

FINANCIAL SECTION





INDEPENDENT AUDITORS' REPORT

Board of County Commissioners
Josephine County, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Josephine County, Oregon ("County") as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2011 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 10 through 18 and budgetary comparison schedules on pages 53 through 60 and schedule of OPEB funding progress on page 61, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the management's discussion and analysis and the schedule of OPEB funding progress, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The budgetary comparison schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in relation to the basic financial statements taken as a whole.

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

ISLER CPA

By: Paul R. Nielson
Paul Nielson, CPA, a member of the firm

Eugene, Oregon
February 10, 2011

JOSEPHINE COUNTY, OREGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the County's comprehensive annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year ended June 30, 2010. 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 \$69 million (total net assets). Of this amount, \$.4 million (unrestricted net assets) is available to meet the county's ongoing obligations to citizens and creditors.
- In January 2009, the Board of County Commissioners approved a Public Safety Plan which spread the remaining federal funding over a three-year period, through June 30, 2012, in order to maintain a stable funding level.
- At June 30, 2010 the County's governmental funds reported combined ending fund balances of \$34.3 million, a decrease of \$3.6 million in comparison to the prior year.
- Unreserved fund balance for the County General Fund was \$3.5 million, which represents a reserve of approximately 151 days, or 47.7% of total general fund expenditures plus transfers to other funds. This represents a slight increase from the prior year.
- Josephine County's total outstanding debt for bonds and loans decreased by \$1.0 million in comparison to the prior year as a result of normal bond and loan payments. No new debt was issued during the year.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets.

The statement of activities presents information showing how the County's net assets changed during the fiscal year. All of the changes in net assets are reported as soon as the underlying

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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).

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

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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.

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

The proprietary fund financial statements provide separate information for the Airports Fund, which is the County's only major 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 Assets. Net assets 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 \$69 million as shown in Table 1. Approximately 73% 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.

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Approximately 26% of the County’s net assets represent resources that are subject to restrictions on how they may be used. The remaining 1% represents unrestricted net assets that may be used to meet the county’s ongoing obligations.

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

	Governmental Activities		Business-type Activities		Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current & Other Assets	\$42.5	\$45.7	\$0.4	\$0.3	\$42.9	\$46.0
Capital Assets	55.0	55.0	2.8	2.8	57.8	57.8
Total Assets	97.5	100.7	3.2	3.1	100.7	103.8
Long-term Liabilities	25.0	25.6	-	-	25.0	25.6
Other Liabilities	6.5	5.4	0.2	0.1	6.7	5.5
Total Liabilities	31.5	31.0	0.2	0.1	31.7	31.1
Net Assets:						
Invested in Capital Assets, net of related debt	47.5	46.7	2.8	2.8	50.3	49.5
Restricted	18.3	20.9	-	-	18.3	20.9
Unrestricted	0.2	2.1	0.2	0.2	0.4	2.3
Total Net Assets	\$66.0	\$69.7	\$3.0	\$3.0	\$69.0	\$72.7

Changes in Net Assets. The County’s total change in net assets for the current fiscal year was a decrease of \$3.7 million as shown in Table 2. This represents a decrease in Total Net Assets of approximately 5% less than the prior year.

Governmental Activities had a decrease in net assets of \$3.7 million. Total revenues decreased by \$6.7 million (15%) mostly due to decreases in grant income for bridge construction and decreases in charges for services. Total expenses increased by \$3.3 million (7.0%) mostly as a result of Public Safety personnel costs, Public Works bridge construction, and Community Development Kerby Water District CDBG grant.

Business-type Activities had no new increase in net assets when compared to the prior year.

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

	Governmental Activities		Business-type Activities		Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:						
Program Revenues:						
Charges for Services	\$7.8	\$9.9	\$0.5	\$0.6	\$8.3	\$10.5
Operating Grants and Contributions	20.9	21.8	-	-	20.9	21.8
Capital Grants and Contributions	1.0	3.5	0.4	0.1	1.4	3.6
General Revenues:						
Property Taxes	4.9	4.7	-	-	4.9	4.7
Unrestricted Grants and Contributions	9.7	10.7	-	-	9.7	10.7
Other Revenue	0.6	1.0	-	-	0.6	1.0
Total Revenues	44.9	51.6	0.9	0.7	45.8	52.3
Expenses:						
General Government	3.1	3.5	-	-	3.1	3.5
Public Safety	20.3	18.7	0.1	0.1	20.4	18.8
Public Works	9.5	8.2	-	-	9.5	8.2
Culture and Recreation	2.5	2.6	0.8	0.7	3.3	3.3
Community Development	4.3	3.1	-	-	4.3	3.1
Health & Human Services	8.0	8.1	-	-	8.0	8.1
Interest on long-term debt	0.9	1.2	-	-	0.9	1.2
Total Expenses	48.6	45.4	0.9	0.8	49.5	46.2
Change in Net Assets	(3.7)	6.2	0.0	(0.1)	(3.7)	6.1
Net Assets – July 1	69.7	63.5	3.0	3.1	72.7	66.6
Net Assets June 30	\$66.0	\$69.7	\$3.0	\$3.0	\$69.0	\$72.7

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 in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

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As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$34.3 million, a decrease of \$3.6 million over the prior year.

Approximately 99% of this total amount constitutes unreserved fund balance, which is available for spending on governmental programs at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it represents amounts which have already been committed.

The General Fund is the chief operating fund of the County, with an ending fund balance of \$3.5 million, a decrease of \$136,296 from the prior year. Key events affecting the ending fund balance were as follows:

- Transfer of \$3.0 million to the Public Safety Fund for operation of the county public safety program.

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 the fall. This year's ending fund balance represents a reserve of approximately 151 days, or 47.7% of total general fund expenditures plus transfers to other funds. These averages are similar to the prior year.

The Public Works Fund ending fund balance decreased by \$2.25 million or approximately 2%. Revenues and expenditures were similar to prior year. Transfers to the Roads and Bridges Reserve Fund totaled \$850,000 to be used for future maintenance and repairs of county roads and bridges. Transfers to the Equipment Reserve Fund totaled over \$1.1 million for much needed heavy machinery and equipment replacements.

The Public Safety Fund comprises the departments of Sheriff, District Attorney and Juvenile Justice. The ending fund balance was \$10.8 million, an increase of \$.3 million or approximately 3%. The main revenue sources for the Public Safety Fund are an interfund transfer from the General Fund of \$3.0 million and \$9.7 million received from the federal government for O&C replacement funding.

In January 2009 the Board of County Commissioners adopted a three-year public safety plan, which included saving funds in anticipation of the loss of federal O&C replacement revenues. The \$10.8 million ending fund balance reflects the intentional saving of federal money for the future because of the likelihood of non-renewal after fiscal year 2011-12 of federal funds.

The Adult Corrections Fund ending fund balance was \$341,815, a decrease of \$28,560 or 8%. The main source of revenue is state grants from the Oregon Department of Corrections. Grant revenue increased 11% and expenditures increased 7% in the normal course of operations, resulted in 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 decreased \$92,670 to a negative \$117,670. The majority of funding is from the State of Oregon and patient fees. The negative fund balance reflects the

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difficulty of running a public health program without county general fund support. Current year program changes are under review to resolve this deficit fund balance.

The Mental Health Fund ending fund balance was \$150,705, an increase of \$3,649 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 \$4.3 million, a decrease of \$378,083 or 9%. This fund is comprised primarily of state lottery money for economic development, federal CDBG money and the Title III portion of the O&C replacement 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 \$3.9 million of the ending fund balance.

The Other Governmental Funds ending fund balance was \$9.3 million, a decrease of \$985,509 or 10%. The decrease is mostly due to an increase in expenditures of 7% over last year and reduction of state funding.

Proprietary Funds. Total enterprise fund net assets increased by \$56,192 or approximately 2%. This increase was mostly due to increased capital grants contributions to improve the County's airports, primarily for facility improvements.

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

General Fund Budgetary Highlights

The General Fund incurred two adjustments in expenditures from the original adopted budget to the final budget. The clerk required extra revenue and cost due to three unexpected elections, which resulted in a net increase of \$95,000 and forestry received two grants totaling \$33,200.

Actual expenditures in the general fund were less than the final budgeted expenditures by \$425,440 (excludes contingency), mostly due to savings in personal and material and services.

Capital Assets

The County's investment in capital assets for its governmental and business-type activities was \$57.8 million (net of accumulated depreciation). The County's net investment in capital assets remained essentially unchanged 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:

- \$55,000 for three new Yurt buildings at Lake Selmac Park
- \$150,000 for Rockland Road King Sloper Blade, Gooseneck Lowboy Trailer and CAT Skid steer Loader w/Bucker for Public Works Fleet
- \$85,000 for two new Self Propelled Brooms for Public Works Fleet
- \$96,000 for two new trucks and two jeeps for Sheriff Search & Rescue program
- \$72,000 for new Dell Server and IBM Server repair

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- \$133,000 for Chiller Replacement and two Handicap Accessible Doors in the Courthouse
- \$211,000 remodel of Washington Annex building for Criminal Justice use
- \$216,000 for three new Startrans 15 passenger busses for the County Transit program

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, 2010 was \$19.5 million, a decrease of 5% from the previous year. The outstanding balance represents prior year funding for the construction of the Adult Jail and for the PERS unfunded actuarial liability, both of which are backed by the full faith and credit of the County. There was no new bonded debt issued during the fiscal year.

Under state law, Josephine County has a general obligation debt limitation of 2% of the real market value of taxable property in the county. The County's general obligation bonded debt of \$7.1 million (the balance on the Adult Jail Facility bond) was well below the legal limitation of \$184 million. Josephine County updated to a rating of "A1" 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 forestland managed by the federal government 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 through fiscal year 2007-08, and the County received \$11.9 million in that fiscal year. 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 is expected in December 2011.

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. If replacement revenues are not found, there will be significant cutbacks in public safety and other services. The Board of County Commissioners is working with County Managers, Elected Officials, and citizen groups to develop options regarding revenue replacement, and/or possible reductions of County services in future operating budgets.

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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.

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

The tax rate constraint mentioned above limits assessed value increases to 3% per year, or market value, whichever is lower. No property may increase in value more than 3% in any year unless it is substantially revised or seeks voluntary rezoning. The cap on assessed values and the requirement to assess new construction similarly to existing properties has contributed to the gap between market value and assessed value. The cap on assessed values keeps the current tax rate from producing sufficient revenue. Current economic conditions have caused real market values to decrease this past year; however, the gap between the two values is still significant. See the Statistical Section in this report for a comparison of assessed and real market values for the past ten years.

Inflationary Pressure. Rising population, increased public demand for services and inflationary pressures are causing operating costs to increase faster than revenues, and this situation is projected to cause very significant budget gaps in the future.

Future Budgets. The county's 2010-11 adopted budget is \$108,361,340, an increase of \$3.1 million or 3% over the prior year. However, this budget still represents a decrease of over 10% from the 2004-05 budget. Notable increases in the current budget are found in the Mental Health Fund (\$4.8 million) and the Airports Fund (\$2.3 million). Notable decrease can be found in Property Reserve Fund (\$1.8 million) and Grant Project Fund (\$1.5 million). Remaining funds decreased by (\$.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



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**Statement of Net Assets
June 30, 2010**

	Primary Government		Total
	Governmental	Business-Type	
	Activities	Activities	
Assets:			
Cash & Investments	\$ 37,600,514	\$ 180,896	\$ 37,781,410
Taxes Receivable	425,099	-	425,099
Other Receivables	1,091,049	189,280	1,280,329
Internal Balances	(8,313)	8,313	-
Due From Other Governments	2,535,881	-	2,535,881
Inventories	673,408	23,651	697,059
Other Assets	190,876	-	190,876
Capital Assets:			
Land	9,800,413	611,814	10,412,227
Buildings & Improvements	35,427,826	5,075,869	40,503,695
Equipment	11,270,831	147,920	11,418,751
Infrastructure	69,102,916	-	69,102,916
Construction in Progress	313,785	354,543	668,328
Less - Accumulated Depreciation	(71,002,192)	(3,367,125)	(74,369,317)
Total Assets	97,422,093	3,225,161	100,647,254
Liabilities:			
Accounts Payable	2,096,397	169,318	2,265,715
Accrued Payroll Liabilities	2,522,357	10,365	2,532,722
Accrued Interest Payable	62,133	-	62,133
Claims Payable	140,000	-	140,000
Due to Other Governments	42,468	-	42,468
Unearned Revenue	1,344,295	-	1,344,295
Unamortized Bond Premium	319,316	-	319,316
Noncurrent Liabilities:			
Due in One Year:			
Bonds Payable	1,375,000	-	1,375,000
Loans Payable	15,594	-	15,594
Compensated Absences	1,055,000	7,500	1,062,500
Landfill Closure Costs	72,000	-	72,000
Due in More Than One Year:			
Bonds Payable	18,174,356	-	18,174,356
Loans Payable	269,799	-	269,799
Compensated Absences	1,755,000	4,500	1,759,500
Landfill Closure Costs	2,201,000	-	2,201,000
Other Post-Employment Benefit Obligation	44,600	-	44,600
Total Liabilities	31,489,315	191,683	31,680,998
Net Assets:			
Invested in Capital Assets, net of related debt	47,478,186	2,823,021	50,301,207
Restricted - expendable for:			
General Government	191,410	-	191,410
Public Safety	1,073,048	-	1,073,048
Public Works	9,151,936	-	9,151,936
Culture and Recreation	406,478	-	406,478
Community Development	6,334,523	-	6,334,523
Health & Human Services	459,321	-	459,321
Debt Service	230,366	-	230,366
Restricted - nonexpendable	414,672	-	414,672
Unrestricted	192,838	210,457	403,295
Total Net Assets	\$ 65,932,778	\$ 3,033,478	\$ 68,966,256

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

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**Statement of Activities
For the Year Ended June 30, 2010**

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	\$ 3,105,746	\$ 1,714,988	\$ 2,118,472	\$ 47,627	\$ 775,341
Public Safety	20,288,250	1,883,974	4,944,775	-	(13,459,501)
Public Works	9,551,563	146,557	5,665,225	256,600	(3,483,181)
Culture and Recreation	2,457,628	1,399,433	195,429	194,810	(667,956)
Community Development	4,295,501	1,278,033	2,107,164	-	(910,304)
Health & Human Services	7,995,407	1,425,936	5,923,316	482,865	(163,290)
Interest on long-term debt	993,901	-	-	-	(993,901)
Total Governmental Activities	<u>\$ 48,687,996</u>	<u>\$ 7,848,921</u>	<u>\$ 20,954,381</u>	<u>\$ 981,902</u>	<u>\$ (18,902,792)</u>
Business-type Activities:					
Jail Commissary	64,104	78,142	-	-	14,038
County Airports	780,848	427,165	-	369,689	16,006
Total Business-type Activities	<u>844,952</u>	<u>505,307</u>	<u>-</u>	<u>369,689</u>	<u>30,044</u>
Total Primary Government	<u>\$ 49,532,948</u>	<u>\$ 8,354,228</u>	<u>\$ 20,954,381</u>	<u>\$ 1,351,591</u>	<u>\$ (18,872,748)</u>

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Changes in Net Assets:			
Net (Expense) Revenue	\$ (18,902,792)	\$ 30,044	\$ (18,872,748)
General Revenues:			
Property Taxes	4,891,102	-	4,891,102
Grants and Contributions not restricted to specific programs	9,655,517	-	9,655,517
Unrestricted Interest and Investment Earnings	613,695	3,348	617,043
Transfers - Internal Activities	(22,800)	22,800	-
Change in Net Assets	(3,765,278)	56,192	(3,709,086)
Net Assets - July 1, 2009	69,698,056	2,977,286	72,675,342
Net Assets - June 30, 2010	<u>\$ 65,932,778</u>	<u>\$ 3,033,478</u>	<u>\$ 68,966,256</u>

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

JOSEPHINE COUNTY, OREGON
Governmental Funds

Balance Sheet
June 30, 2010

	General Fund	Public Works	Public Safety	Adult Corrections	Public Health
Assets					
Current Assets					
Cash & Investments	\$ 3,548,137	\$ 5,250,904	\$ 11,451,839	\$ 513,346	\$ (387,635)
Taxes Receivable	302,816	-	-	-	-
Other Receivables	837,012	-	-	1,273	149,510
Due From Other Governments	565,438	332,052	458,770	73,939	218,201
Due From Other Funds	58,910	314,028	92,483	15,496	148,414
Inventories	-	612,029	-	-	-
Other Assets	-	-	-	-	-
Total Assets	\$ 5,312,313	\$ 6,509,013	\$ 12,003,092	\$ 604,054	\$ 128,490
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable	\$ 91,788	\$ 131,282	\$ 73,055	\$ 60,510	\$ 85,961
Accrued Payroll Liabilities	303,215	311,257	905,842	201,337	160,048
Due To Other Governments	-	-	-	-	-
Due To Other Funds	173	3,188	188,311	392	151
Deferred Revenue	1,454,437	-	-	-	-
Total Liabilities	1,849,613	445,727	1,167,208	262,239	246,160
Fund Balances:					
Reserved for:					
Permanent Endowment	-	-	-	-	-
Unreserved, Reported in :					
General Fund	3,462,700	-	-	-	-
Special Revenue Funds	-	6,063,286	10,835,884	341,815	(117,670)
Debt Service	-	-	-	-	-
Capital Project Funds	-	-	-	-	-
Total Fund Balances	3,462,700	6,063,286	10,835,884	341,815	(117,670)
Total Liabilities and Fund Balances	\$ 5,312,313	\$ 6,509,013	\$ 12,003,092	\$ 604,054	\$ 128,490

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

JOSEPHINE COUNTY, OREGON
Governmental Funds

Balance Sheet (Continued)
June 30, 2010

	Mental Health	Grant Projects	Other Governmental Funds	Total Governmental Funds
Assets				
Current Assets				
Cash & Investments	\$ 436,324	\$ 4,331,508	\$ 9,899,456	\$ 35,043,879
Taxes Receivable	-	-	122,283	425,099
Other Receivables	497	-	34,890	1,023,182
Due From Other Governments	112,071	144,224	631,186	2,535,881
Due From Other Funds	60	-	108,159	737,550
Inventories	-	-	-	612,029
Other Assets	-	-	61,850	61,850
Total Assets	\$ 548,952	\$ 4,475,732	\$ 10,857,824	\$ 40,439,470
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	\$ 348,467	\$ 177,521	\$ 560,948	\$ 1,529,532
Accrued Payroll Liabilities	4,416	7,045	178,617	2,071,777
Due To Other Governments	39,868	-	2,600	42,468
Due To Other Funds	5,496	1,295	533,938	732,944
Deferred Revenue	-	-	275,581	1,730,018
Total Liabilities	398,247	185,861	1,551,684	6,106,739
Fund Balances:				
Reserved for:				
Permanent Endowment	-	-	414,672	414,672
Unreserved, Reported in :				
General Fund	-	-	-	3,462,700
Special Revenue Funds	150,705	4,289,871	3,513,021	25,076,912
Debt Service	-	-	165,430	165,430
Capital Project Funds	-	-	5,213,017	5,213,017
Total Fund Balances	150,705	4,289,871	9,306,140	34,332,731
Total Liabilities and Fund Balances	\$ 548,952	\$ 4,475,732	\$ 10,857,824	\$ 40,439,470

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 Assets
as of June 30, 2010**

Fund Balances - Governmental Funds	\$	34,332,731
<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	125,915,771	
less accumulated depreciation	<u>(71,002,192)</u>	54,913,579
<p>Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds:</p>		
Property Taxes		385,723
<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	(19,549,356)	
Loans Payable	(285,393)	
Accrued Interest Payable	(62,133)	
Amortization of Deferred charge on refunding	(190,290)	
Compensated Absences	(2,553,000)	
Landfill Closure Costs	<u>(2,273,000)</u>	(24,913,172)
<p>The Other Post-Employment Benefit Obligation is not due and payable and is not reported in the governmental funds.</p>		
		(44,600)
<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>1,258,517</u>
Net Assets of Governmental Activities	\$	<u><u>65,932,778</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, 2010

	General Fund	Public Works	Public Safety	Adult Corrections	Public Health
Revenues:					
Taxes	\$ 3,466,523	\$ -	\$ -	\$ -	\$ -
Fees and Charges for Services	2,051,200	83,670	1,136,467	545,957	1,026,391
Intergovernmental Revenues	1,371,492	5,610,425	11,594,961	2,670,977	1,228,255
Interfund Charges for Services	-	15,220	-	85,755	467,882
Other Revenues	188,965	136,634	221,871	51,345	134,038
Total Revenues	7,078,180	5,845,949	12,953,299	3,354,034	2,856,566
Expenditures:					
Current:					
General Government	2,132,690	-	-	-	-
Public Safety	-	-	14,636,625	3,218,962	-
Public Works	-	6,238,400	-	-	-
Culture & Recreation	-	-	-	-	-
Community Development	1,314,870	-	-	-	-
Health and Human Services	-	-	-	-	2,805,436
Debt Service - Principal	-	-	-	-	-
Debt Service - Interest	-	-	-	-	-
Total Expenditures	3,447,560	6,238,400	14,636,625	3,218,962	2,805,436
Excess of Revenues Over (Under)					
Expenditures	3,630,620	(392,451)	(1,683,326)	135,072	51,130
Other Financing Sources (Uses):					
Transfers In	50,000	94,890	3,288,600	250,000	45,000
Transfers Out	(3,816,916)	(1,953,492)	(1,321,950)	(413,632)	(188,800)
Total Other Financing Sources (Uses)	(3,766,916)	(1,858,602)	1,966,650	(163,632)	(143,800)
Net Change in Fund Balance	(136,296)	(2,251,053)	283,324	(28,560)	(92,670)
Fund Balances - July 1, 2009	3,598,996	8,314,339	10,552,560	370,375	(25,000)
Fund Balances - June 30, 2010	<u>\$ 3,462,700</u>	<u>\$ 6,063,286</u>	<u>\$ 10,835,884</u>	<u>\$ 341,815</u>	<u>\$ (117,670)</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, 2010

	Mental Health	Grant Projects	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ -	\$ -	\$ 1,359,503	\$ 4,826,026
Fees and Charges for Services	30,078	-	1,856,602	6,730,365
Intergovernmental Revenues	3,465,927	2,107,164	3,261,995	31,311,196
Interfund Charges for Services	-	-	962,568	1,531,425
Other Revenues	6,673	73,753	565,128	1,378,407
Total Revenues	3,502,678	2,180,917	8,005,796	45,777,419
Expenditures:				
Current:				
General Government	-	-	1,210,946	3,343,636
Public Safety	-	-	906,317	18,761,904
Public Works	-	-	2,326,115	8,564,515
Culture & Recreation	-	-	2,410,184	2,410,184
Community Development	-	1,784,115	950,660	4,049,645
Health and Human Services	3,416,232	101,145	1,271,405	7,594,218
Debt Service - Principal	15,323	-	1,300,000	1,315,323
Debt Service - Interest	5,174	-	774,471	779,645
Total Expenditures	3,436,729	1,885,260	11,150,098	46,819,070
Excess of Revenues Over (Under)				
Expenditures	65,949	295,657	(3,144,302)	(1,041,651)
Other Financing Sources (Uses):				
Transfers In	-	57,760	3,685,052	7,471,302
Transfers Out	(62,300)	(731,500)	(1,526,259)	(10,014,849)
Total Other Financing Sources (Uses)	(62,300)	(673,740)	2,158,793	(2,543,547)
Net Change in Fund Balance	3,649	(378,083)	(985,509)	(3,585,198)
Fund Balances - July 1, 2009	147,056	4,667,954	10,291,649	37,917,929
Fund Balances - June 30, 2010	\$ 150,705	\$ 4,289,871	\$ 9,306,140	\$ 34,332,731

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, 2010**

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

Net change in fund balances - total governmental funds	\$	(3,585,198)
<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	2,106,138	
less current year depreciation	(2,428,637)	(322,499)
<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		(18,142)
<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		65,076
<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	1,315,323	
Amortization of deferred interest bonds	(289,284)	
Bond Interest Adjustment	18,050	
Unamortized Bond Cost	(16,128)	
Unamortized Bond Premium	72,340	1,100,301
<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	(362,000)	
Landfill closure costs	72,000	
Accrued interest on debt	2,688	
Other post-employment benefit obligation	(17,600)	(304,912)
Adjustment to reflect the consolidation of internal service funds to governmental funds		(699,904)
Change in net assets of governmental activities	\$	(3,765,278)

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

JOSEPHINE COUNTY, OREGON
Proprietary Funds

Statement of Net Assets
June 30, 2010

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Airports Fund	Nonmajor Enterprise (Jail Commissary)	Total Current Year	Memo Only Total Prior Year	
Assets:					
Current Assets:					
Cash & Investments	\$ 173,516	\$ 7,380	\$ 180,896	\$ 206,726	\$ 2,556,635
Accounts Receivable	158,296	30,984	189,280	53,246	67,867
Due From Other Funds	92	8,331	8,423	7,936	353,391
Inventories	23,651	-	23,651	37,601	61,379
Total Current Assets	355,555	46,695	402,250	305,509	3,039,272
Capital Assets:					
Land	611,814	-	611,814	611,814	-
Buildings and Improvements	5,075,869	-	5,075,869	5,075,869	-
Equipment	147,920	-	147,920	147,920	3,074,360
Construction in Progress	354,543	-	354,543	99,245	-
Less - Accumulated Depreciation	(3,367,125)	-	(3,367,125)	(3,142,440)	(2,250,062)
Total Capital Assets, net of Accumulated Depreciation	2,823,021	-	2,823,021	2,792,408	824,298
Total Assets	3,178,576	46,695	3,225,271	3,097,917	3,863,570
Liabilities:					
Current Liabilities:					
Accounts Payable	168,769	549	169,318	80,191	566,865
Accrued Payroll Liabilities	10,365	-	10,365	10,558	450,580
Accrued Compensated Absences	7,500	-	7,500	5,000	133,640
Claims Payable	-	-	-	-	140,000
Due to Other Funds	-	110	110	21,882	366,310
Total Current Liabilities	186,634	659	187,293	117,631	1,657,395
Noncurrent Liabilities:					
Accrued Compensated Absences	4,500	-	4,500	3,000	123,360
Total Noncurrent Liabilities	4,500	-	4,500	3,000	123,360
Total Liabilities	191,134	659	191,793	120,631	1,780,755
Net Assets:					
Invested in Capital Assets	2,823,021	-	2,823,021	2,792,408	824,298
Unrestricted	164,421	46,036	210,457	184,878	1,258,517
Total Net Assets	\$ 2,987,442	\$ 46,036	\$ 3,033,478	\$ 2,977,286	\$ 2,082,815

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 Assets
For the Year Ended June 30, 2010

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Airports Fund	Nonmajor Enterprise (Jail Commissary)	Total Current Year	Memo Only Total Prior Year	
Operating Revenues:					
Fees and Charges for Services	\$ 425,608	\$ 78,142	\$ 503,750	\$ 554,719	\$ 174,778
Interfund Charges for Services	-	-	-	-	3,718,139
Other Revenues	1,557	-	1,557	12,581	148,805
Total Operating Revenues	427,165	78,142	505,307	567,300	4,041,722
Operating Expenses:					
Personal Services	115,219	-	115,219	109,504	4,052,852
Materials & Services	440,944	64,104	505,048	451,807	3,565,664
Depreciation	224,685	-	224,685	224,685	179,135
Interfund Payment for Services	-	-	-	-	-
Total Operating Expenses	780,848	64,104	844,952	785,996	7,797,651
Operating Income (Loss)	(353,683)	14,038	(339,645)	(218,696)	(3,755,929)
Nonoperating Revenues:					
Intergovernmental revenues	-	-	-	-	24,004
Interest Income	2,915	433	3,348	5,903	29,813
Total Nonoperating Revenues	2,915	433	3,348	5,903	53,817
Net Income (Loss) Before Contributions and Transfers	(350,768)	14,471	(336,297)	(212,793)	(3,702,112)
Capital Grant Contributions Received	369,689	-	369,689	111,338	-
Capital Contributions from Other Funds	-	-	-	-	481,463
Transfers In	37,000	-	37,000	37,000	3,009,400
Transfers Out	(14,200)	-	(14,200)	(28,400)	(488,655)
Change in Net Assets	41,721	14,471	56,192	(92,855)	(699,904)
Total Net Assets - July 1, 2009	2,945,721	31,565	2,977,286	3,070,141	2,782,719
Total Net Assets - June 30, 2010	\$ 2,987,442	\$ 46,036	\$ 3,033,478	\$ 2,977,286	\$ 2,082,815

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, 2010

	Business-Type Activities - Enterprise Funds			Memo Only Total Prior Year	Governmental Activities Internal Service Funds
	Airports Fund	Nonmajor Enterprise (Jail Commissary)	Total Current Year		
Cash Flows from Operating Activities					
Cash received from users	\$ 431,670	\$ 47,158	\$ 478,828	\$ 548,657	\$ 7,336,807
Cash received from other sources	1,558	-	1,558	12,581	148,805
Cash paid to suppliers	(438,523)	(80,410)	(518,933)	(437,425)	(3,581,448)
Cash paid to employees	(111,412)	-	(111,412)	(112,239)	(3,476,474)
Net cash provided (used) by operating activities	<u>(116,707)</u>	<u>(33,252)</u>	<u>(149,959)</u>	<u>11,574</u>	<u>427,690</u>
Cash Flows from Non-capital Financing Activities					
Net change in internal balances	(92)	(22,167)	(22,259)	(51,054)	358,888
Net transfers between funds	22,800	-	22,800	8,600	(488,655)
Intergovernmental Receipts	-	-	-	-	24,004
Net cash provided by noncapital and related financing activities	<u>22,708</u>	<u>(22,167)</u>	<u>541</u>	<u>(42,454)</u>	<u>(105,763)</u>
Cash Flows from Capital Financing Activities					
Capital Grant Contributions Received	258,577	-	258,577	72,961	481,463
Purchase of capital assets	(138,337)	-	(138,337)	(110,926)	(481,463)
Net cash used by capital and related financing activities	<u>120,240</u>	<u>-</u>	<u>120,240</u>	<u>(37,965)</u>	<u>-</u>
Cash Flows from Investing Activities					
Interest income received	2,915	433	3,348	5,903	29,813
Net cash provided by investing activities	<u>2,915</u>	<u>433</u>	<u>3,348</u>	<u>5,903</u>	<u>29,813</u>
Net Increase (Decrease) in Cash and Investments	29,156	(54,986)	(25,830)	(62,942)	351,740
Cash and Investments - July 1, 2009	144,360	62,366	206,726	269,668	2,204,895
Cash and Investments - June 30, 2010	<u>\$ 173,516</u>	<u>\$ 7,380</u>	<u>\$ 180,896</u>	<u>\$ 206,726</u>	<u>\$ 2,556,635</u>

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

Operating Income (Loss)	\$ (353,683)	\$ 14,038	\$ (339,645)	\$ (218,696)	\$ (3,755,929)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	224,685	-	224,685	224,685	179,135
Transfers in	-	-	-	-	3,009,400
(Increase) Decrease in accounts receivable	6,062	(30,984)	(24,922)	(6,062)	201,182
(Increase) Decrease in Due from Other Funds	-	-	-	-	233,308
(Increase) Decrease in inventories	13,950	-	13,950	(5,953)	871
Increase (Decrease) in accounts payable	(11,528)	(16,306)	(27,834)	20,335	431,945
Increase (Decrease) in payroll payable	(193)	-	(193)	3,265	159,778
Increase (Decrease) in compensated absences	4,000	-	4,000	(6,000)	48,000
Increase (Decrease) in due to other funds	-	-	-	-	-
Increase (Decrease) in claims payable	-	-	-	-	(80,000)
Total adjustments	<u>236,976</u>	<u>(47,290)</u>	<u>189,686</u>	<u>230,270</u>	<u>4,183,619</u>
Net cash provided (used) by operating activities	<u>\$ (116,707)</u>	<u>\$ (33,252)</u>	<u>\$ (149,959)</u>	<u>\$ 11,574</u>	<u>\$ 427,690</u>

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

JOSEPHINE COUNTY, OREGON
Fiduciary Funds

Statement of Fiduciary Net Assets
June 30, 2010

	<u>Agency Funds</u>
Assets:	
Cash & Investments	\$ 943,249
Taxes Receivable	4,211,454
Total Assets	<u>\$ 5,154,703</u>
Liabilities:	
Accounts Payable	\$ 10,849
Due To Other Governments	4,211,454
Money Held for Others	932,400
Total Liabilities	<u>\$ 5,154,703</u>

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

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2010

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

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

B. Government-wide and Fund Financial Statements:

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

The Statement of Activities demonstrates the extent to which direct expenses of the County’s functions/programs listed in the statement (such as General Government, Public Safety, 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, 2010

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. Among such uses authorized are search, rescue and emergency services, community service work camps, conservation easement purchases, forest related educational opportunities and fire prevention. This fund receives video poker funds from the state which are restricted for use in economic development activities and Community Development Block Grants (CDBG) from the federal government which are 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, 2010

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

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 assets are available to finance the program, it is the County's policy to first apply restricted resources to such programs, followed by unrestricted resources.

D. Cash and Investments:

Investments included in cash and investments are reported at fair value. The County invests primarily in the State of Oregon Local Government Investment Pool and 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 represent only the County's portion of uncollected property taxes as of June 30. They are delinquent and are offset by deferred revenue in individual fund balance sheets. Accordingly, they are not recorded as revenue until received in individual funds.

For the year ended June 30, 2010, the County's tax levy did not exceed the Oregon constitutional limitation. All other districts' property taxes receivable is reported in the Agency Funds.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2010

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

E. Receivables (Continued):

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

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

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

F. Inventories:

Governmental Funds – Inventories of parts and supplies is held by the Public Works Fund and County Fleet and Building Operations Fund and are valued at average cost. Inventories are recorded as expenditures 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 to the value of the asset or materially extend asset lives are not capitalized.

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

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

H. Landfill Closure and Post-closure Care Liabilities:

The County records landfill closure and post-closure costs 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 assets.

I. Long-term Debt:

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

J. Compensated Absences:

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

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

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2010

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

- K. **Fund Equity:**
 In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.
- L. **Restricted Net Assets:**
 Restricted net assets reported in the Statement of Net Assets represent amounts for which constraints were imposed by creditors, grantors, contributors or laws or regulations.
- M. **Cash Flows Statement:**
 For purposes of the statement of cash flows, the proprietary fund types consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Accordingly, all County investments are considered to be cash equivalents.
- N. **Property Tax Calendar:**
 Property taxes attach as an enforceable lien on July 1 for real property and personal property. Taxes are levied as of July 1 and payable in three installments on November 15, February 15 and May 15. Real property taxes unpaid on May 16 are considered delinquent. The County levies, collects and distributes property taxes for all taxing jurisdictions within its boundaries. Uncollected taxes, including delinquent amounts, are deemed to be substantially collectible or recoverable through liens, and are recorded 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. The County implemented GASB Statement 45 effective July 1, 2008 to account for post-employment benefits other than pensions (OPEB). See Note 9.

NOTE 2 – CASH AND INVESTMENTS:

The County's cash and investments are comprised of the following at June 30, 2010:

Cash on hand	\$	7,865
Deposits with financial institutions		24,061,370
Investments		14,655,424
Total cash and investments		38,724,659
Less cash and investments in agency funds		(943,249)
Cash and investments, as reported in statement of net assets	\$	37,781,410

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (Continued):

Deposits with financial institutions:

At June 30, 2010, the County’s deposits with various financial institutions had a bank value of \$24,312,963. 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, 2010, the County has deposits of \$6,303,076 insured by federal depository insurance and \$18,009,887 was collateralized under the PFCP.

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.

At June 30, 2010, the County's investments consisted of:

Investment in Oregon Local Government		
Investment Pool	\$ 12,363,435	84.4%
Securities of US Government agencies and sponsored enterprises:		
Financing Corporation Bond Principal Strip	1,291,989	8.8%
Federal Farm Credit Bank	1,000,000	6.8%
Total investments	\$ 14,655,424	100.0%

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, 2010 were: 77% mature within 93 days, 7% mature from 94 days to one year, and 16% mature from one to three years. The County’s

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (Continued):

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, 2010 maturities for the County's other investments are as follows:

	One to Two Years	Two to Three Years
Securities of U.S. Government agencies and sponsored enterprises:		
Financing Corporation Bond Principal Strip	\$ 1,291,989	\$ -
Federal Farm Credit Bank (FFCB)	-	1,000,000 *
Total	\$ 1,291,989	\$ 1,000,000

* Callable in one year or less.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. At June 30, 2010, the County's Financing Corporation bond is rated Aaa by Moody's and the FFCB is rated AAaE by S&P.

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

NOTE 3 – INTERFUND RECEIVABLES AND PAYABLES:

The following is a listing of interfund receivables and payables by fund at June 30, 2010:

	Receivable	Payable
Governmental Funds:		
General Fund	\$ 58,910	\$ 173
Public Works Fund	314,028	3,188
Public Safety Fund	92,483	188,311
Adult Corrections Fund	15,496	392
Public Health Fund	148,414	151
Mental Health Fund	60	5,496
Grant Projects Fund	-	1,295
Nonmajor Governmental Funds	108,159	533,938
Proprietary Funds:		
Airports Fund	92	-
Jail Commissary Fund	8,331	110
Internal Service Funds	353,391	366,310
Total all funds	\$ 1,099,364	\$ 1,099,364

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, 2010

NOTE 4 – CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Balances</u> <u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u> <u>June 30, 2010</u>
Governmental Activities:				
Capital Assets not being depreciated:				
Land	\$ 9,800,413	\$ -	\$ -	\$ 9,800,413
Construction in Progress	-	313,785	-	313,785
	<u>9,800,413</u>	<u>313,785</u>	<u>-</u>	<u>10,114,198</u>
Total Capital Assets not being depreciated				
Capital Assets being depreciated:				
Building and Improvements	35,027,106	400,720	-	35,427,826
Equipment	10,595,505	1,021,799	346,473	11,270,831
Infrastructure	68,659,484	851,297	407,865	69,102,916
	<u>114,282,095</u>	<u>2,273,816</u>	<u>754,338</u>	<u>115,801,573</u>
Total Capital Assets being depreciated:				
Less Accumulated Depreciation for:				
Buildings and Improvements	10,592,721	1,017,810	-	11,610,531
Equipment	7,835,077	544,806	346,473	8,033,410
Infrastructure	50,702,818	1,045,156	389,723	51,358,251
	<u>69,130,616</u>	<u>2,607,772</u>	<u>736,196</u>	<u>71,002,192</u>
Total Accumulated Depreciation				
Total Capital Assets being depreciated, net	<u>45,151,479</u>	<u>(333,955)</u>	<u>18,142</u>	<u>44,799,382</u>
Governmental Activities Capital Assets, net	<u>\$ 54,951,892</u>	<u>\$ (20,171)</u>	<u>\$ 18,142</u>	<u>\$ 54,913,579</u>
Business-type Activities:				
Capital Assets not being depreciated:				
Land	\$ 611,814	\$ -	\$ -	\$ 611,814
Construction in Progress	99,245	255,298	-	354,543
	<u>711,059</u>	<u>255,298</u>	<u>-</u>	<u>966,357</u>
Total Capital Assets not being depreciated				
Capital Assets being depreciated:				
Building and Improvements	5,075,869	-	-	5,075,869
Equipment	147,920	-	-	147,920
	<u>5,223,789</u>	<u>-</u>	<u>-</u>	<u>5,223,789</u>
Total Capital Assets being depreciated				
Less Accumulated Depreciation for:				
Buildings and Improvements	3,110,642	205,820	-	3,316,462
Equipment	31,798	18,865	-	50,663
	<u>3,142,440</u>	<u>224,685</u>	<u>-</u>	<u>3,367,125</u>
Total Accumulated Depreciation				
Total Capital Assets being depreciated, net	<u>2,081,349</u>	<u>(224,685)</u>	<u>-</u>	<u>1,856,664</u>
Business-type Activities Capital Assets, net	<u>\$ 2,792,408</u>	<u>\$ 30,613</u>	<u>\$ -</u>	<u>\$ 2,823,021</u>

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2010

NOTE 4 – CAPITAL ASSETS (Continued):

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

Governmental Activities:	
Public Safety	\$ 630,964
Culture and Recreation	145,949
General Government	207,576
Human Services	58,127
Public Works	1,386,021
Internal Service Funds	<u>179,135</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 2,607,772</u>
Business-type Activities:	
Airports	<u>\$ 224,685</u>
Total Depreciation Expense, Business-type Activities	<u>\$ 224,685</u>

NOTE 5 – SHORT-TERM DEBT:

The County did not issue any short-term debt during the year ended June 30, 2010.

NOTE 6 – LONG TERM OBLIGATIONS:

Changes in long-term obligations for the year ended June 30, 2010 are as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Bonds Payable:					
Adult Jail Facility Bond	\$ 7,920,000	\$ -	\$ 770,000	\$ 7,150,000	\$ 800,000
PERS Bond	12,640,072	289,284	530,000	12,399,356	575,000
Loans Payable:					
OHCSO Secured Treatment Facility Loan	300,716	-	15,323	285,393	15,594
Compensated Absences Payable	2,400,000	1,514,000	1,104,000	2,810,000	1,055,000
Solid Waste Facilities Closure and Monitoring Cost Payable	<u>2,345,000</u>	<u>-</u>	<u>72,000</u>	<u>2,273,000</u>	<u>72,000</u>
Total Governmental Activities	<u>\$ 25,605,788</u>	<u>\$ 1,803,284</u>	<u>\$ 2,491,323</u>	<u>\$ 24,917,749</u>	<u>\$ 2,517,594</u>
Business-Type Activities:					
Compensated Absences Payable	<u>\$ 8,000</u>	<u>\$ 5,000</u>	<u>\$ 1,000</u>	<u>\$ 12,000</u>	<u>\$ 7,500</u>
Total Business-Type Activities	<u>\$ 8,000</u>	<u>\$ 5,000</u>	<u>\$ 1,000</u>	<u>\$ 12,000</u>	<u>\$ 7,500</u>

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2010

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. Interest rates on the bonds range from 4.20% to 4.875%. Payments were made annually with the final payment of \$1,137,894 due on June 1, 2018. 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	Principal			June 30, 2010 Future Interest
	Ending June 30,	Outstanding July 1, 2009	Paid During Year Outstanding June 30, 2010	
2010		\$ 770,000	\$ 770,000	\$ -
2011		800,000	-	800,000
2012		820,000	-	820,000
2013		850,000	-	850,000
2014		880,000	-	880,000
2015		905,000	-	905,000
2016 - 2018		<u>2,895,000</u>	<u>-</u>	<u>2,895,000</u>
Total		<u>\$ 7,920,000</u>	<u>\$ 770,000</u>	<u>\$ 7,150,000</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. Principal payments are due annually through June 1, 2024, and interest is payable in December and June of each year with rates ranging from 5.4% to 6.7%. Obligations maturing through June 1, 2018 are deferred interest obligations and are shown at matured value.

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

Year Ended June 30,	Principal			June 30, 2010 Future Interest
	Outstanding July 1, 2009	Matured and Paid During Year	Outstanding June 30, 2010	
2010	\$ 530,000	\$ 530,000	\$ -	\$ -
2011	575,000	-	575,000	495,594
2012	620,000	-	620,000	495,594
2013	670,000	-	670,000	495,594
2014	720,000	-	720,000	495,594
2015	770,000	-	770,000	495,594
2016-2020	4,780,000	-	4,780,000	2,401,101
2021-2024	<u>5,740,000</u>	<u>-</u>	<u>5,740,000</u>	<u>920,918</u>
Less deferred interest	14,405,000 <u>(1,764,928)</u>	530,000 <u>(289,284)</u>	13,875,000 <u>(1,475,644)</u>	5,799,989 <u>-</u>
	<u>\$ 12,640,072</u>	<u>\$ 240,716</u>	<u>\$ 12,399,356</u>	<u>\$ 5,799,989</u>

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2010

NOTE 6 – LONG TERM OBLIGATIONS (Continued):

Loans Payable:

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

Year Ended June 30,	Principal			June 30, 2010
	Outstanding July 1, 2009	Paid During Year	Outstanding June 30, 2010	Future Interest
2010	\$ 15,323	\$ 15,323	\$ -	\$ -
2011	15,594	-	15,594	4,870
2012	15,869	-	15,869	4,595
2013	16,149	-	16,149	4,315
2014	16,434	-	16,434	4,030
2015	16,724	-	16,724	3,740
2016-2020	88,149	-	88,149	14,169
2021-2025	96,203	-	96,203	6,114
2026	20,271	-	20,271	193
	<u>\$ 300,716</u>	<u>\$ 15,323</u>	<u>\$ 285,393</u>	<u>\$ 42,026</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 \$2,273,000 reported as solid waste facilities closure costs liability at June 30, 2010, 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 2010-11 and beyond. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The Public Works Fund is used to liquidate this liability.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2010

NOTE 7 - INTERFUND TRANSFERS :

Interfund transfers during the year ended June 30, 2010 are as follows:

TRANSFER FROM (EXPENDITURE)		TRANSFER TO (REVENUE)	
Fund Name	Amount	Fund Name	Amount
General Fund	\$ 70,000	Public Works Fund	\$ 70,000
General Fund	3,000,000	Public Safety Fund	3,000,000
General Fund	22,300	Grant Projects Fund	22,300
General Fund	358,016	Nonmajor Funds	358,016
General Fund	366,600	Internal Service Funds	366,600
Subtotal	<u>3,816,916</u>		<u>3,816,916</u>
Public Works Fund	1,396,092	Nonmajor Funds	1,396,092
Public Works Fund	557,400	Internal Service Funds	557,400
Subtotal	<u>1,953,492</u>		<u>1,953,492</u>
Public Safety Fund	1,265,700	Nonmajor Funds	1,265,700
Public Safety Fund	56,250	Internal Service Funds	56,250
Subtotal	<u>1,321,950</u>		<u>1,321,950</u>
Adult Corrections Fund	136,032	Nonmajor Funds	136,032
Adult Corrections Fund	277,600	Internal Service Funds	277,600
Subtotal	<u>413,632</u>		<u>413,632</u>
Public Health Fund	188,800	Internal Service Funds	188,800
Subtotal	<u>188,800</u>		<u>188,800</u>
Mental Health Fund	30,000	Grant Projects Fund	30,000
Mental Health Fund	32,300	Internal Service Funds	32,300
Subtotal	<u>62,300</u>		<u>62,300</u>
Grant Projects Fund	50,000	General Fund	50,000
Grant Projects Fund	235,600	Public Safety Fund	235,600
Grant Projects Fund	250,000	Adult Corrections Fund	250,000
Grant Projects Fund	150,000	Nonmajor Funds	150,000
Grant Projects Fund	37,000	Enterprise Funds	37,000
Grant Projects Fund	8,900	Internal Service Funds	8,900
Subtotal	<u>731,500</u>		<u>731,500</u>
Nonmajor Funds	46,500	Public Safety Fund	46,500
Nonmajor Funds	1,186,859	Nonmajor Funds	1,186,859
Nonmajor Funds	292,900	Internal Service Funds	292,900
Subtotal	<u>1,526,259</u>		<u>1,526,259</u>
Enterprise Funds	14,200	Internal Service Funds	14,200
Subtotal	<u>14,200</u>		<u>14,200</u>
Internal Service Funds	488,655	Nonmajor Funds	488,655
Subtotal	<u>488,655</u>		<u>488,655</u>
Total Interfund Transfers	<u>\$ 10,517,704</u>		<u>\$ 10,517,704</u>

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2010

NOTE 7 – INTERFUND TRANSFERS (Continued):

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 of, damage to and destruction of assets; errors and omissions; and natural disasters for which the County carries commercial insurance. There have been no settlements in excess of insurance coverage for the year ended June 30, 2010 or the preceding three years.

During fiscal year 1987-88 the County established the Self Insurance Reserve Fund (an internal service fund) to account for and finance its uninsured risks of loss. Effective July 1, 2006 the County began carrying commercial insurance for general liability, automobile and property loss or damage. Effective July 1, 2008, the County began carrying commercial insurance for workers compensation. However, the County is still at risk for losses which occurred prior to July 1, 2006 or July 1, 2008 respectively. Under the self insurance program, the Self Insurance Reserve Fund provides coverage for up to a maximum of \$100,000 for each general liability claim, \$100,000 for each automobile accident claim, \$25,000 for each property loss or damage, and the first \$400,000 for each workers compensation claim. The County purchases commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded the self-insurance retention (SIR) since the program began.

All funds of the County participate in the risk management program and make payments to the Self Insurance Reserve Fund based on estimates needed to pay prior year claims. The claims liability of \$140,000 reported in the Self Insurance Reserve Fund at June 30, 2010 is based on requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. The claims liability is based on an evaluation of outstanding claims, using past experience and current assessments of potential and probable exposure, as well as an estimate for incurred but not reported claims as of June 30, 2010. Changes in estimates of claims costs resulting from the County’s continuous review process and differences between estimates and payment of claims are recognized in the results of operations of the self-insurance fund.

Changes in the insurance fund’s claims liability amount in fiscal years 2010 and 2009 were:

	2009-10	2008-09
Balance - July 1	\$ 220,000	\$ 340,000
Current year claims and changes in estimates	124,808	339,927
Claim payments and insurance premiums	(204,808)	(459,927)
Balance - June 30	\$ 140,000	\$ 220,000

Substantially all of the \$140,000 liability is expected to be payable within one year.

In August 2005, the County’s non union employees filed a class action lawsuit against the County, alleging breach of contract because the Board of County Commissioners eliminated the deferred compensation match of their contributions into the deferred compensation plan and reduced certain other fringe benefits. The class action lawsuit sought to have the benefits reinstated. In June 2007, the Josephine County Circuit Court ruled against the class action, but allowed non union employees as individuals to file lawsuits against the County for the same causes of action. As a result, forty-four non union employees filed their own lawsuits. In addition, two of the four unions representing employees have a clause in their contracts which would cause reinstatement of the benefits for their members if the non union employees are successful in their lawsuits. However, in December 2008, the employee lawsuits were dismissed by a judge of the Circuit Court. The case is currently in the Court of Appeals. It is management’s opinion the case will be dismissed. Accordingly, no liability has been recorded in these financial statements.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2010

NOTE 8 – RISK MANAGEMENT (Continued):

In June 2006 AFSCME Council 75, Local 3694 (AFSCME) filed with the Employment Relations Board (ERB) an unfair labor practice complaint against the County. The complaint alleges that the County violated ORS 243.672(1)(a), (b), and (c) when it contracted out mental health services because of an AFSCME strike. On October 30, 2007 ERB signed an Order which required the County to reinstate former employees to the ASFCME bargaining unit; make the employees whole for the wages and benefits they would have received if they had continued working for the County, less interim earnings, with interest at 9 percent per annum; make ASFCME whole for any dues and fair share fee payments AFSCME would have received from former AFSCME bargaining unit members who previously worked for the County, with interest at 9 percent per annum; and pay AFSCME a civil penalty of \$1,000. The County appealed the ruling. The Court of Appeals ruled against the County on March 31, 2010. Accordingly all expenses related to the ruling and the associated liabilities as of June 30, 2010 have been recorded in these financial statements.

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, 2010 was 10.83%. The County’s annual required contribution rate for fiscal year 2010-11 remains at 10.83%.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2010

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. Based on the December 31, 2007 actuarial valuation, the County's required contribution rates for the year ended June 30, 2010 for the OPSRP defined benefit pension plan are 9.09% for general service employees and 11.80% for police and fire employees. The required contribution rates for the year ended June 30, 2011 are the same.

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, 2010, 2009, and 2008 were \$1,824,836, and \$2,798,013, and \$2,164,331 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, 2010 was \$12,608.

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, 2010, benefits paid on behalf of retirees exceeded the premiums they paid by \$17,600. The County has elected to not pre-fund the entire fiscal year 2010 annual required contribution (ARC) to the plan of \$220,000. The unfunded contribution, net of the premiums paid is \$44,600 for the year ended June 30, 2010.
- 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

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2010

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

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.

Annual Required Contribution (ARC):	
Employer’s normal cost	\$ 93,000
Amortization of Actuarial Accrued Liability (AAL)	<u>127,000</u>
Annual Required Contribution	<u>\$ 220,000</u>
 Determination of OPEB Obligation:	
ARC for current year, above	\$ 220,000
Less, premiums paid	<u>(202,400)</u>
Increase in Net OPEB Obligation	17,600
Net OPEB Obligation, Beginning of year	<u>27,000</u>
Net OPEB Obligation, end of year	<u>\$ 44,600</u>

The net OPEB obligation of \$44,600 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 and 2010 are as follows:

Fiscal Year Ended	Annual OPEB Cost (ARC)	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

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

- **Funded Status and Funding Progress:** As of June 30, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,811,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,811,000. The covered payroll (annual payroll of active employees covered by the plans) was \$17,252,000 and the ratio of UAAL to the covered payroll was 10.5%.
- **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.

In the June 30, 2010 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 3.5% investment rate of return and an annual healthcare cost trend rate of 4% to 5% for health insurance and 2.5% for dental insurance. The UAAL is being amortized over 20 years using the level percentage of projected pay.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2010

NOTE 10 – COMMITMENTS AND CONTINGENCIES:

The County is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. Claims for which an adverse judgment is probable and which can be reasonably estimated have been accrued in the County's Self Insurance 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.

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, except for the 4-H Extension, which is budgeted at the fund level. 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.
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.

JOSEPHINE COUNTY, OREGON
Notes to Financial Statements
June 30, 2010

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

The County adopted two supplemental budgets during the year.

The following funds had a budgetary over-expenditure as explained below:

Public Safety Fund	
Juvenile Justice Department	\$ 137,013
Interfund Transfers Out	6,250
Juvenile Justice Department overage due to grant related expenditures and transfers that were not anticipated at the beginning of the fiscal year.	
Juvenile Justice Special Programs Fund	
Materials & Services	5,031
Juvenile Justice Department overage due to grant related expenditures that were not anticipated at the beginning of the fiscal year.	
Parks Operating Fund	
Personal Services	2,228
Materials & Services	73,856
Parks Operating Fund overage due to higher than expected accruals at year-end.	
Self Insurance Fund	
Materials & Services	5,293
Self Insurance Fund overage due to higher than expected claims payments at year-end.	

The following funds had a budgetary over-expenditure in Interfund Transfers Out as a result of combining these funds with related purposes into new larger funds:

Kaye Jean Turner Fund	
Interfund Transfers Out	\$ 63,670
Jennifer Patton Memorial Fund	
Interfund Transfers Out	4,330
Zelzie Reed Fund	
Interfund Transfers Out	18,376
William MacKenzie Trust Fund	
Interfund Transfers Out	79,201
George R Borders Memorial Fund	
Interfund Transfers Out	558,274

The funds shown below had a deficit fund balance:

Public Health Fund	\$ 117,670
Fairgrounds Fund	61,885
Parks Fund	235,830



Public Works Operations

Asphalt Blade Patch/Dig-Out Program

Public Works Operations Workgroup performs annual road surface maintenance between May and November. Each year the road surfaces are evaluated for defects, which would affect the safety and integrity of the county road system. Failures in the road system appear as heaving, which would be tree roots coming to the surface; or as soft spots which would be water entering the base. Both these failures cause premature aging of road surface over time. These failures and deficiencies are addressed in several ways. Treatments range from a basic asphalt skin patch, which is a micro asphalt overlay; all the way to a complete road base repair including dig-out(s).

Information on road surface conditions is compiled all year long in data files, and then addressed by level of severity and priority in the summer months.