

Management's Discussion and Analysis

The management of Lane County, Oregon, presents this narrative overview to facilitate both a short-term and long-term analysis of the financial activities of the County for the fiscal year ended June 30, 2007. This Management's Discussions and Analysis (MD&A) is based on currently known facts, decisions, and conditions that existed as of the date of the independent auditor's report.

Financial Highlights

- The assets of Lane County exceeded its liabilities at June 30, 2007, by \$474.0 million (total net assets). Of this amount, \$79.3 million may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's overall financial position increased by \$25.7 million during the current fiscal year. The primary component of the increase was the recognition of capital assets in both governmental and business-type activities of \$21.0 million. Additionally, \$5.0 million was recognized by reporting the Retiree Medical Benefit Trust funds as an internal service fund, rather than a fiduciary fund.
- At June 30, 2007, the County's governmental funds reported combined ending fund balances of \$82.6 million, a decrease of \$5.1 million. Approximately \$80.8 million is unreserved and available for spending by the board.
- The unreserved fund balance for the General Fund is \$11.9 million at the end of the current fiscal year, or 16.1% of General Fund total revenues.

Overview of the Financial Statements

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

1. Government-wide financial statements
2. Fund financial statements
3. Notes to basic financial statements

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

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. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods. Examples of such items include earned but uncollected property taxes, and earned but unused compensated absences.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through charges for services (business-type activities).

The governmental activities of the County include the following

- General government
- Public safety
- Public health and welfare
- Parks
- Roads and bridges
- Community development

The business-type activities of the County include the following:

- Fair Board
- Solid waste disposal
- Housing and community services
- Corrections commissary
- Regional information systems

The government-wide financial statements include not only the County itself (known as the primary government), but also the legally separate Metropolitan Wastewater Service District (the District) and the Housing and Community Services Agency of Lane County (HACSA), for which the County is financially accountable. Although legally separate, the District and HACSA's governing bodies are substantially identical to the County's and as a result, are included as an integral part of the primary government. The government-wide financial statements also include the Lane County Fair Board which is governed by a separate board appointed by the Board of County Commissioners. At June 30, 2007, there were no active Fair Board members, and the Board of Commissioners served as the Fair Board.

The government-wide financial statements can be found on pages 25-26 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for many of the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the acquisition and use of current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing

so, readers may better understand the long-term impact of the County's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide reconciliations to facilitate this comparison between governmental funds and governmental activities. These reconciliations can be found on pages 28 and 30 of this report.

The County maintains twenty-two individual governmental funds made up of one general fund, fifteen special revenue funds, three debt service funds, and three capital projects funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statements of revenues, expenditures, and changes in fund balances for the General Fund and the Road, Special Revenue/Services, and Health and Human Services special revenue funds, all of which are considered to be major funds. Data from the other eighteen governmental funds are combined into a single, aggregated presentation. Summary data by fund-type for these nonmajor governmental funds is provided in the form of combining statements of pages 71-72 of this report. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements on pages 74-77, 91-92, and 97-98. The basic governmental fund financial statements can be found on pages 27 and 29.

Proprietary funds. The County maintains two different types of proprietary funds – enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The County uses enterprise funds to account for its Fair Board operations, solid waste disposal utility, housing and community services programs, corrections commissary operations, and regional information systems activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its self-insurance and employee benefits activities, pension bond servicing, motor pool operations, intergovernmental services activities, information services and PC replacement activities, and retiree medical benefits. Because internal service funds predominantly benefit governmental rather than business-types functions, their assets and liabilities have been included with governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as reported for the business-type activities in the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the Fair Board, solid waste disposal operations, and housing and community service programs, which are considered to be major funds of the County. Conversely, the two remaining enterprise funds are combined into a single, aggregated presentation in the proprietary fund financial statements, as are all internal service funds. Individual fund data for the two nonmajor enterprise funds and each of the internal service funds is provided in the form of combining statements on pages 103-105 and 112-117 of this report. The basic proprietary fund financial statements can be found on pages 31-32 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the County's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds. The basic fiduciary fund financial statements can be found on page 34-35 of this report. The statement of changes in assets and liabilities in agency funds can be found on page 127.

Budgetary Comparisons. The County adopts an annual appropriated budget for all its funds, except the Housing and Community Services special revenue fund which is exempted under ORS 94.316(8), and for agency funds. To demonstrate compliance, budgetary comparison statements have been provided for major funds as part of the basic financial statements on pages 65-68 of this report. Budgetary comparisons for all other funds are provided on pages 78-89, 93-95, 99-101, 106-109, 118-125, and 127 of this report.

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37-64 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Budget-to-actual comparisons for the General Fund and the Road, Special Revenue/Services, and Health and Human Services special revenue funds are presented in this section, along with reconciliations between the budgetary basis of accounting and Generally Accepted Accounting Principles (GAAP). Additionally, information is presented in this section concerning the County’s progress in funding its obligation to provide pension benefits to its employees. This required supplementary information is found on pages 65-70 of this report.

The combining statements for the nonmajor governmental funds, enterprise funds, and internal service funds are presented immediately following the required supplementary information on pension funding progress and budgetary reporting.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government’s financial position. At Lane County, assets exceeded liabilities by \$474.0 million for the current fiscal year.

The largest portion of the County’s net assets (68.8%) reflects its investment in capital assets (e.g. land, buildings and improvements, equipment, and infrastructure), less any outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the County’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional 14.5% of the County’s net assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$79.3 million) may be used to meet the government’s ongoing obligations to citizens and creditors.

Lane County's Net Assets (In thousands)						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$209,819	\$202,600	\$47,778	\$43,045	\$257,597	\$245,645
Capital assets	312,310	295,262	62,956	58,956	375,266	354,218
Total assets	522,129	497,862	110,734	102,001	632,863	599,863
Long-term liabilities outstanding	112,849	109,740	10,092	8,065	122,941	117,805
Other liabilities	30,687	29,540	5,256	4,189	35,943	33,729
Total liabilities	143,536	139,280	15,348	12,254	158,884	151,534
Net assets:						
Invested in capital assets, net of related debt	270,549	256,438	55,549	53,403	326,098	309,841
Restricted	66,396	60,133	2,179	1,177	68,575	61,310
Unrestricted	41,648	42,011	37,658	35,167	79,306	77,178
Total net assets	\$378,593	\$358,582	\$95,386	\$89,747	\$473,979	\$448,329

At the end of the current and prior fiscal years, the County is able to report positive balances in all three categories of net assets for both the government as a whole and for its separate governmental and business-type activities.

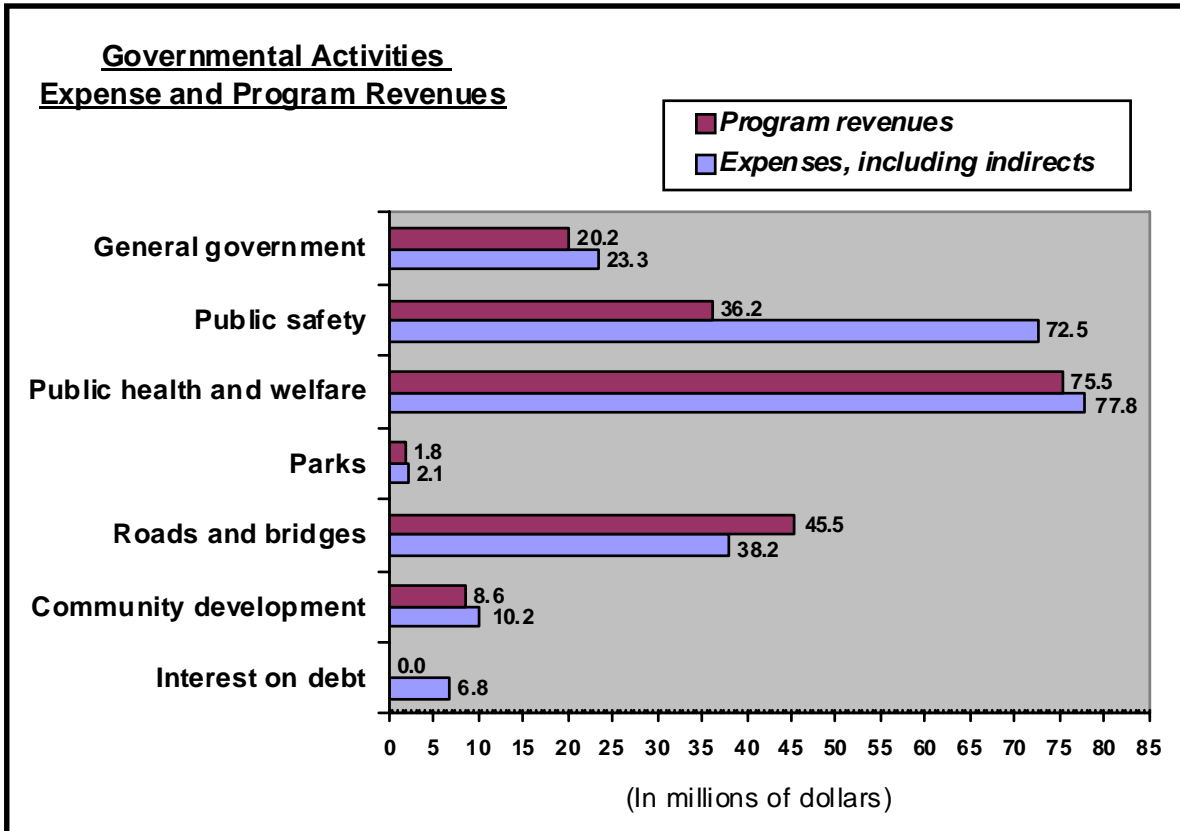
Lane County's Changes in Net Assets (In thousands)						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$79,742	\$73,063	\$27,526	\$26,315	\$107,268	\$99,378
Operating grants and contributions	108,014	105,782	20,875	20,095	128,889	125,877
Capital grants and contributions	-	-	758	666	758	666
General revenues:						
Taxes	36,326	34,714	-	-	36,326	34,714
Forest and timber receipts	15,068	14,919	-	-	15,068	14,919
Unrestricted grants	4,401	5,013	-	-	4,401	5,013
Unrestricted investment earnings	3,329	2,125	1,647	944	4,976	3,069
Total revenues	246,880	235,616	50,806	48,020	297,686	283,636
Expenses: *						
General government	23,343	21,951	-	-	23,343	21,951
Public safety	72,513	70,058	-	-	72,513	70,058
Public health and welfare	77,823	75,762	-	-	77,823	75,762
Parks	2,099	2,036	-	-	2,099	2,036
Roads and bridges	38,152	41,358	-	-	38,152	41,358
Community development	10,244	10,261	-	-	10,244	10,261
Interest on long-term debt	6,811	6,845	-	-	6,811	6,845
Fair Board	-	-	5,653	5,908	5,653	5,908
Solid waste disposal	-	-	11,344	2,966	11,344	2,966
Housing and community services	-	-	23,377	23,793	23,377	23,793
Corrections commissary	-	-	361	343	361	343
Regional information systems	-	-	5,338	5,400	5,338	5,400
Total expenses	230,985	228,271	46,073	38,410	277,058	266,681
Change in net assets before transfers	15,895	7,345	4,733	9,610	20,628	16,955
Transfers in (out)	(906)	(968)	906	968	-	-
Increase in net assets	14,989	6,377	5,639	10,578	20,628	16,955
Net assets – beginning of year	358,582	352,236	89,747	79,169	448,329	431,405
Reclassification**	5,022	(31)	-	-	5,022	(31)
Net assets, restated	363,604	352,205	89,747	79,169	453,351	431,374
Net assets – end of year	\$378,593	\$358,582	\$95,386	\$89,747	\$473,979	\$448,329

* Expenses include the indirect expense allocation as presented on Page 26 of the basic financial statements.

** A \$5,022 adjustment was required when the Retiree Medical Benefit Trust fund was reclassified from fiduciary to internal service. A \$31 reclassification entry was made in 2006 to reflect the change in reporting relationship with the Lane Workforce Partnership.

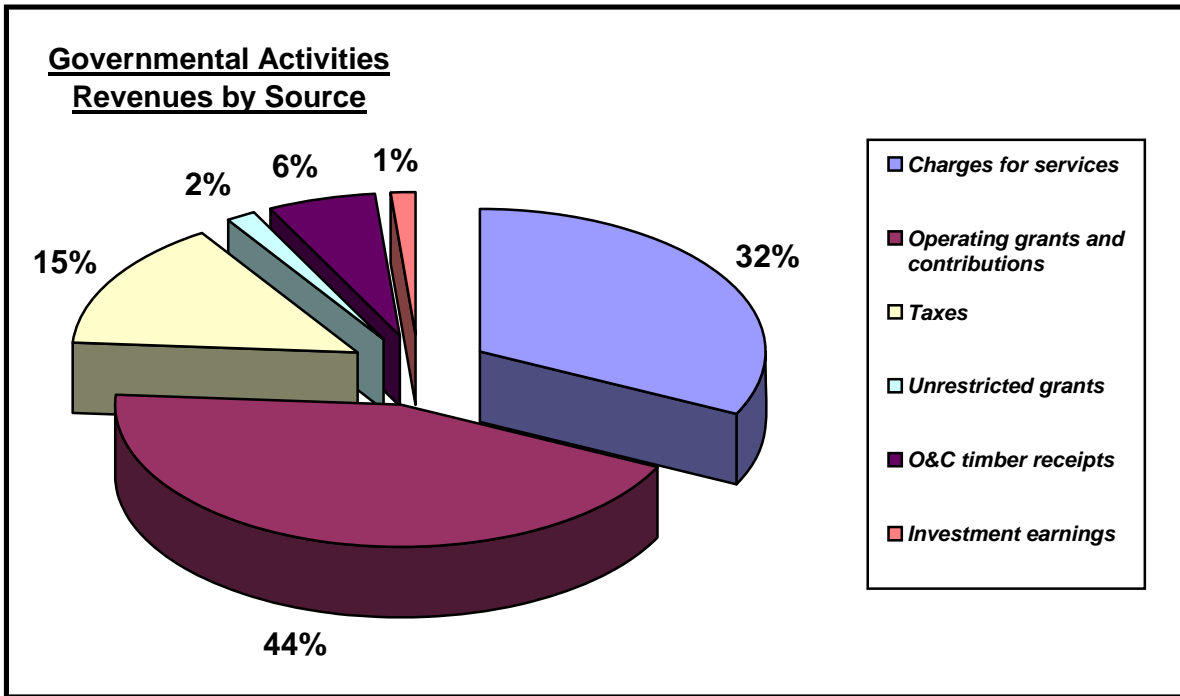
Governmental activities. Governmental activities increased the County's net assets by \$20.1 million, thereby accounting for 78.4% of the total growth in net assets. The primary factors for this increase were as follows:

- Net capital assets increased \$17.0 million primarily as a result of infrastructure additions and the acquisition of a new Public Health Facility.
- Reclassification of the Retiree Medical Benefit Trust from a fiduciary to an internal service fund resulted in an increase of \$5 million.

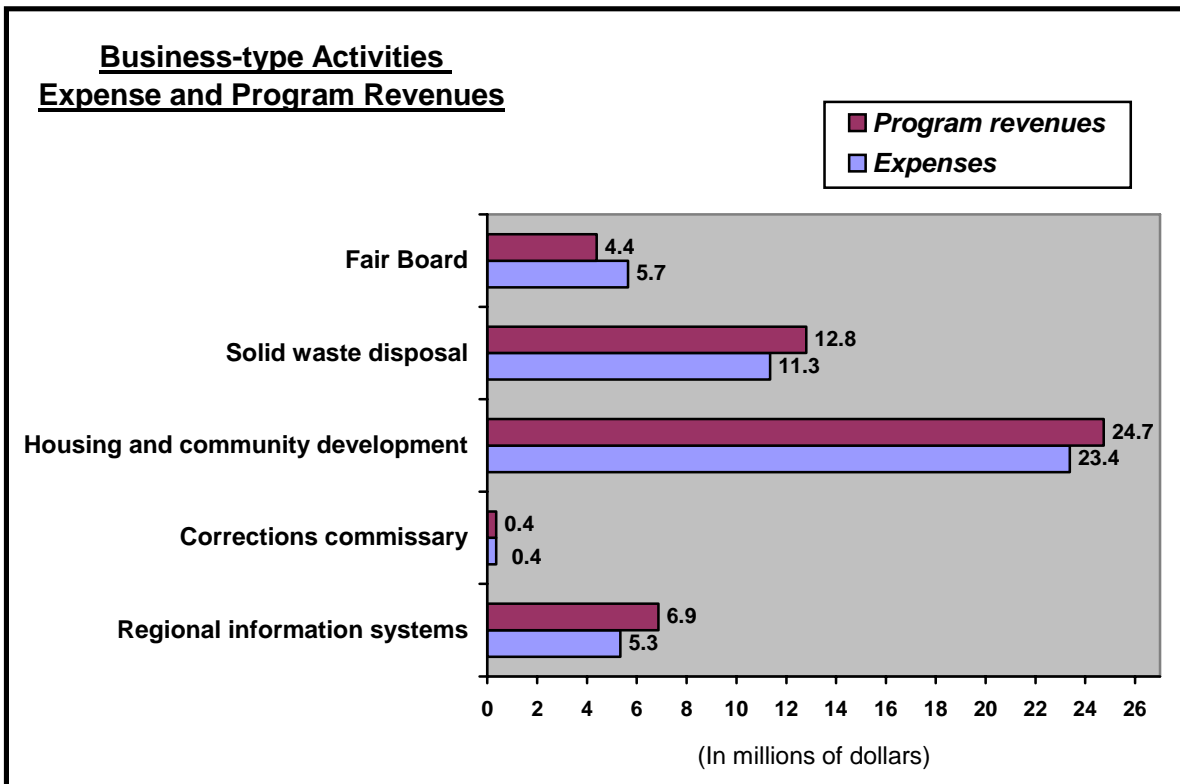


With the exception of roads and bridges, all governmental activities relied on general revenues to support the function.

As illustrated on the next page, nearly one half of revenues for governmental activities comes from operating grants and contributions which includes, among other items, national forest timber sale proceeds of \$20.5 million, County School monies of \$6.8 million, and State gas tax and road revenues of \$14.4 million. Nearly one-third of the revenue comes from charges for services. O&C timber receipts of \$15.1 million make up another 6% of governmental revenues. Taxes make up only 15% of overall revenues for governmental activities.

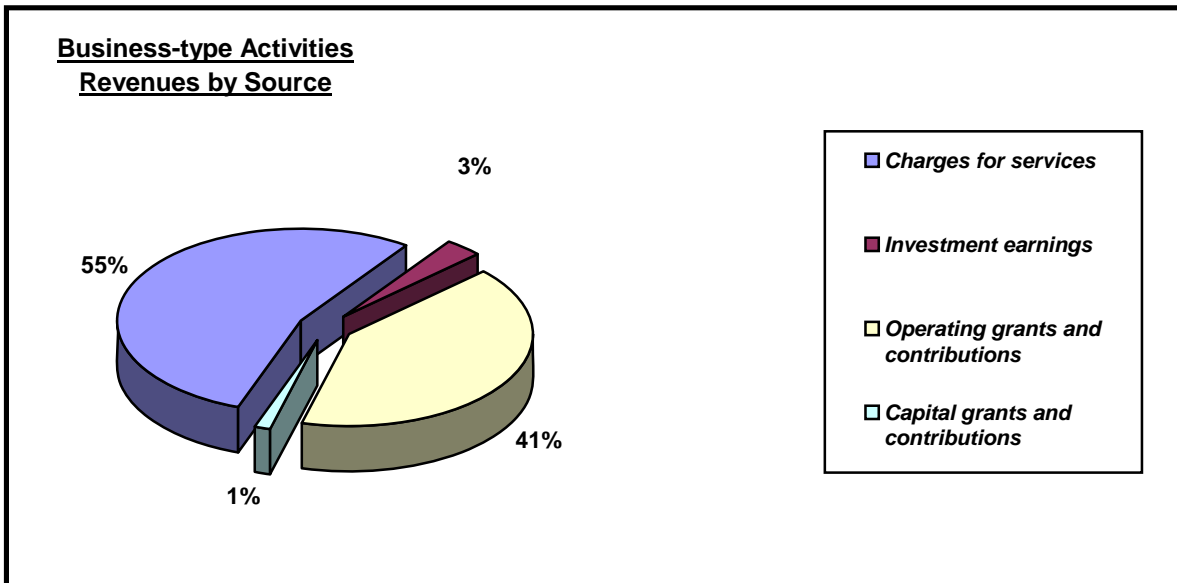


Business-type activities. Business-type activities increased the County’s net assets by \$5.6 million, thereby accounting for 21.6% of the total growth in net assets. The bulk of the increase resulted from an accumulation of resources to cover landfill closure and post-closure care costs (\$2.0 million), to expand housing and community service projects (\$1.6 million), and to implement the public safety communications conversion (AIRS) project (\$1.8 million) .



Within the business-type activities, the revenues generated by the Fair Board operations during the year were not sufficient to cover current year expenses.

Approximately 55% of the revenues for business-type activities come from charges for services, as illustrated below with another 41% coming from operating grants contributions.



Fund-based Financial Analysis

The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of the County’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County’s governmental funds reported combined ending fund balances of \$82.6 million, a decrease of \$5.1 million over the prior year. Approximately 97.8% of this total amount (or \$80.8 million) constitutes unreserved fund balance, which is available for appropriation in the subsequent year by the Board. The remainder of fund balance is reserved to indicate that it is not available for new spending because it represents amounts that have already been spent (\$1.8 million in inventories).

The **General Fund** is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance in the General Fund was \$11.9 million, while total fund balance for the General Fund was \$12.1 million. As a measure of the General Fund’s ability to liquidate fund liabilities, it may be useful to compare both unreserved fund balance and total fund balance to total fund revenues. Unreserved fund balance represents 16.1% of total General Fund revenues. Total fund balance represents 16.4% of those same General Fund revenues for the current fiscal year.

The fund balance of the **General Fund** decreased \$2.2 million from the prior year due to the spending of reserves caused by the structural deficit. Approximately 43% of the General Funds revenues are from grant and contract programs, much of which is non-discretionary. A portion of these programs have been moved to the Special Revenue/Services Fund during the current year to more appropriately reflect balances which are not available for discretionary spending.

During the current fiscal year, the ending fund balance of the **Road Fund** decreased by \$1.6 million to \$40.2 million. The 4% decrease resulted from static revenue while costs increased to cover inflation and benefit increases.

The **Special Revenue/Services Fund** accounts for several dedicated revenue sources and programs. The fund balance increased by \$.7 million during the year, due primarily to the move of selected programs from General Fund to Special Revenue/Services Fund to reflect the dedication of balances.

In the current fiscal year, the fund balance of the **Health and Human Services (H&HS) Fund** decreased by \$.8 million. The fund saw a decrease in funding for mental health services from state and federal agencies.

Proprietary funds. Total proprietary fund net assets increased by \$14.5 million during the current year. The single largest component of the increase (\$5.0 million) resulted from the reclassification of the Retiree Medical Benefit Trust fund from a fiduciary to internal service. The remainder of the increase was due to the accumulation of resources to cover landfill closure and post-closure care costs (\$2.0 million), expand housing and community service projects (\$1.6 million), implement the public safety communications conversion (AIRS) project (\$1.8 million), and increase the motor and equipment pool reserves (\$3.3 million) and the retiree medical benefits reserves (\$1.8 million).

As of the end of the current fiscal year, the County's proprietary funds reported unrestricted net assets (deficit) as shown below. Unrestricted net assets are presented both as an amount and as a percentage of total net assets for each fund.

	Amount	Percentage Total
Fair Board	\$ (0.0 million)	N/A
Solid waste disposal	21.0 million	63.5%
Housing & community services	11.0 million	28.5%
Corrections commissary	0.3 million	100.0%
Regional information systems	2.6 million	40.8%
Self Insurance	(0.7 million)	N/A
Employee benefits	9.3 million	100.0%
Pension bond	(8.5 million)	N/A
Motor and equipment pool	16.3 million	57.4%
Intergovernmental services	0.4 million	96.0%
Information services	1.5 million	71.6%
PC replacement	0.6 million	95.6%
Retiree medical benefit trust	6.8 million	100.0%

The **Fair Board Fund** net assets decreased by \$.4 million during the year. This decrease is consistent with prior year results.

The net assets of the **Solid Waste Disposal Fund** increased by \$2.0 million during the year as a result of the accumulation of reserves to cover the closure and postclosure costs associated with the Short Mountain Landfill.

General Fund Budgetary Highlights

The difference between the original adopted budget and the final amended budget (including contingency) for the General Fund was a \$.5 million decrease in expenditure appropriations, or .5% of the adopted budget. This decrease was primarily due to minor mid-year adjustments and corrections.

For the current fiscal year, the County saw a net positive budget variance in the General Fund of \$10.7 million. This was the result of County-wide cost cutting efforts that reduced expenditures by \$2.7 million, avoiding the use of budgeted contingency of \$8.0 million.

Capital Asset and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business-type activities as of June 30, 2007 was \$375.3 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and building improvements, improvements other than buildings (such as parks and park improvements), equipment, and infrastructure (roads and bridges). The total increase in the County's investment in capital assets for the current fiscal year was 5.9%.

The major capital events during the current fiscal year were the construction of \$16.5 million in infrastructure and the purchase of a Public Health Facility for \$7.9 million.

Lane County's Capital Assets, Net of Accumulated Depreciation (In thousands)						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$9,403	\$9,430	\$11,054	\$10,955	\$20,457	\$20,385
Construction in progress	570	494	7,990	2,806	8,560	3,300
Buildings and building improvements	67,063	60,003	40,612	42,063	107,675	102,066
Machinery and equipment	14,687	12,419	3,300	3,132	17,987	15,551
Infrastructure	220,587	212,916	-	-	220,587	212,916
Total capital assets	\$312,310	\$295,262	\$62,956	\$58,956	\$375,266	\$354,218

Additional information on the County's capital assets can be found in Note III.C. in the Notes to Basic Financial Statements section of this report.

Long-term debt. At the end of the current fiscal year, the County had bonds outstanding of \$112.0 million, \$111.0 million of which is serviced by governmental activities. Of this amount, \$19.3 million represents general obligation bonds serviced by general property taxes. The County also had \$91.9 million in limited tax bonds outstanding. Both obligations are backed by the full faith and credit of the County. Revenue bonds in the amount of \$1 million have been issued to finance major construction projects and are secured by real estate.

Lane County's Outstanding Bonds, Less Deferred Amounts (In millions)						
	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$19.3	\$21.4	\$ -	\$ -	\$19.3	\$21.4
Limited tax bonds (net of deep discount of \$14.2)	91.9	92.7	-	-	91.9	92.7
Revenue bonds	-	-	1.0	1.0	1.0	1.0
Less – other deferred amounts	(.2)	(.3)	-	-	(.2)	(.3)
Total bonded debt	\$111.0	\$113.8	\$1.0	\$1.0	\$112.0	\$114.8

The County's total bonded debt decreased \$2.8 million during the year as a result of repayments.

Moody's Investor Service rates most of the County's bond issues. The County's most recent ratings from Moody's are as follows:

- Aaa for general obligation bonds (December, 1999, confirmed October, 2003)
- A1 for other issues (also confirmed October 2003).

Under Oregon Revised Statutes, general obligation debt issues are limited to 2% of the real market value of all taxable property within the County's boundaries. The \$19.3 million in general obligation debt applicable to this limit is well below the \$830.0 million statutory ceiling.

In addition to bonded debt, the County has issued notes to finance major construction projects. The outstanding balance of these notes is \$12.8 million.

Additional information on the County's long-term debt can be found in Note III.F. in the Notes to Basic Financial Statements section of this report.

Economic Factors and Next Year's Budgets and Rates

During the preparation of the budget for the ensuing fiscal year, the long-term impacts of the local economy were examined in conjunction with business decisions made by the County. The following are the major concerns and assumptions used in developing the fiscal year 2007 budget:

- The Adopted Budget represents an attempt to maintain current service levels while cutting costs and responding to the potential loss of Federal timber revenue (discussed below). In response to rising costs while revenues remain flat, a \$3 million across-the-board reduction in expenditures is reflected in the adopted budget.
- Most revenues are stable with flat or moderate growth.
- Oregon's economy shows steady, slow growth resulting in property tax projected growth of 5.25%
- Federal timber revenue from the Secure Rural Schools and Community Self-Determination Act of 2000 reached \$48.3 million in fiscal year 2007. The act sunset in the fall of 2006, however Congress renewed funding for one additional year. It is unknown whether or not Congress will renew the Act, and what form the payments, if any, might take. The timber revenue is a significant component of the County's financial resources, and the County is actively working to secure renewal. Additionally, the County is poised to initiate mid-year budget changes in response to any action Congress may take on the Act.
- Wages are being held flat for 2008. Personnel costs overall are down 1.2% as a result of eliminating over 49 FTE in response to the anticipated loss of timber revenue. Benefit costs continue to rise, but are up only 2.2% for 2008 due to the offset of position reductions.
- Pension contribution rates are held flat for the coming year. However, the County began picking up the employee's 6% share of PERS contribution for certain bargaining groups in lieu of wage increases, contributing to the overall increase in benefit costs.
- The County's long-range forecast indicates a structural deficit resulting from projected revenue growth of approximately 3.5% while expenses are projected to grow at 6% per year. The County is actively involved in attempting to secure continuation of Federal timber revenue, and has placed two income tax initiatives on the ballot during the past year.
- Consistent with County financial policy, 5% of general revenues are set aside as a "prudent person reserve" to cover unanticipated circumstances in all funds. The County has strengthened the General Fund reserve policy to maintain at least 10% reserves in that fund.

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:

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