 million and \$4.7 million received from the federal government for O&C replacement funding.

The local option tax levy of \$1.48 per \$1,000 of assessed property value for criminal justice was not approved by voters in May 2013 and the tax levy of \$1.99 per \$1,000 was defeated in May 2012. There were significant reductions in 2012-13 budgets which resulted in a loss of over 89 full time employees or over 40% in the Public Safety departments.

The Adult Corrections Fund ending fund balance was \$372,826, an increase of \$101,903 from prior year. The main source of revenue is state grants from the Oregon Department of Corrections. Grant revenue increased 3% and expenditures decreased 4% in the normal course of operations, nearly maintaining the same ending fund balance. Since this program receives no general fund support, they must adjust expenditures according to grant funding levels.

The Public Health Fund comprises the operations of the Public Health Department and Animal Control Program. Ending fund balance increased \$279,686 to a positive \$52,628 ending balance. The majority of funding is from the State of Oregon and patient fees. The state grants were

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similar to prior year. The positive fund balance reflects the general fund support of \$252,300 that was approved by the Board of County Commissioners in February 2013. Public Health revenues declined by \$337,772 from prior year mostly due to privatization of the Adult Jail Clinic services and there was an increase in charges for services of \$54,778 with the new fee structure.

The Mental Health Fund ending fund balance was \$207,388, a decrease of \$89,995 from the prior year. This fund is mostly used to account for pass-through money from the State of Oregon and the state funded Alcohol and Drug programs. The ending fund balance reflects the pass-through nature of the program.

The Grant Projects Fund has an ending fund balance of \$2.1 million, a decrease of \$546,506. This fund is comprised primarily of state lottery money for economic development, federal CDBG money, Title III portion of the O&C replacement dollars and Veteran Service funds. Since the O&C replacement funds appear to be headed for phase-out, the County is spreading the use of Title III over several years and this comprises \$1.7 million of the ending fund balance.

The Other Governmental Funds ending fund balance was \$5.7 million, a decrease of \$0.4 million. The decrease is mostly due to not reporting 4-H Fund due to GASB 61 reporting requirements. Additionally, expenditures and revenue of transfer in were decreased since planned projects like county bridges were mostly completed in the prior year.

Proprietary Funds. Total enterprise fund net r qu k p increased by \$254,517 or approximately 6%. This increase was mostly due to increased capital grants contributions to improve the County's airports, primarily for facility improvements and jail inmate increase contributions to the jail commissary upon increase of jail beds from 60 to 99 during the fiscal year.

Fiduciary Funds. Fiduciary funds account for resources held for the benefit of parties outside the government. Net r qu k p of all fiduciary funds k reported as held in trust for particular purposes.

General Fund Budgetary Highlights

The General Fund incurred two adjustments in expenditures from the original adopted budget to the final budget. The Fund created Emergency Management program increasing expenditure by \$173,300 and removed it from Sheriff Department Search & Rescue program; Planning Department received a Regional Pilot Project Grant of \$110,000; Public Health required \$252,300 and Fairgrounds required \$340,000 from General Fund to cover revenue shortfalls; Clerk had additional County measure election expenditures of \$22,000; Forestry was approved for home assessment/fuel reduction grant support of \$60,000 from Grant fund for SRS 2008/2012. A Total reduction to contingency was \$298,600 for overall budget adjustments.

Actual expenditures in the general fund were less than the final budgeted expenditures by \$497,342 (excludes contingency), mostly due to savings in personal from staff changes and material and services in Planning and Emergency Management were not spent as anticipated during budget adjustments.

Capital Assets

The County's investment in capital assets for its governmental and business-type activities was \$61 million (net of accumulated depreciation). The County's net investment in capital assets

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was increased by \$0.7 million for the fiscal year. This investment in capital assets includes land, buildings, improvements, infrastructure, equipment, and construction in progress.

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

- \$215,000 for new Gradall for Public Works department.
- \$56,325 for new Dispatch Program Software for Transit Program.
- \$608,192 for Justice Building Energy Upgrades.
- \$81,211 new Boat Barn at Sheriff SAR building for marine boat storage.
- \$1,318,945 multi-year project of the Grants Pass Airport Runway Rehabilitation.

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, 2012 was \$17.5 million, \$1 million less than the previous year. The outstanding balance represents prior year funding for the construction of the Adult Jail and for the PERS unfunded actuarial liabilities, both are backed by the full faith and credit of the County.

Under state law, Josephine County has a general obligation debt limitation of 2% of the real market value of taxable property in the county. The County's general obligation bonded debt of \$4.7 million (the balance on the Adult Jail Facility bond) was well below the legal limitation of \$145.5 million. Josephine County is rated "A2" from Moody's Investors Service.

Additional information about the County's long-term debt can be found in Note 6 of this report. Information regarding the legal debt limit can be found in the Statistical Section 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. The largest source of Josephine County revenue to pay for Public Safety 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 67% of Josephine County is federal forestland that is not subject to property taxes. The funding under PL 106-393 lasted through fiscal year 2006-07. Fortunately, Congress passed and the President signed a bill in May 2007 extending the funding for one more year and the County received \$11.9 million. Then in October 2008, Congress passed the Troubled Assets Relief Program ("bail out") bill, which extended the payments for another four years, but with reduced amounts each year until phased out altogether. The final payment in January 2012 was \$4.9 million. Again, Congress passed and the President signed a one year extension which gave Josephine County \$4.7 million in February 2013.

The phase out of federal payments creates a major challenge for the County as a whole to continue programs and services at the level needed and expected by the citizens of Josephine County. The Board of County Commissioners is working with County Managers, Elected

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Officials, and citizen groups to develop options regarding revenue replacement, and reductions of County services in operating budgets.

In January 2009, the Board of County Commissioners approved a Public Safety Plan which spread the remaining federal payments over a three-year period in order to maintain a stable funding level through June 30, 2012. No new revenues have been identified & Public Safety departments were reduced for July 1, 2012 budget.

Local Government Funding Constraints. With the passage in 1997 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 limited. Josephine County has the lowest permanent tax rate in the state of \$0.5867. The second lowest is Curry County at \$0.5996. Other neighboring counties, Coos (\$1.0799), Douglas (\$1.1124) and Jackson (\$2.0099), the state average (without top two) is \$2.47, all have substantially higher rates. Josephine County's low tax rate is in part a reflection of the assumptions that O&C funds would always continue at the time the rates were made permanent.

Local option taxes represent the only way taxing districts can raise operating revenue beyond the permanent rate amount and these are subject to Measure 5 limitations. Local option taxes must be approved by the voters of that district and require at least 50 percent voter participation.

The tax constraint mentioned above limits assessed value increases to 3% per year, or market value, whichever is lower and limits new construction assessment to be similar to existing 1995 properties. All has contributed to the gap between market and assessed value and keeps the current tax rate from producing sufficient revenue. Current economic conditions have caused real market values to decrease. However, the gap between the two values is still significant and most properties are taxed well below market value. See the Statistical Section in this report for a comparison of assessed and real market values for the past ten years.

Inflationary Pressure. Josephine County has seen a steady 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.

Future Budgets. The county's 2013-14 adopted budget is \$68,819,700, a decrease of \$6.7 million or 9% under the prior year. However, this budget represents a decrease of 60% from the 2004-05 budget which was \$113,504,764. The notable increases in the current budget were in Public Works Fund (\$1.1 million) and Roads and Bridges Reserve Fund (\$0.8 million) due to receipt of Federal Road dollars. Notable decreases can be found in Public Safety Fund (\$3.2 million), Grants Project Fund (\$1.1 million), Fairgrounds Fund (\$0.5 million) and Airports Fund (\$0.5 million), Property Reserve Fund (\$1.5 million) and the remaining funds had a net decrease of \$1.8 million.

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/Dept. 4, 500 NW 6th St, Grants Pass, OR, 97526.

BASIC FINANCIAL STATEMENTS



JOSEPHINE COUNTY, OREGON

**Statement of Net Position
June 30, 2013**

	Primary Government		Total
	Governmental	Business-Type	
	Activities	Activities	
Assets:			
Cash & Investments	\$ 22,083,113	\$ 362,366	\$ 22,445,479
Taxes Receivable	476,993	-	476,993
Receivables (net of uncollectables)	2,043,625	23,685	2,067,310
Internal Balances	44,390	(44,390)	-
Due From Other Governments	1,743,503	62,089	1,805,592
Inventories	773,000	37,000	810,000
Other Assets	420,139	-	420,139
Capital Assets:			
Land	9,723,083	611,814	10,334,897
Buildings & Improvements	36,995,456	6,404,406	43,399,862
Equipment	13,487,980	348,755	13,836,735
Infrastructure	73,581,803	-	73,581,803
Construction in Progress	-	672,986	672,986
Less - Accumulated Depreciation	(76,688,116)	(4,077,973)	(80,766,089)
Total Assets	84,684,969	4,400,738	89,085,707
Liabilities:			
Accounts Payable	961,103	90,926	1,052,029
Accrued Payroll Liabilities	1,720,037	11,168	1,731,205
Accrued Interest Payable	76,109	-	76,109
Due to Other Governments	270,837	-	270,837
Unearned Revenue	1,445,727	-	1,445,727
Unamortized Bond Premium	145,998	-	145,998
Other Liabilities	3,500	-	3,500
Noncurrent Liabilities:			
Due in One Year:			
Bonds Payable	1,267,975	-	1,267,975
Loans Payable	16,434	-	16,434
Compensated Absences	1,536,000	9,000	1,545,000
Landfill Closure Costs	82,000	-	82,000
Due in More Than One Year:			
Bonds Payable	13,270,170	-	13,270,170
Loans Payable	221,351	-	221,351
Compensated Absences	1,302,000	8,000	1,310,000
Landfill Closure Costs	2,373,000	-	2,373,000
Other Post-Employment Benefit Obligation	217,546	-	217,546
Total Liabilities	24,909,787	119,094	25,028,881
Net Position:			
Net investment in capital assets	52,182,424	3,959,988	56,142,412
Restricted - expendable for:			
General Government	73,262	-	73,262
Public Safety	794,504	-	794,504
Public Works	4,717,967	-	4,717,967
Culture and Recreation	256,640	-	256,640
Community Development	3,388,491	-	3,388,491
Health & Human Services	370,159	-	370,159
Debt Service	190,172	-	190,172
Restricted - nonexpendable	414,672	-	414,672
Unrestricted	(2,613,109)	321,656	(2,291,453)
Total Net Position	\$ 59,775,182	\$ 4,281,644	\$ 64,056,826

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, 2013**

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General Government	\$ 3,714,535	\$ 2,780,516	\$ 2,152,239	\$ 109,197	\$ 1,327,417
Public Safety	13,047,467	1,922,597	3,812,045	36,046	(7,276,779)
Public Works	5,513,277	213,775	6,885,082	-	1,585,580
Culture and Recreation	2,266,034	1,255,665	337,331	-	(673,038)
Community Development	2,700,033	1,549,752	885,813	-	(264,468)
Health & Human Services	8,672,301	1,554,051	6,957,569	40,122	(120,559)
Interest on long-term debt	816,018	-	-	-	(816,018)
Total Governmental Activities	<u>\$ 36,729,665</u>	<u>\$ 9,276,356</u>	<u>\$ 21,030,079</u>	<u>\$ 185,365</u>	<u>\$ (6,237,865)</u>
Business-type Activities:					
Jail Commissary	59,355	94,918	-	-	35,563
County Airports	1,048,085	573,664	-	723,200	248,779
Total Business-type Activities	<u>1,107,440</u>	<u>668,582</u>	<u>-</u>	<u>723,200</u>	<u>284,342</u>
Total Primary Government	<u>\$ 37,837,105</u>	<u>\$ 9,944,938</u>	<u>\$ 21,030,079</u>	<u>\$ 908,565</u>	<u>\$ (5,953,523)</u>

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Changes in Net Position:			
Net (Expense) Revenue	\$ (6,237,865)	\$ 284,342	\$ (5,953,523)
General Revenues:			
Property Taxes	4,743,954	-	4,743,954
Grants and Contributions not restricted to specific programs	4,685,831	-	4,685,831
Unrestricted Interest and Investment Earnings	125,770	1,175	126,945
Transfers - Internal Activities	31,000	(31,000)	-
Change in Net Position	3,348,690	254,517	3,603,207
Net Assets - July 1, 2012	53,731,984	4,027,127	57,759,111
Prior period adjustment - Bonds Payable	2,739,101	-	2,739,101
Restatement - 4H Fund	(44,593)	-	(44,593)
Net Position - June 30, 2013	<u>\$ 59,775,182</u>	<u>\$ 4,281,644</u>	<u>\$ 64,056,826</u>

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

JOSEPHINE COUNTY, OREGON
Governmental Funds

Balance Sheet
June 30, 2013

	General Fund	Public Works	Public Safety	Adult Corrections	Public Health
Assets					
Current Assets					
Cash & Investments	\$ 2,765,222	\$ 3,765,801	\$ 4,847,256	\$ 509,533	\$ 5,732
Taxes Receivable	371,416	-	-	-	-
Receivables (net of uncollectables)	1,804,036	-	-	-	40,762
Due From Other Governments	171,024	458,696	243,117	82,210	179,014
Due From Other Funds	536,999	21,302	235,910	28,287	979
Inventories	-	705,000	-	-	-
Other Assets	-	-	-	-	-
Total Assets	\$ 5,648,697	\$ 4,950,799	\$ 5,326,283	\$ 620,030	\$ 226,487
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable	\$ 80,596	\$ 188,178	\$ 63,428	\$ 56,959	\$ 25,323
Accrued Payroll Liabilities	178,164	296,056	482,994	175,754	117,116
Due To Other Governments	3,526	-	1,623	3,542	29,896
Due To Other Funds	624,864	3,035	25,853	10,949	1,524
Unavailable Revenue	1,594,387	-	-	-	-
Other Liabilities	-	-	-	-	-
Total Liabilities	2,481,537	487,269	573,898	247,204	173,859
Fund Balances:					
Nonspendable	-	705,000	-	-	-
Restricted	-	3,758,530	-	372,826	52,628
Committed	-	-	3,920,888	-	-
Assigned	-	-	831,497	-	-
Unassigned	3,167,160	-	-	-	-
Total Fund Balances	3,167,160	4,463,530	4,752,385	372,826	52,628
Total Liabilities and Fund Balances	\$ 5,648,697	\$ 4,950,799	\$ 5,326,283	\$ 620,030	\$ 226,487

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

JOSEPHINE COUNTY, OREGON
Governmental Funds

Balance Sheet (Continued)
June 30, 2013

	Mental Health	Grant Projects	Other Governmental Funds	Total Governmental Funds
Assets				
Current Assets				
Cash & Investments	\$ 498,543	\$ 1,977,869	\$ 5,845,296	\$ 20,215,252
Taxes Receivable	-	-	105,577	476,993
Receivables (net of uncollectables)	4,119	19,791	146,168	2,014,876
Due From Other Governments	182,895	92,628	333,919	1,743,503
Due From Other Funds	3	69,453	76,936	969,869
Inventories	-	-	-	705,000
Other Assets	-	-	61,850	61,850
Total Assets	\$ 685,560	\$ 2,159,741	\$ 6,569,746	\$ 26,187,343
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	\$ 264,763	\$ 21,249	\$ 138,877	\$ 839,373
Accrued Payroll Liabilities	8,519	9,930	142,293	1,410,826
Due To Other Governments	173,422	41,727	17,101	270,837
Due To Other Funds	31,468	309	332,690	1,030,692
Deferred Revenue	-	19,792	261,083	1,875,262
Other Liabilities	-	-	3,500	3,500
Total Liabilities	478,172	93,007	895,544	5,430,490
Fund Balances:				
Nonspendable	-	-	414,672	1,119,672
Restricted	207,388	2,039,624	2,890,980	9,321,976
Committed	-	-	-	3,920,888
Assigned	-	27,110	2,368,550	3,227,157
Unassigned	-	-	-	3,167,160
Total Fund Balances	207,388	2,066,734	5,674,202	20,756,853
Total Liabilities and Fund Balances	\$ 685,560	\$ 2,159,741	\$ 6,569,746	\$ 26,187,343

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

JOSEPHINE COUNTY, OREGON
Governmental Funds

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
as of June 30, 2013**

Fund Balances - Governmental Funds	\$	20,756,853
<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	133,788,322	
less accumulated depreciation	<u>(76,688,116)</u>	57,100,206
<p>Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds:</p>		
Property Taxes		429,535
<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	(14,538,145)	
Loans Payable	(237,785)	
Accrued Interest Payable	(76,109)	
Deferred charge on Refunding	212,291	
Compensated Absences	(2,465,000)	
Landfill Closure Costs	<u>(2,455,000)</u>	(19,559,748)
<p>The Other Post-Employment Benefit Obligation is not due and payable and is not reported in the governmental funds.</p>		
		(217,546)
<p>Internal service funds are used by management to charge the costs of certain activities to individual funds. Unrestricted net assets of the internal service funds that are reported with governmental activities.</p>		
		<u>1,265,882</u>
Net Position of Governmental Activities	\$	<u><u>59,775,182</u></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 Year Ended June 30, 2013

	General Fund	Public Works	Public Safety	Adult Corrections	Public Health
Revenues:					
Taxes	\$ 3,738,649	\$ -	\$ -	\$ -	\$ -
Fees and Charges for Services	2,175,360	114,996	1,066,662	501,967	998,020
Intergovernmental Revenues	1,753,515	6,885,082	5,875,331	2,445,350	1,059,899
Interfund Charges for Services	-	-	1,315	74,035	-
Other Revenues	128,522	51,105	197,338	23,413	283,426
Total Revenues	7,796,046	7,051,183	7,140,646	3,044,765	2,341,345
Expenditures:					
Current:					
General Government	2,378,984	-	-	-	-
Public Safety	283,543	-	8,027,968	2,911,262	-
Public Works	-	5,347,878	-	-	-
Culture & Recreation	-	-	-	-	-
Community Development	1,285,275	-	-	-	-
Health and Human Services	-	-	-	-	2,224,659
Debt Service - Principal	-	-	-	-	-
Debt Service - Interest	-	-	-	-	-
Debt Service - Bond issuance cost	-	-	-	-	-
Total Expenditures	3,947,802	5,347,878	8,027,968	2,911,262	2,224,659
Excess of Revenues Over (Under)					
Expenditures	3,848,244	1,703,305	(887,322)	133,503	116,686
Other Financing Sources (Uses):					
Transfers In	130,173	72,400	2,942,800	285,000	382,300
Transfers Out	(3,217,800)	(1,729,000)	(800,175)	(316,600)	(219,300)
Total Other Financing Sources (Uses)	(3,087,627)	(1,656,600)	2,142,625	(31,600)	163,000
Net Change in Fund Balance	760,617	46,705	1,255,303	101,903	279,686
Fund Balances - June 30, 2012	2,406,543	4,416,825	3,497,082	270,923	(227,058)
Fund Balances - June 30, 2013	<u>\$ 3,167,160</u>	<u>\$ 4,463,530</u>	<u>\$ 4,752,385</u>	<u>\$ 372,826</u>	<u>\$ 52,628</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 Year Ended June 30, 2013

	Mental Health	Grant Projects	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ -	\$ -	\$ 1,049,717	\$ 4,788,366
Fees and Charges for Services	27,456	-	2,042,014	6,926,475
Intergovernmental Revenues	4,573,854	885,813	2,407,089	25,885,933
Interfund Charges for Services	-	-	1,260,000	1,335,350
Other Revenues	28,608	22,663	649,241	1,384,316
Total Revenues	4,629,918	908,476	7,408,061	40,320,440
Expenditures:				
Current:				
General Government	-	-	1,090,777	3,469,761
Public Safety	-	-	587,185	11,809,958
Public Works	-	-	932,631	6,280,509
Culture & Recreation	-	-	1,800,754	1,800,754
Community Development	-	675,378	707,996	2,668,649
Health and Human Services	4,627,457	139,631	1,371,842	8,363,589
Debt Service - Principal	15,869	-	1,232,754	1,248,623
Debt Service - Interest	4,587	-	892,673	897,260
Debt Service - Bond issuance cost	-	-	-	-
Total Expenditures	4,647,913	815,009	8,616,612	36,539,103
Excess of Revenues Over (Under)				
Expenditures	(17,995)	93,467	(1,208,551)	3,781,337
Other Financing Sources (Uses):				
Transfers In	-	86,700	1,572,745	5,472,118
Transfers Out	(72,000)	(726,673)	(785,385)	(7,866,933)
Total Other Financing Sources (Uses)	(72,000)	(639,973)	787,360	(2,394,815)
Net Change in Fund Balance	(89,995)	(546,506)	(421,191)	1,386,522
Fund Balances - June 30, 2012	297,383	2,613,240	6,095,393	19,370,331
Fund Balances - June 30, 2013	\$ 207,388	\$ 2,066,734	\$ 5,674,202	\$ 20,756,853

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, 2013**

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

Net change in fund balances - total governmental funds	\$	1,386,522
<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 capital outlay exceeded depreciation in the current period.</p>		
Expenditures for capital assets	3,307,115	
less current year depreciation	<u>(2,542,467)</u>	764,648
<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		(236,626)
<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		(44,412)
<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.</p>		
Long-term principal repaid	1,248,903	
Unamortized Bond Cost	(14,123)	
Unamortized Bond Premium	<u>82,502</u>	1,317,282
<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	85,000	
Landfill closure costs	5,000	
Accrued interest on debt	(1,540)	
Other post-employment benefit obligation	<u>65,418</u>	153,878
Adjustment to reflect the consolidation of internal service funds to governmental funds		<u>7,398</u>
Change in net assets of governmental activities	\$	<u><u>3,348,690</u></u>

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

JOSEPHINE COUNTY, OREGON
Proprietary Funds

Statement of Net Position
June 30, 2013

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Airports Fund	Nonmajor Enterprise (Jail Commissary)	Total Current Year	Total Prior Year	
Assets:					
Current Assets:					
Cash & Investments	\$ 215,747	\$ 146,619	\$ 362,366	\$ 334,718	\$ 1,867,861
Accounts Receivable	14,005	9,680	23,685	96,364	28,749
Due From Other Funds	-	-	-	8,500	138,913
Due From Other Governments	62,089	-	62,089	-	-
Inventories	37,000	-	37,000	27,849	68,000
Total Current Assets	328,841	156,299	485,140	467,431	2,103,523
Capital Assets:					
Land	611,814	-	611,814	611,814	-
Buildings and Improvements	6,404,406	-	6,404,406	5,075,461	-
Equipment	348,755	-	348,755	330,985	3,741,815
Construction in Progress	672,986	-	672,986	1,513,113	-
Less - Accumulated Depreciation	(4,077,973)	-	(4,077,973)	(3,836,334)	(2,642,043)
Total Capital Assets, net of Accumulated Depreciation	3,959,988	-	3,959,988	3,695,039	1,099,772
Total Assets	4,288,829	156,299	4,445,128	4,162,470	3,203,295
Liabilities:					
Current Liabilities:					
Accounts Payable	66,704	24,222	90,926	112,448	121,730
Accrued Payroll Liabilities	11,168	-	11,168	9,130	309,211
Accrued Compensated Absences	9,000	-	9,000	7,540	201,800
Due to Other Funds	1,193	43,197	44,390	765	33,700
Total Current Liabilities	88,065	67,419	155,484	129,883	666,441
Noncurrent Liabilities:					
Accrued Compensated Absences	8,000	-	8,000	5,460	171,200
Total Noncurrent Liabilities	8,000	-	8,000	5,460	171,200
Total Liabilities	96,065	67,419	163,484	135,343	837,641
Net Position:					
Net Investment in Capital Assets	3,959,988	-	3,959,988	3,695,039	1,099,772
Unrestricted	232,776	88,880	321,656	332,088	1,265,882
Total Net Position	\$ 4,192,764	\$ 88,880	\$ 4,281,644	\$ 4,027,127	\$ 2,365,654

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 Net Position
For the Year Ended June 30, 2013

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Airports Fund	Nonmajor Enterprise (Jail Commissary)	Total Current Year	Total Prior Year	
Operating Revenues:					
Fees and Charges for Services	\$ 566,878	\$ 66,375	\$ 633,253	\$ 699,921	\$ 1,064,694
Interfund Charges for Services	-	-	-	-	2,645,411
Other Revenues	6,786	28,543	35,329	7,525	48,905
Total Operating Revenues	573,664	94,918	668,582	707,446	3,759,010
Operating Expenses:					
Personal Services	127,319	-	127,319	109,859	3,681,273
Materials & Services	679,127	59,355	738,482	523,568	2,516,982
Depreciation	241,639	-	241,639	240,566	321,292
Total Operating Expenses	1,048,085	59,355	1,107,440	873,993	6,519,547
Operating Income (Loss)	(474,421)	35,563	(438,858)	(166,547)	(2,760,537)
Nonoperating Revenues:					
Intergovernmental revenues	-	-	-	-	15,342
Interest Income	849	326	1,175	1,764	5,486
Total Nonoperating Revenues	849	326	1,175	1,764	20,828
Net Income (Loss) Before Contributions and Transfers	(473,572)	35,889	(437,683)	(164,783)	(2,739,709)
Capital Grant Contributions Received	723,200	-	723,200	720,847	-
Capital Contributions from Other Funds	-	-	-	-	79,506
Transfers In	30,000	-	30,000	30,000	2,749,875
Transfers Out	(21,000)	(40,000)	(61,000)	(19,500)	(324,060)
Change in Net Position	258,628	(4,111)	254,517	566,564	(234,388)
Total Net Position - July 1, 2012	3,934,136	92,991	4,027,127	3,460,563	2,600,042
Total Net Position - June 30, 2013	\$ 4,192,764	\$ 88,880	\$ 4,281,644	\$ 4,027,127	\$ 2,365,654

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, 2013

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Airports Fund	Nonmajor Enterprise (Jail Commissary)	Total Current Year	Total Prior Year	
Cash Flows from Operating Activities					
Cash received from users	\$ 581,016	\$ 61,983	\$ 642,999	\$ 680,392	\$ 6,449,928
Cash received from other sources	6,786	28,543	35,329	7,525	48,905
Cash paid to suppliers	(681,430)	(77,071)	(758,501)	(597,225)	(2,564,666)
Cash paid to employees	(121,281)	-	(121,281)	(94,241)	(3,754,300)
Net cash provided (used) by operating activities	<u>(214,909)</u>	<u>13,455</u>	<u>(201,454)</u>	<u>(3,549)</u>	<u>179,867</u>
Cash Flows from Non-capital Financing Activities					
Net change in internal balances	-	51,454	51,454	(8,257)	(74,289)
Net transfers between funds	9,000	(40,000)	(31,000)	10,500	(324,060)
Intergovernmental Receipts	-	-	-	-	15,342
Net cash provided by noncapital and related financing activities	<u>9,000</u>	<u>11,454</u>	<u>20,454</u>	<u>2,243</u>	<u>(383,007)</u>
Cash Flows from Capital Financing Activities					
Capital Grant Contributions Received	724,044	-	724,044	1,001,998	79,506
Purchase of capital assets	(516,571)	-	(516,571)	(980,361)	(79,506)
Net cash used by capital and related financing activities	<u>207,473</u>	<u>-</u>	<u>207,473</u>	<u>21,637</u>	<u>-</u>
Cash Flows from Investing Activities					
Interest income received	849	326	1,175	1,764	5,486
Net cash provided by investing activities	<u>849</u>	<u>326</u>	<u>1,175</u>	<u>1,764</u>	<u>5,486</u>
Net Increase (Decrease) in Cash and Investments	2,413	25,235	27,648	22,095	(197,654)
Cash and Investments - July 1, 2012	213,334	121,384	334,718	312,623	2,065,515
Cash and Investments - June 30, 2013	<u>\$ 215,747</u>	<u>\$ 146,619</u>	<u>\$ 362,366</u>	<u>\$ 334,718</u>	<u>\$ 1,867,861</u>

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

Operating Income (Loss)	\$ (474,421)	\$ 35,563	\$ (438,858)	\$ (166,547)	\$ (2,760,537)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	241,639	-	241,639	240,566	321,292
Transfers in	-	-	-	-	2,749,875
(Increase) Decrease in accounts receivable	14,138	(4,392)	9,746	(19,529)	3,133
(Increase) Decrease in due from other funds	-	-	-	-	(13,185)
(Increase) Decrease in inventories	(9,151)	-	(9,151)	11,051	(9,109)
Increase (Decrease) in accounts payable	6,177	(17,716)	(11,539)	(84,995)	(38,575)
Increase (Decrease) in payroll payable	2,038	-	2,038	6,618	(79,027)
Increase (Decrease) in compensated absences	4,000	-	4,000	9,000	6,000
Increase (Decrease) in due to other funds	671	-	671	287	-
Increase (Decrease) in claims payable	-	-	-	-	-
Total adjustments	<u>259,512</u>	<u>(22,108)</u>	<u>237,404</u>	<u>162,998</u>	<u>2,940,404</u>
Net cash provided (used) by operating activities	<u>\$ (214,909)</u>	<u>\$ 13,455</u>	<u>\$ (201,454)</u>	<u>\$ (3,549)</u>	<u>\$ 179,867</u>

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

JOSEPHINE COUNTY, OREGON
Fiduciary Funds

Statement of Fiduciary Net Position
June 30, 2013

	<u>Agency Funds</u>
Assets:	
Cash & Investments	\$ 1,134,777
Taxes Receivable	4,987,666
Total Assets	<u>\$ 6,122,443</u>
Liabilities:	
Due To Other Governments	\$ 4,987,666
Money Held for Others	1,134,777
Total Liabilities	<u>\$ 6,122,443</u>

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

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

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 since December 1, 1989 by the Governmental Accounting Standards Board (GASB) and by private-sector standards of accounting and financial reporting issued prior to that date unless they conflict with subsequent guidance by the 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 201.170. A Board of Commissioners consisting of three independently elected members governs the County.

Blended Component Units – effective for periods beginning after June 15, 2012, the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus* amends the reporting and disclosure standards for component units. In compliance with this standard, the County no longer reports 4H Extension as a blended component unit of the County.

The 4H Extension’s separate and complete June 30, 2013 financial statements are available at the County Finance Office located at 500 NW 6th St, Grants Pass, Oregon 97526.

B. Government-wide and Fund Financial Statements:

Government-wide Financial Statements – The Statement of Net Position 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, and Human Services) 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. The offices of the Assessor, Treasurer, County Clerk and Surveyor and the Planning and Forestry Departments are in the General Fund. The General Fund also provides a significant amount of support to the Public Safety Fund. The primary source of revenue for the General Fund is property taxes.

Public Works Fund – The expenditures of the Roads and Bridges Division 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
June 30, 2013

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

B. Government-wide and Fund Financial Statements (Continued):

Public Safety Fund – This fund was formed effective July 1, 2006. It comprises three departments which are the Sheriff, District Attorney and Juvenile Justice. The largest revenue source is O&C money from the Federal Government. Other revenues are primarily charges for services and various federal and state grants.

Adult Corrections Fund – This fund was formed effective July 1, 2007 to account separately for the operations of the Adult Corrections Department which supervises adult felony cases and administers the work crew programs. It is primarily funded by grants from the Oregon Department of Corrections.

Public Health Fund – This fund was formed effective July 1, 2007 to account separately for the operations of the Public Health Department. Public Health serves the public with many health resource, environmental health and enforcement programs, and it operates the clinic in the Adult Jail for inmates. The primary sources of funding are charges for services rendered and various grants from the Oregon Department of Human Services.

Mental Health Fund – This fund accounts for the activities of the Mental Health Authority which has oversight responsibilities for mental health programs which were outsourced to non-profit organizations and other governmental agencies effective July 1, 2006. Resources of this fund are primarily from federal and state grants and from alcohol tax. Expenditures are for mental health care and substance abuse treatment and prevention programs.

Grant Projects Fund – This fund was established to account for expenditure of several grant funds received from federal, state and local agencies. One type of the activities accounted for in this fund is the use of O&C Title III funds, which are restricted for uses tied to federal land. This fund also receives video poker funds from the state which are restricted for use in economic development activities. In addition, this fund accounts for Community Development Block Grants (CDBG) from the federal government which is used for community development projects. The Veterans Service Office is also operated through this fund.

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 on behalf of other governmental entities, private individuals, and others as provided for in Oregon Revised Statutes.

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.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

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

C. Measurement Focus and Basis of Accounting (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, insurance, finance, personnel, legal, communications and technology support.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

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.

When program expenses are incurred for which both restricted and unrestricted Net Position are available to finance the program, it is the County's policy to first apply restricted resources, followed by committed, assigned, and unassigned fund balance.

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 securities of the U.S. Government agencies and sponsored enterprises. 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 securities of the U.S. government agencies and sponsored enterprises 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 which have been collected within 30 days of year end are considered measurable and available, and are recognized as revenues in the funds. All other property taxes receivable in the governmental funds are offset by deferred revenues and, accordingly, have not been recorded as revenue.

For the year ended June 30, 2013, the County's tax levy did not exceed the Oregon constitutional limitation. All other districts' property taxes receivable is reported in the 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.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

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

E. Receivables (Continued):

“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.

F. Inventories:

Governmental Funds – Inventories of parts and supplies are held by the Public Works Fund and County Fleet and Building Operations Fund and are valued at average cost. Inventories are recorded as expense when consumed.

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 County 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 prior to 1993. 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 value to the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight line method over an appropriate useful life as determined for each asset using professional judgment. Suggested useful ranges for each asset classification are listed below.

<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 in the Public Works Fund as incurred over the life the related landfills. The estimated liability is reported in the government-wide statement of Net Position.

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 and proprietary financial statements as earned by employees.

The County established the Payroll Reserve Fund for the purpose of accumulating resources to pay employees for compensated absences (time management leave and vacation 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 expenditure when it is taken.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

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 Position:

Restricted Net Position reported in the Statement of Net Position represent amounts for which constraints were imposed by creditors, grantors, contributors or laws or regulations. Net position is classified into three categories: (1) Net Investment in Capital Assets – consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowing that are attributable to the acquisition, construction, or improvement of those assets; (2) Restricted – consists of external constraints placed on asset use by creditors, grantors, contributors, or laws or regulations of the other governments or constraints imposed by law through constitutional provisions or enabling legislation. There are restricted assets for debt service and other governmental funds; (3) Unrestricted – consists of all other assets that are not included in the other categories previously mentioned.

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 in governmental funds 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.

P. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported revenues and expenditures during the period. Actual results could differ from those estimates.

Q. Fund Balances:

The County implemented GASB Statement 54 effective July 1, 2010 to account for fund balance reporting and governmental fund type definitions to enhance the usefulness of fund balance information by providing clarity of fund balance classification. The fund balance for governmental funds, in accordance with GASB 54 is reported in a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. When both restricted and unrestricted resources are available for use for the same purpose, the County will utilize the restricted funds firstly. When committed, assigned, and unassigned resources are available for use for the same purpose, the County will utilize the committed, then assigned, then unassigned funds in that available order.

Nonspendable – fund balance amounts are reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and permanent fund balances.

Restricted – fund balance amounts are reported as restricted when the constraints placed on the use of resources are imposed by external parties, constitutional provisions or enabling legislation.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

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

Committed – fund balance amounts are reported as committed when the resources are constrained for a specific purpose by a government using its highest level of decision making authority, which is the Board of County Commissioners and enacted by adopted resolutions. It would require action by the same group to remove or change the constraints placed.

Assigned – fund balance amounts are reported as assigned for all other remaining positive amounts not classified as nonspendable, restricted, or committed and can only be assigned by highest level of decision making authority, which is the Board of County Commissioners.

Unassigned – fund balance amounts are reported as unassigned for the general fund that are not classified as categories above and deficit fund balances.

Fund Balances by classification for the year ended June 30, 2013 were as follows:

	General Fund	Major Special Revenue Fund	Major Capital Projects Fund	Other Non Major Funds	Total
Fund balances:					
Nonspendable:					
Inventory	\$ -	\$ 705,000	\$ -	\$ -	\$ 705,000
Permanent fund principal	-	-	-	414,672	414,672
Nonspendable Sub-Total:	-	705,000	-	414,672	1,119,672
Restricted for:					
Public Safety	-	372,826	-	421,678	794,504
Road/Bridge repairs	-	3,758,530	-	-	3,758,530
Road/Bridge Capital	-	-	190,505	-	190,505
Culture and Recreation	-	-	-	336,011	336,011
Community Development	-	2,039,624	-	1,400,170	3,439,794
Health and Human Svcs	-	260,016	-	162,771	422,787
Debt Service reserve	-	-	-	340,856	340,856
Public Cable Access	-	-	-	224	224
County Clerk Records	-	-	-	38,227	38,227
County School Trust	-	-	-	538	538
Restricted Sub-Total:	-	6,430,996	190,505	2,700,475	9,321,976
Committed to:					
Public Safety	-	3,920,888	-	-	3,920,888
Committed Sub-Total:	-	3,920,888	-	-	3,920,888
Assigned to:					
Public Safety	-	831,497	-	-	831,497
Road/Bridge Capital	-	-	297,247	-	297,247
Health and Human Services	-	27,110	-	-	27,110
Other Capital Projects	-	-	2,071,303	-	2,071,303
Assigned Sub-Total:	-	858,607	2,368,550	-	3,227,157
Unassigned:	3,167,160	-	-	-	3,167,160
Unassigned Sub-Total:	3,167,160	-	-	-	3,167,160
Total fund balances	\$ 3,167,160	\$ 11,915,491	\$ 2,559,055	\$ 3,115,147	\$ 20,756,853

This level of detail is not required for display on the face of the balance sheet. Fund balance categories and classifications may be presented in detail or in the aggregate, if sufficient detail is provided in the notes to the financial statements.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

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

R. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. There were no deferred outflows at year end.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. There were no deferred inflows at year end.

NOTE 2 – CASH AND INVESTMENTS:

The County's cash and investments are comprised of the following at June 30, 2013:

Cash on hand	\$ 9,335
Deposits with financial institutions	364,970
Investments	<u>23,205,951</u>
Total cash and investments	23,580,256
Less cash and investments in agency funds	<u>(1,134,777)</u>
Cash and investments, as reported in statement of net position	<u><u>\$ 22,445,479</u></u>

Deposits with financial institutions:

At June 30, 2013, the County's deposits with various financial institutions had a bank value of \$542,073. All deposits not covered by FDIC depository insurance are covered by the Public Funds Collateralization Program (PFCP) of the State of Oregon. The PFCP is a shared liability structure for participating bank depositories. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized or 25% their quarter-end public fund deposits if they are adequately capitalized or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities.

Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. At June 30, 2013, the County has deposits of \$542,073 insured by federal depository insurance.

Investments:

State statutes and the County's Investment Policy authorize the County to invest in various specific types of investments, including general obligations of the U.S. Government and its agencies and sponsored enterprises, certain state and local government securities, certain bankers' acceptances, interest bearing deposits in Oregon banks and credit unions, repurchase agreements, and the Oregon Local Government Investment Pool, among others. The County's Investment Policy allows most, but not all, investments allowed by state statute, and it allows only investments allowed by state statutes.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

NOTE 2 – CASH AND INVESTMENTS (Continued):

At June 30, 2013, the County's investments consisted of:

Investment in Oregon Local Government		
Investment Pool	\$ 20,236,999	87.2%
Securities of US Government agencies and sponsored enterprises:		
Oregon State Bond	1,210,563	5.2%
FICO Strips	988,864	4.3%
Univ of CA Muni Bond	<u>769,525</u>	<u>3.3%</u>
Total investments	<u>\$ 23,205,951</u>	<u>100.0%</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, 2013 were: 71% mature within 93 days, 9% mature from 94 days to one year, and 20% mature from one to three years. The County's policy for minimizing interest rate risk calls for structuring portfolio maturities to meet current cash requirements without selling prior to maturity, investing primarily in shorter-term securities and investment pools, and diversifying the portfolio by maturity date.

As of June 30, 2013 maturities for the County's other investments are as follows:

	<u>One to Two Years</u>	<u>Two to Three Years</u>
Securities of U.S. Government agencies and sponsored enterprises:		
Oregon State Bond	\$ -	\$ 1,210,563
FICO Strips	988,864	-
Univ of CA Muni Bond	-	769,525
Total	<u>\$ 988,864</u>	<u>\$ 1,980,088</u>

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. At June 30, 2013, the County's investments were rated A+, Aa2, Aaa, Aa1/AA/AA+ 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.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

NOTE 3 – INTERFUND RECEIVABLES AND PAYABLES:

The following is a listing of interfund receivables and payables by fund at June 30, 2013:

	<u>Receivable</u>	<u>Payable</u>
Governmental Funds:		
General Fund	\$ 536,999	\$ 624,945
Public Works Fund	21,302	3,035
Public Safety Fund	235,910	25,853
Community Corrections Fund	28,287	10,949
Public Health Fund	979	1,524
Mental Health Fund	3	31,468
Grant Projects Fund	69,453	309
Nonmajor Governmental Funds	76,936	332,690
Internal Service Funds	<u>138,913</u>	<u>33,700</u>
Subtotal	1,108,782	1,064,392
Proprietary Funds:		
Airports Fund	0	1,193
Jail Commissary Fund	<u>0</u>	<u>43,197</u>
Total all funds	<u>\$ 1,108,782</u>	<u>\$ 1,108,782</u>

Interfund balances result 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
June 30, 2013

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balances</u> <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u> <u>June 30, 2013</u>
Governmental Activities:				
Capital Assets not being depreciated:				
Land	\$ 9,750,833	\$ -	\$ 27,750	\$ 9,723,083
Construction in Progress	2,839,401	573,235	3,412,636	-
Total Capital Assets not being depreciated	<u>12,590,234</u>	<u>573,235</u>	<u>3,440,386</u>	<u>9,723,083</u>
Capital Assets being depreciated:				
Building and Improvements	36,286,761	708,695	-	36,995,456
Equipment	13,589,743	431,708	533,471	13,487,980
Infrastructure	69,269,590	5,033,863	721,650	73,581,803
Total Capital Assets being depreciated:	<u>119,146,094</u>	<u>6,174,266</u>	<u>1,255,121</u>	<u>124,065,239</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	13,680,852	1,087,792	-	14,768,644
Equipment	9,114,673	826,249	516,055	9,424,867
Infrastructure	52,368,619	628,426	502,440	52,494,605
Total Accumulated Depreciation	<u>75,164,144</u>	<u>2,542,467</u>	<u>1,018,495</u>	<u>76,688,116</u>
Total Capital Assets being depreciated, net	<u>43,981,950</u>	<u>3,631,799</u>	<u>236,626</u>	<u>47,377,123</u>
Governmental Activities Capital Assets, net	<u>\$ 56,572,184</u>	<u>\$ 4,205,034</u>	<u>\$ 3,677,012</u>	<u>\$ 57,100,206</u>
Business-type Activities:				
Capital Assets not being depreciated:				
Land	\$611,814	\$ -	\$ -	\$611,814
Construction in Progress	1,513,113	485,964	1,326,091	672,986
Total Capital Assets not being depreciated	<u>2,124,927</u>	<u>485,964</u>	<u>1,326,091</u>	<u>1,284,800</u>
Capital Assets being depreciated:				
Building and Improvements	5,075,461	1,328,945	-	6,404,406
Equipment	330,985	17,770	-	348,755
Total Capital Assets being depreciated	<u>5,406,446</u>	<u>1,346,715</u>	<u>-</u>	<u>6,753,161</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	3,728,718	205,508	-	3,934,226
Equipment	107,616	36,131	-	143,747
Total Accumulated Depreciation	<u>3,836,334</u>	<u>241,639</u>	<u>-</u>	<u>4,077,973</u>
Total Capital Assets being depreciated, net	<u>1,570,112</u>	<u>1,105,076</u>	<u>-</u>	<u>2,675,188</u>
Business-type Activities Capital Assets, net	<u>\$3,695,039</u>	<u>\$1,591,040</u>	<u>\$1,326,091</u>	<u>\$3,959,988</u>

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

NOTE 4 – CAPITAL ASSETS (Continued):

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

Governmental Activities:	
Public Safety	\$ 608,042
Culture and Recreation	254,112
General Government	246,662
Human Services	91,712
Public Works	1,021,855
Internal Service Funds	<u>321,292</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 2,543,675</u>
Business-type Activities:	
Airports	<u>\$ 241,639</u>
Total Depreciation Expense, Business-type Activities	<u>\$ 241,639</u>

NOTE 5 – SHORT-TERM DEBT:

The County did not issue any short-term debt during the year ended June 30, 2013.

NOTE 6 – LONG TERM OBLIGATIONS:

Changes in long-term obligations for the year ended June 30, 2013 are as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Bonds Payable:					
Adult Jail Facility Bonds	\$ 5,530,000	\$ -	\$ 850,000	\$ 4,680,000	\$ 880,000
PERS Bond Series 2001A	4,680,000				
Prior Period Adjustment (Note 12)	<u>(2,739,101)</u>				
PERS Bond Series 2001A	1,940,899	-	337,754	1,603,145	337,975
PERS Bond Series 2012	8,300,000	-	45,000	8,255,000	50,000
Loans Payable:					
OHCS D Secured Treatment Facility Loan	253,934	-	16,149	237,785	16,434
Compensated Absences Payable	2,917,000	1,500,000	1,579,000	2,838,000	1,536,000
Solid Waste Facilities Closure and Monitoring Cost Payable	2,460,000	81,540	86,540	2,455,000	82,000
Total Governmental Activities	<u>\$ 21,401,833</u>	<u>\$ 1,581,540</u>	<u>\$ 2,914,443</u>	<u>\$ 20,068,930</u>	<u>\$ 2,902,409</u>
Business-Type Activities:					
Compensated Absences Payable	\$ 13,000	11,000	7,000	17,000	9,000
Total Business-Type Activities	<u>\$ 13,000</u>	<u>\$ 11,000</u>	<u>\$ 7,000</u>	<u>\$ 17,000</u>	<u>\$ 9,000</u>

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

NOTE 6 – LONG TERM OBLIGATIONS (Continued):

Bonds Payable:

Adult Jail Facility Bond – In 1999, 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. In June 2009, in order to get lower interest rates, the County made a principal payment of \$720,000 and did a current refunding of the remaining balance of \$8,165,000 on the 1999 bonds by issuing a new series of general obligation bonds with interest rates ranging from 3% to 5% and a final payment due on June 1, 2018. The new bonds have a face value of \$7,920,000 and were issued with a premium of \$391,656 and issuance costs of \$127,103. The premium and issuance costs will be amortized over the life of the bonds.

Annual debt service requirements of the Adult Jail Facility bonds are as follows:

Year Ended June 30,	Principal			
	Outstanding July 1, 2012	Paid During Year	Outstanding June 30, 2013	June 30, 2013 Future Interest
2013	\$ 850,000	\$ 850,000	\$ -	\$ -
2014	880,000	-	880,000	170,263
2015	905,000	-	905,000	143,913
2016	930,000	-	930,000	116,762
2017	965,000	-	965,000	83,525
2018	1,000,000	-	1,000,000	50,000
Total	<u>\$ 5,530,000</u>	<u>\$ 850,000</u>	<u>\$ 4,680,000</u>	<u>\$ 564,463</u>

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. In May 2012, in order to get lower interest rates, the County did a current refunding of the remaining balance of \$7,060,836 on the 2001B bonds by issuing a new series of Tax Pension obligation bonds with interest rates ranging from 3.25% to 4.625% and a final payment due on June 1, 2024. The new bonds have a face value of \$8,300,000 and were issued with a discount of \$198,760 and issuance costs of \$57,880. The discounts and issuance costs will be amortized over the life of the bonds. The new bonds are estimated to provide a net present value savings of over \$813,000.

Annual debt service requirements of the PERS bonds are as follows:

PERS Bond Series 2001A:

Year Ended June 30,	Principal			
	Outstanding July 1, 2012	Matured and Paid During Year	Outstanding June 30, 2013	June 30, 2013 Future Interest
2013	\$ 337,754	\$ 337,754	\$ -	\$ -
2014	337,975	-	337,975	382,025
2015	335,905	-	335,905	434,095
2016	333,828	-	333,828	491,172
2017	322,265	-	322,265	557,735
2018	273,172	-	273,172	541,828
	<u>\$ 1,940,899</u>	<u>\$ 337,754</u>	<u>\$ 1,603,145</u>	<u>\$ 2,406,855</u>

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

NOTE 6 – LONG TERM OBLIGATIONS (Continued):

PERS Bond Series 2012:

Year Ended	Principal			
	Outstanding	Matured and Paid	Outstanding	June 30, 2013
June 30,	July 1, 2012	During Year	June 30, 2013	Future Interest
2013	\$ 45,000	\$ 45,000	\$ -	\$ -
2014	50,000	-	50,000	359,000
2015	50,000	-	50,000	357,375
2016	50,000	-	50,000	355,750
2017	55,000	-	55,000	354,125
2018	180,000	-	180,000	352,338
2019-2023	6,445,000	-	6,445,000	1,243,612
2024	1,425,000	-	1,425,000	65,906
	<u>\$ 8,300,000</u>	<u>\$ 45,000</u>	<u>\$ 8,255,000</u>	<u>\$ 3,088,106</u>

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 debt service requirements to repay the OHCS D loan are as follows:

Year Ended	Principal			
	Outstanding	Paid	Outstanding	June 30, 2013
June 30,	July 1, 2012	During Year	June 30, 2013	Future Interest
2013	\$ 16,149	\$ 16,149	\$ -	\$ -
2014	16,434	-	16,434	4,030
2015	16,724	-	16,724	3,740
2016	17,019	-	17,019	3,445
2017	17,319	-	17,319	3,145
2018	17,624	-	17,624	2,839
2019-2023	92,897	-	92,897	9,421
2024-2026	59,768	-	59,768	1,626
	<u>\$ 253,934</u>	<u>\$ 16,149</u>	<u>\$ 237,785</u>	<u>\$ 28,246</u>

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 \$2,455,000 reported as solid waste facilities closure costs liability at June 30, 2013 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 2013-14 and beyond. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The Public Works Special Projects Fund is used to liquidate this liability.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

NOTE 7 - INTERFUND TRANSFERS :

Interfund transfers during the year ended June 30, 2013 are as follows:

TRANSFER FROM (EXPENDITURE)		TRANSFER TO (REVENUE)	
Fund Name	Amount	Fund Name	Amount
General Fund	600	Public Works Fund	600
General Fund	2,001,100	Public Safety Fund	2,001,100
General Fund	382,300	Public Health Fund	382,300
General Fund	86,700	Grants Projects Fund	86,700
General Fund	364,000	Nonmajor Funds	364,000
General Fund	383,100	Internal Service Funds	383,100
Subtotal	3,217,800	Subtotal	3,217,800
Public Works Fund	425,000	Public Safety Fund	425,000
Public Works Fund	750,000	Nonmajor Funds	750,000
Public Works Fund	554,000	Internal Service Funds	554,000
Subtotal	1,729,000	Subtotal	1,729,000
Public Safety Fund	12,400	Nonmajor Funds	12,400
Public Safety Fund	787,775	Internal Service Funds	787,775
Subtotal	800,175	Subtotal	800,175
Adult Corrections Fund	3,900	Public Works Fund	3,900
Adult Corrections Fund	7,700	Public Safety Fund	7,700
Adult Corrections Fund	2,400	Nonmajor Funds	2,400
Adult Corrections Fund	302,600	Internal Service Funds	302,600
Subtotal	316,600	Subtotal	316,600
Public Health Fund	700	Public Works Fund	700
Public Health Fund	1,400	Public Safety Fund	1,400
Public Health Fund	217,200	Internal Service Funds	217,200
Subtotal	219,300	Subtotal	219,300
Mental Health Fund	72,000	Internal Service Funds	72,000
Subtotal	72,000	Subtotal	72,000
Grant Projects Fund	130,173	General Fund	130,173
Grant Projects Fund	162,000	Public Safety Fund	162,000
Grant Projects Fund	285,000	Community Corrections Fund	285,000
Grant Projects Fund	80,000	Nonmajor Funds	80,000
Grant Projects Fund	30,000	Enterprise Funds	30,000
Grant Projects Fund	39,500	Internal Service Funds	39,500
Subtotal	726,673	Subtotal	726,673
Nonmajor Funds	17,200	Public Works Fund	17,200
Nonmajor Funds	305,600	Public Safety Fund	305,600
Nonmajor Funds	89,885	Nonmajor Funds	89,885
Nonmajor Funds	372,700	Internal Service Funds	372,700
Subtotal	785,385	Subtotal	785,385
Enterprise Funds	40,000	Public Safety Fund	40,000
Enterprise Funds	21,000	Internal Service Funds	21,000
Subtotal	61,000	Subtotal	61,000

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

NOTE 7 - INTERFUND TRANSFERS (Continued):

TRANSFER FROM (EXPENDITURE)		TRANSFER TO (REVENUE)	
Fund Name	Amount	Fund Name	Amount
Internal Service Funds	50,000	Public Works Funds	50,000
Internal Service Funds	274,060	Nonmajor Funds	274,060
Subtotal	324,060		324,060
Total Interfund Transfers	8,251,993		8,251,993

Interfund 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 8 – RISK MANAGEMENT:

The County is exposed to various risks of loss related to: torts, thefts, damage or destruction of assets, errors and omissions, employee injury, and natural disasters. The County carries commercial insurance to minimize exposure to these risks. There have been no settlements in excess of insurance coverage for the preceding three years.

NOTE 9 – PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS:

Oregon Public Retirement System:

The County is a participating employer in the Oregon Public Employees Retirement System (OPERS), which provides statewide defined benefit and defined contribution retirement plans for units of state government, political subdivisions, community colleges, and school districts. OPERS is administered under Oregon Revised Statutes (ORS) Chapter 238 and Internal Revenue Code Section 401(a) by the Oregon Public Employees Retirement Board (OPERB).

Cities, counties, and special districts that participate in OPERS may choose to join the State and Local Government Rate Pool (SLGRP). State agencies, community colleges, and public institutions of higher education are required by law to be part of the pool. All Oregon school districts are required by law to be part of a separate school district pool. Pooling allows separate employers to be part of one group for the purpose of determining employer pension costs and contribution rates. Pool participants share pension assets and future pension liabilities and surpluses. Employers in the pool jointly fund the future pension costs of all of the pooled participants. The County has elected to join the SLGRP. For members of the SLGRP, OPERS is a cost-sharing, multiple-employer plan.

OPERS, a component unit of the State of Oregon, issues a comprehensive annual financial report, which may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281, by calling (503) 598-7377, or by accessing the PERS web site at <http://oregon.gov/PERS/>

County employees participate in one or more OPERS retirement plans that provide pension, death, disability, and post-employment health benefits:

- **PERS** (Public Employee Retirement System) is a defined benefit pension plan provided to members or their beneficiaries who were hired prior to August 29, 2003. In 1995, the Legislature enacted a second level or “tier” for PERS benefits for persons who established PERS membership on or after January 1, 1996. These Tier Two members do not have the Tier One assumed earnings rate guarantee, and have a higher normal retirement age of 60, compared to 58 for Tier One. Through December 31, 2003 covered employees were required by state statute to contribute 6% of their annual salary to the PERS plan. Effective January 1, 2004, 6 percent of employee salaries have been placed in the IAP Account (see next section). Employer contributions to PERS are required by state statute and are made at actuarially determined rates as adopted by the OPERB. The County’s annual required contribution rate for the fiscal year ended June 30, 2013 was 15.35% and is 15.36% for fiscal year 2013-14.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

NOTE 9 – PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (Continued):

- OPSRP (Oregon Public Service Retirement Plan) is a hybrid retirement plan with two components: a defined benefit plan and a defined contribution plan.

The defined benefit plan is provided to members or their beneficiaries who were hired on or after August 29, 2003. Employer contributions are required by state statute and are made at actuarially determined rates as adopted by the OPERB. The County's required contribution rates for the year ended June 30, 2013 for the OPSRP defined benefit pension plan are 11.26% for general service employees and 13.97% for police and fire employees. The required contribution rates for the year ending June 30, 2014 will be 11.45% and 14.18% for general service and police/fire employees, respectively.

The defined contribution plan (called the Individual Account Program or IAP) is provided to all members or their beneficiaries who are PERS or OPSRP eligible. State statutes require covered employees to contribute 6% of their annual covered salary to the IAP plan effective January 1, 2004. Plan members of PERS retain their existing PERS accounts, but member contributions beginning in 2004 are deposited in the member's IAP, not into the member's PERS account.

Annual Pension Cost

All participating employers are required by law to submit the contributions as adopted by the OPERB. The County's contributions, exclusive of the 6% "pick-up," for the years ending June 30, 2013, 2012, and 2011 were \$2,230,554, \$2,241,103, and \$2,024,482, respectively, and are equal to the required contributions for each year.

Deferred Compensation:

The County has a deferred compensation plan available to its employees. The plan is qualified under IRC Section 457. Employees may elect to contribute to their individual deferred compensation accounts, and for Sheriff Association employees the County will match the contribution up to 3% of the employee's wages. The County's deferred compensation cost for the year ended June 30, 2013 was \$5,946.

Other post-employment benefits (OPEB):

The County has a health insurance continuation option available to most of its retirees. It is a substantive post-employment benefits plan offered under Oregon Revised Statutes (ORS) 243. ORS 243.303 requires the County to make group health and dental insurance available to retirees from the date of retirement to age 65, and the premium rate they pay be the same as active employees and be calculated using claims experience from both retirees and active employees together. The difference between retiree claims costs (or age adjusted premiums), which because of the effect of age is generally higher in comparison to all plan members, and the amount of retiree healthcare premiums is considered to be the County's implicit rate subsidy under GASB Statement 45. This single-employer "plan" is not a stand-alone plan and therefore does not issue its own financial statements.

- Funding Policy: For the health insurance continuance option, the County collects health insurance premiums from participating employees each month and uses the money to pay premiums to third party health insurance providers. The required payment is based on projected pay-as-you-go financing requirements. During the year ended June 30, 2013, benefits paid on behalf of retirees were less than the premiums they paid by \$65,418. The County has elected to not pre-fund the entire fiscal year 2013 annual required contribution (ARC) to the plan of \$79,068. The unfunded contribution, net of the premiums paid is \$217,546 for the year ended June 30, 2013.

Annual OPEB Cost and Net OPEB Obligation: The County's OPEB cost is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's OPEB obligation to the plan.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

NOTE 9 – PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (Continued):

Annual Required Contribution (ARC):	
Employer’s normal cost	\$ 28,208
Amortization of Actuarial Accrued Liability (AAL)	<u>60,860</u>
Annual Required Contribution	<u>\$ 89,068</u>
Determination of OPEB Obligation:	
ARC for current year, above	\$ 89,068
Interest on Net OPEB Obligation (BOY)	8,500
Adjustment to ARC for Net OPEB Obligation	<u>(18,500)</u>
Annual OPEB Cost	79,068
Expected contributions	<u>(144,486)</u>
Decrease in Net OPEB Obligation	(65,418)
Net OPEB Obligation, Beginning of year	<u>282,964</u>
Net OPEB Obligation, End of year	<u>\$ 217,546</u>

The Net OPEB obligation of \$217,546 is reported in Governmental Activities in the government-wide financial statements.

The County’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB Obligation for the year ended June 30, 2009 through 2014 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Retiree Premiums Paid	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	\$ 219,000	\$ 192,000	87.7%	\$ 27,000
6/30/2010	\$ 220,000	\$ 202,400	92.0%	\$ 44,600
6/30/2011	\$ 314,481	\$ 195,036	62.0%	\$ 164,045
6/30/2012	\$ 310,281	\$ 191,362	61.7%	\$ 282,964
6/30/2013	\$ 79,068	\$ 144,486	182.7%	\$ 217,546
6/30/2014	\$ 81,368	\$ 148,030	181.9%	\$ 150,884

Annual OPEB costs are not available for years prior to June 30, 2009.

- **Funded Status and Funding Progress:** As of June 30, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$932,611 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$932,611. The covered payroll (annual payroll of active employees covered by the plans) was \$14,482,972 and the ratio of UAAL to the covered payroll was 6.44%.
- **Actuarial Methods and Assumptions:** Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents trend information about the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial assumptions and methods used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of plan assets, consistent with the long-term perspective of the calculations.

It is assumed the future cost of the retiree health plan will retain its current relationship to the cost of the active plan, and that the active plan cost will maintain a reasonable relationship to direct compensation.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

NOTE 9 – PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS (Continued):

In the June 30, 2013 actuarial valuation, the entry age normal actuarial cost method was used. The key actuarial assumptions are: (1) Assumed Inflation Rate of 2.5% is used, (2) Investment returns: 3.0%; (3) Healthcare Cost Trend rates are (a) Medical Annual Trend Rate: 8% initial increase, reducing to 4.0% over 9 years; and, (b) Dental Annual Trend Rate: 3.0%, and (c) Vision Trend Rate: 2.5%, (4) Medical Premiums for future retirees are based on blended rate for current plans with the assumption that their selection patters will follow those made by current retirees. The UAAL is being amortized as a level dollar amount over an open period of 20 years.

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 Insurance Reserve 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.

Amounts receivable or received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any unforeseen disallowed claims, including amounts already collected, could become a liability of the General Fund or other applicable funds. In the opinion of County management, such amounts, if any, would not have a material effect on the County's financial condition.

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 April 15, 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, Public Safety Fund, Administrative Internal Service Fund, County Buildings and Fleet Fund, Public Works Special Programs Fund, Grant Projects Fund, and the Airports 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 public 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.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2013

NOTE 11 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued):

6. Formal budgetary review is employed as a management control device during the year for all of the major governmental funds as well as the non-major special revenue, debt service, capital projects and permanent funds and the enterprise and internal service funds.
7. Appropriations lapse at the end of the fiscal year.

The County adopted two supplemental budgets during the year.

There were no budgetary over-expenditures for fiscal year 2013.

NOTE 12 – PRIOR PERIOD ADJUSTMENTS:

The County had one prior period adjustment, as follows:

PERS Bond Series 2001A – a prior period adjustment in the amount of \$2,739,101 was made to the Statement of Activities in order to remove outstanding future interest and list only outstanding principal, as required by Governmental Accounting Standards and in conformity with the other long-term debt schedules in Note 6. Future interest was erroneously included with principal when the debt schedule was originally compiled in fiscal year 2001.

NOTE 13 – RESTATEMENT:

4H Extension Service – a restatement in the amount of \$44,593 was made to the Statement of Activities and to the Non-major Special Revenue Funds beginning fund balance to remove 4H Extension Service. As explained in Note 1(A) the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus* amends the reporting and disclosure standards for component units. In compliance with this standard, the County removed the 4H Extension Service from beginning fund balance. It is now included with the Fiduciary Funds.