

For Year Ended June 30, 2011



O R E G O N

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

MARION COUNTY, OREGON

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011

Marion County Finance Department

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| INTRODUCTORY SECTION: | |
| Transmittal Letter | i |
| Principal Officials | v |
| Organization Chart | vi |
| Certificate of Achievement for Excellence in Financial Reporting | vii |
| FINANCIAL SECTION: | |
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets | 11 |
| Statement of Activities | 12 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 13 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 14 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 15 |
| Statement of Net Assets – Proprietary Funds | 16 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds | 17 |
| Statement of Cash Flows – Proprietary Funds | 18 |
| Statement of Fiduciary Net Assets – Fiduciary Funds | 20 |
| Notes to the Financial Statements | 21 |
| Required Supplementary Information: | |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual: | |
| General Fund | 42 |
| Public Works Fund | 43 |
| Health Fund | 44 |
| Lottery Distribution Fund | 45 |
| Other Post-Employment Benefits – Schedule of Funding Progress | 46 |
| Supplementary Information: | |
| General Operating Funds and Nonmajor Governmental Funds: | |
| Combining Balance Sheet – Budgetary Funds Reported as General Operating Fund | 47 |

| | |
|--|----|
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Budgetary Funds Reported as General Operating Fund | 48 |
| Combining Balance Sheet – Nonmajor Governmental Funds | 49 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds | 51 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual: | |
| CH2 Redevelopment Fund | 53 |
| Traffic Safety Team Fund | 54 |
| Inmate Welfare Fund | 55 |
| Rainy Day Fund | 56 |
| Health IDS Reserve Fund | 57 |
| Non-Departmental Grants Fund | 58 |
| County Clerk Records Fund | 59 |
| Juvenile Grants Fund | 60 |
| Tax Title Land Sales Fund | 61 |
| Children & Families Fund | 62 |
| Community Development Block Grant Fund | 63 |
| Community Corrections Fund | 64 |
| Criminal Justice Assessment Fund | 65 |
| County Schools Fund | 66 |
| Child Support Fund | 67 |
| Dog Control Fund | 68 |
| Liquor Law Enforcement Fund | 69 |
| Sheriff Grants Fund | 70 |
| Law Library Fund | 71 |
| County Fair Fund | 72 |
| District Attorney Grants Fund | 73 |
| Land Use Planning Fund | 74 |
| Parks Fund | 75 |
| Surveyor Fund | 76 |
| Building Inspection Fund | 77 |
| Debt Service Fund | 78 |
| Capital Building & Equipment Fund | 79 |
| Health Building Reserve Fund | 80 |
| Facility Renovation Fund | 81 |
| Capital Improvement Projects Fund | 82 |

| | |
|---|-----|
| Enterprise Funds: | |
| Combining Statement of Net Assets – Nonmajor Enterprise Funds | 83 |
| Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Nonmajor Enterprise Funds | 84 |
| Combining Statement of Cash Flows – Nonmajor Enterprise Funds | 85 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual: | |
| Environmental Services Fund | 86 |
| Brooks Community Service District Fund | 87 |
| East Salem Service District Fund | 88 |
| Labish Village Sewage and Drainage District Fund | 89 |
| Fargo Interchange Service District Fund | 90 |
| Internal Service Funds: | |
| Combining Statement of Net Assets – Internal Service Funds | 91 |
| Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Funds | 92 |
| Combining Statement of Cash Flows – Internal Service Funds | 93 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual: | |
| Central Services Fund | 94 |
| Self-Insurance Fund | 95 |
| Fleet Management Fund | 96 |
| Agency Funds: | |
| Combining Balance Sheet | 97 |
| Combining Statement of Changes in Assets and Liabilities | 98 |
| Other Schedules: | |
| Schedule of Property Tax Transactions | 99 |
| Schedule of Receipts, Disbursements and Balances – Elected Officials | 100 |
| Annual Disclosure Information | 101 |

STATISTICAL SECTION:

| | |
|--|-----|
| Financial Trends: | |
| Net Assets by Component – Last Ten Fiscal Years | 102 |
| Changes in Net Assets – Last Ten Fiscal Years | 103 |
| Fund Balances, Governmental Funds – Last Ten Fiscal Years | 105 |
| Changes in Fund Balances, Governmental Funds – Last Ten Fiscal Years | 106 |
| Revenue Capacity: | |
| Assessed Value and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years | 107 |

| | |
|--|-----|
| Direct and Overlapping Property Tax Rates – Last Ten Fiscal Years | 108 |
| Principal Property Taxpayers – Current Fiscal Year and Nine Years Ago | 109 |
| Property Tax Levies and Collections – Last Ten Fiscal Years | 110 |
| Debt Capacity: | |
| Ratios of Outstanding Debt by Type – Last Ten Fiscal Years | 111 |
| Ratios of General Bonded Debt Outstanding – Last Ten Fiscal Years | 112 |
| Direct and Overlapping Governmental Activities Debt | 113 |
| Legal Debt Margin Information – Last Ten Fiscal Years | 114 |
| Pledged Revenue Coverage – Last Ten Fiscal Years | 115 |
| Demographic and Economic Information: | |
| Demographic and Economic Statistics – Last Ten Fiscal Years | 116 |
| Principal Employers and Employment by Industry – Current Fiscal Year and Nine Years Ago | 117 |
| Operating Information: | |
| County Employees by Function and Bargaining Unit – Last Ten Fiscal Years | 118 |
| Operating Indicators by Function – Last Ten Fiscal Years | 119 |
| Capital Asset Statistics by Function – Last Ten Fiscal Years | 120 |
| INDEPENDENT AUDITOR’S REPORT REQUIRED BY OREGON STATE REGULATIONS | 121 |

INTRODUCTORY SECTION



Marion County

OREGON

FINANCE DEPARTMENT

BOARD OF COMMISSIONERS

Sam Brentano
Janet Carlson
Patti Milne

CHIEF ADMINISTRATIVE OFFICER

John Lattimer

CHIEF FINANCIAL OFFICER

Jeff White

Telephone:
(503) 589-3295

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December 20, 2011

To the Marion County Board of Commissioners
and the Citizens of Marion County, Oregon

We are pleased to submit this Comprehensive Annual Financial Report (CAFR) of Marion County, Oregon for the fiscal year ended June 30, 2011 in accordance with state requirements. Oregon law requires local governments to publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) for the United States of America and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants within six months of the close of each fiscal year.

This report consists of management's representations concerning the finances of Marion County. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the County's assets from loss, theft, or misuse and to provide sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. The County has designed its internal controls to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement, recognizing the need to balance the cost of internal controls with their benefits. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The County's financial statements have been audited by Grove, Mueller & Swank, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the County's financial statements for the fiscal year ended June 30, 2011 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended June 30, 2011 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.



The independent audit of the County's financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the County's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the County's separately issued Single Audit Report.

In accordance with GAAP, County management has provided a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

Marion County, then called Champoick, was created in 1843 by the Provisional Government 16 years before Oregon gained statehood on February 14, 1859. In 1849 the name was changed to Marion honoring American Revolutionary General Francis Marion. The County is located in the heart of the Willamette Valley, and the Willamette River was established as its western boundary in 1856. Salem, the county seat and state capital, is one of the valley's oldest cities.

There are 20 incorporated cities and 37 unincorporated communities in Marion County, and the County's population is currently estimated at 318,150. The County's present boundary encompasses 1,194 square miles. The County is empowered to levy a property tax on both real and personal properties located within its boundaries.

The County is governed by a three-member Board of Commissioners. The commissioners are elected to four-year staggered terms from the County at large, and a chair and vice chair are selected annually. Policy-making, legislative authority and quasi-judicial powers are vested in the Board of Commissioners, which is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the Chief Administrative Officer and the heads of various departments. The Chief Administrative Officer is responsible for carrying out the policies of the Board of Commissioners and overseeing the day-to-day operations of the County.

The County provides a full range of services including elections, property assessment and taxation, public and behavioral health, law enforcement, corrections, prosecution, justice courts, supervision of juvenile offenders, road and bridge maintenance and construction, emergency management, dog licensing and control, parks maintenance, solid waste disposal, and environmental services. Sewer and lighting services are provided through legally separate entities, which function, in essence, as part of Marion County and therefore are included as part of the County's financial statements. Additional information on these legally separate entities can be found in Note 1A of the notes to the financial statements.

The annual budget serves as the foundation for the County's financial planning and control. The County adheres to Oregon Local Budget Law in the preparation, adoption and execution of the budget. To oversee the process, the Board of Commissioners has appointed the Chief Administrative Officer as the County's Budget Officer. County departments submit requests for appropriation to the Budget Officer in March or April each year. The Budget Officer uses these requests as the starting point for developing a proposed budget. The Budget Officer then presents this proposed budget to the County's Budget Committee for review in May or early June. After approval by the Budget Committee, the Board of Commissioners is required to hold a public hearing on the approved budget and adopt a final budget by no later than June 30, the

close of the preceding fiscal year. The appropriated budget is prepared by fund and category or by fund and department. Department heads may make transfers of appropriations between line items within a fund and category; however, transfers of appropriations between categories require the approval of the Board of Commissioners. Budget-to-actual comparisons are provided in this report for each individual fund for which an appropriated annual budget has been adopted.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the financial environment within which the County operates.

Local Economy – Marion County is the largest producer of agriculture among Oregon's 36 counties. Marion County's economy is also based on government and education. In addition to the state capitol, 38 state agencies are located in Marion County, providing employment to approximately 19,000 employees. Marion County and the City of Salem each employ about 1,400 workers and the County's ten public school districts employ about 6,700 workers. As of September 2011, the seasonally adjusted unemployment rate in Marion County was 10.7 percent, a decrease from 11.3 percent last year, but still higher than the state average of 9.6 percent and the national average of 9.1 percent.

Long-Term Financial Planning – The County heads into fiscal year 2012 with an acceptable financial position and a low ratio of outstanding debt to the real market value of taxable property within the County. Major long-term concerns for the County include the economic recession, reductions in federal and state funding, decelerating property tax revenues, declines in building inspection and recording fees, rising employee benefit costs, fluctuating energy prices, and pressing capital needs.

Relevant Financial Policies – The County has established, by policy, minimum requirements for budgeting ending fund balance in the General Fund. Maintaining a minimum balance requirement for the General Fund helps ensure that the County has adequate resources for operations at the beginning of the following fiscal year until property taxes (a major funding source) are received.

Cash temporarily idle during the year was invested in certificates of deposit, obligations of the U.S. Treasury, corporate bonds, and the State's local government investment pool. Investments of the County and other entrusted funds are made under the restrictions of Oregon law, and in accordance with the County's Investment Policy.

The County budgets for its risk management activities in an internal service fund. Risk management is predicated on an actuarial study, which is assigned a probability of loss related to workers' compensation, automobile and general liability. Third-party coverage is currently maintained for workers' compensation claims in excess of \$600,000 and liability claims in excess of \$1,000,000. Additional information on the County's risk management activity can be found in Note 7 of the notes to the financial statements.

Major Initiatives – The County's long-term strategic priorities center on the following areas: 1) operational efficiency and quality service, 2) growth and infrastructure, 3) public safety, 4) economic development, 5) transportation, 6) health and community services, and 7) emergency preparedness. In an effort to provide better information for decision-making, county departments have established key indicators that relate to the County's strategic priorities. These key indicators are used to help forecast trends and determine program and budget needs.

In the spring of 2010, Marion County and the Salem Area Mass Transit District began an in-depth examination of defects observed in the jointly-owned Courthouse Square complex. Due to the structural deficiencies uncovered, the transit center was closed in July 2010 and the adjoining office building was closed in September 2010, resulting in the relocation of various county and transit operations. The County and the Transit District are currently seeking proposals for remediation or repair of the Courthouse Square complex.

The County has a number of other capital needs that must be met in the next two to three years which include upgrading the County's antiquated assessment and taxation software, and replacing the County's 20-year old prisoner management system. In addition, the County expects to complete a required upgrade of its financial management system by December 2013.

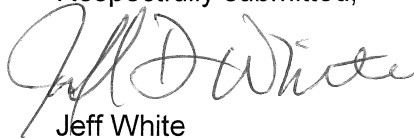
AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Marion County for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010. This was the tenth consecutive year that the County has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The County has also submitted its budget document for the fiscal year beginning July 1, 2011 to the GFOA to be evaluated for a Distinguished Budget Presentation Award. To qualify for the award, the budget document must be judged to be proficient in several categories as a policy document, financial plan, operations guide, and communication device. We believe that our budget document meets these requirements.

We would like to express our appreciation to all members of the Finance Department and other County personnel who assisted and contributed to the preparation of this report. Credit must also be given to the County's Board of Commissioners, elected officials, Chief Administrative Officer and appointed department heads for maintaining the highest standards of accountability in the management of the County's finances.

Respectfully submitted,



Jeff White
Chief Financial Officer



Cynthia A. Granatir
Chief Accountant

MARION COUNTY, OREGON
Principal Officials
June 30, 2011

Board of Commissioners

| | |
|-----------------|--------------|
| Samuel Brentano | Chair |
| Patricia Milne | Vice Chair |
| Janet Carlson | Commissioner |

P.O. Box 14500
Salem, Oregon 97309-5036

Other Elected Officials

| | |
|------------------|-------------------------------------|
| Shawn Beaton | Interim Assessor |
| Bill Burgess | County Clerk |
| Walt Beglau | District Attorney |
| Steven Summers | Justice of the Peace – East Marion |
| Janice Zyryanoff | Justice of the Peace – North Marion |
| Jason Myers | Sheriff |
| Laurie Steele | Treasurer |

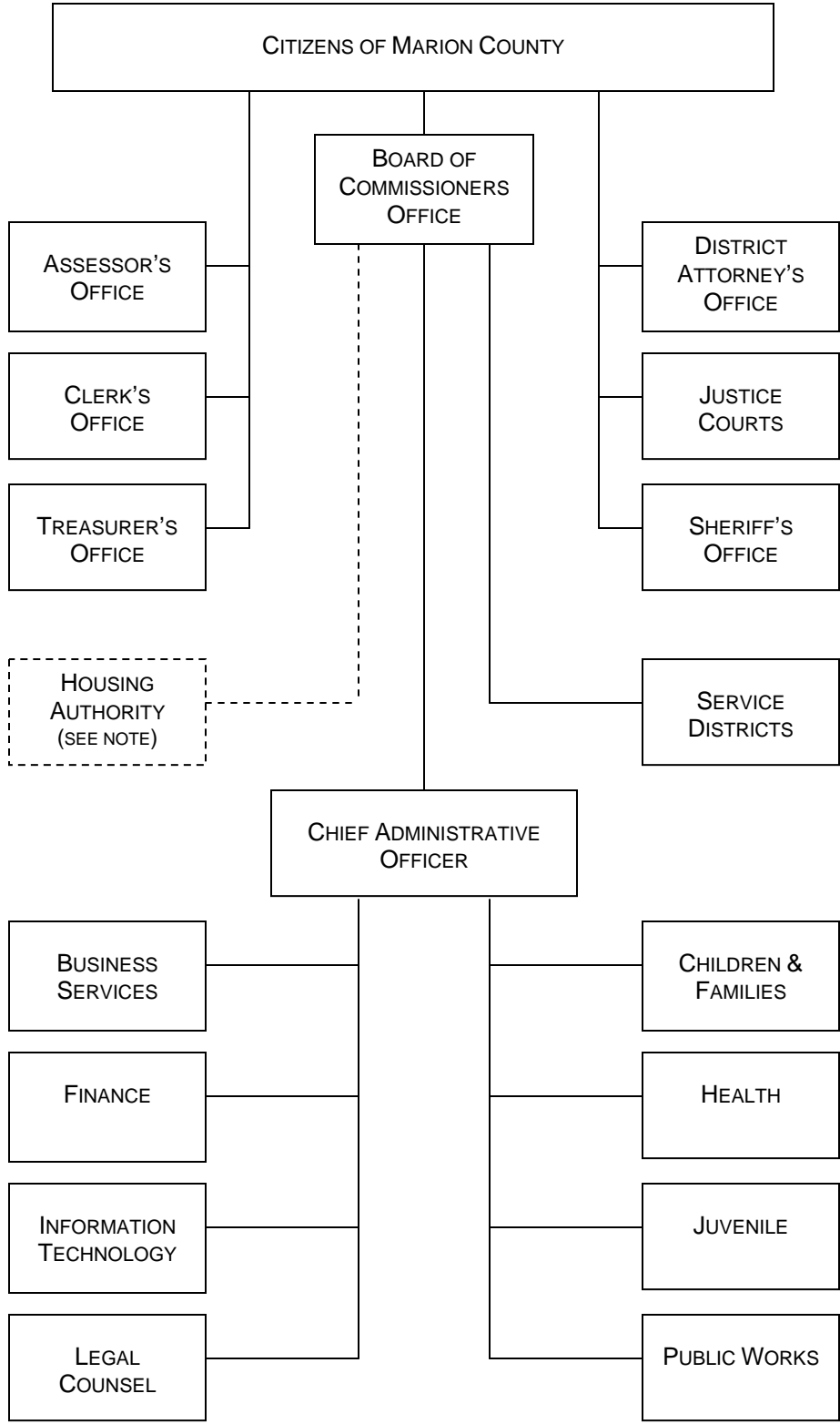
Chief Administrative Officer

John Lattimer

Legal Counsel

Gloria Roy

MARION COUNTY, OREGON
 Organization Chart
 June 30, 2011



Note: The Marion County Housing Authority is reported in separate financial statements.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Marion County
Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Sandison

President

Jeffrey R. Emer

Executive Director