

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, 2009. 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, 2009, by \$534.9 million (total net assets). Of this amount, \$98.6 million may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's overall financial position increased by \$33.2 million during the current fiscal year. The primary components of the increase were threefold: 1) the use of current revenues to acquire \$9.8 million in net long-term depreciable capital assets in both governmental and business-type activities, 2) the receipt of \$13.6 million in Secure Rural Schools funding of which the bulk was held in reserves for future General Fund stabilization, and 3) a concerted effort to reduce expenses and increase other revenues in both governmental and business-type funds.
- At June 30, 2009, the County's governmental funds reported combined ending fund balances of \$101.2 million, an increase of \$15.5 million. Approximately \$99.4 million is unreserved and available for spending by the board.
- The unreserved fund balance for the General Fund is \$25.4 million at the end of the current fiscal year, or 33.4% 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:

- Lane events center
- Solid waste disposal
- Housing and community services
- Corrections commissary
- Regional information systems
- Land management

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 Events Center. The operation of the Lane Events Center is managed by a director who reports to the county administrator, while the County Fair is governed by a separate Fair Board appointed by the Board of County Commissioners. 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 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 22 individual governmental funds made up of 1 general fund, 16 special revenue funds, 3 debt service funds, and 2 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, 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 18 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 81-82 of this report. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements on pages 84-87, 101-102, and 107-108. 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 government-wide financial statements. The County uses enterprise funds to account for the events center, solid waste disposal utility, housing and community services programs, corrections commissary operations, regional information systems activities, and land management functions. 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-type functions, these fund 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 events center, solid waste disposal operations, and housing and community service programs, which are considered to be major funds of the County. Conversely, the three 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 three nonmajor enterprise funds and each of the internal service funds is provided in the form of combining statements on pages 111-113 and 120-125 of this report. The basic proprietary fund financial statements can be found on pages 31-33 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 of this report. The statement of changes in assets and liabilities in agency funds can be found on page 135.

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 294.316(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 75-78 of this report. Budgetary comparisons for all other funds are provided on pages 88-100, 102-105, 109-110, 114-118, and 126-133 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 35-73 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 and other post-employment benefits to its employees. This required supplementary information is found on pages 75-80 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 \$534.9 million for the current fiscal year.

The largest portion of the County's net assets (67.5%) 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, and as a result 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 14.0% 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 (\$98.6 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	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$223,533	\$213,549	\$55,455	\$49,798	\$278,988	\$263,347
Capital assets	327,989	319,034	72,211	71,389	400,200	390,423
Total assets	551,522	532,583	127,666	121,187	679,188	653,770
Long-term liabilities outstanding	102,293	104,507	9,969	9,944	112,262	114,451
Other liabilities	27,209	32,421	4,807	5,151	32,016	37,572
Total liabilities	129,502	136,928	14,776	15,095	144,278	152,023
Net assets:						
Invested in capital assets, net of related debt	303,124	280,364	58,110	64,367	361,234	344,731
Restricted	72,830	68,603	2,248	2,178	75,078	70,781
Unrestricted	46,066	46,688	52,532	39,547	98,598	86,235
Total net assets	\$422,020	\$395,655	\$112,890	\$106,092	\$534,910	\$501,747

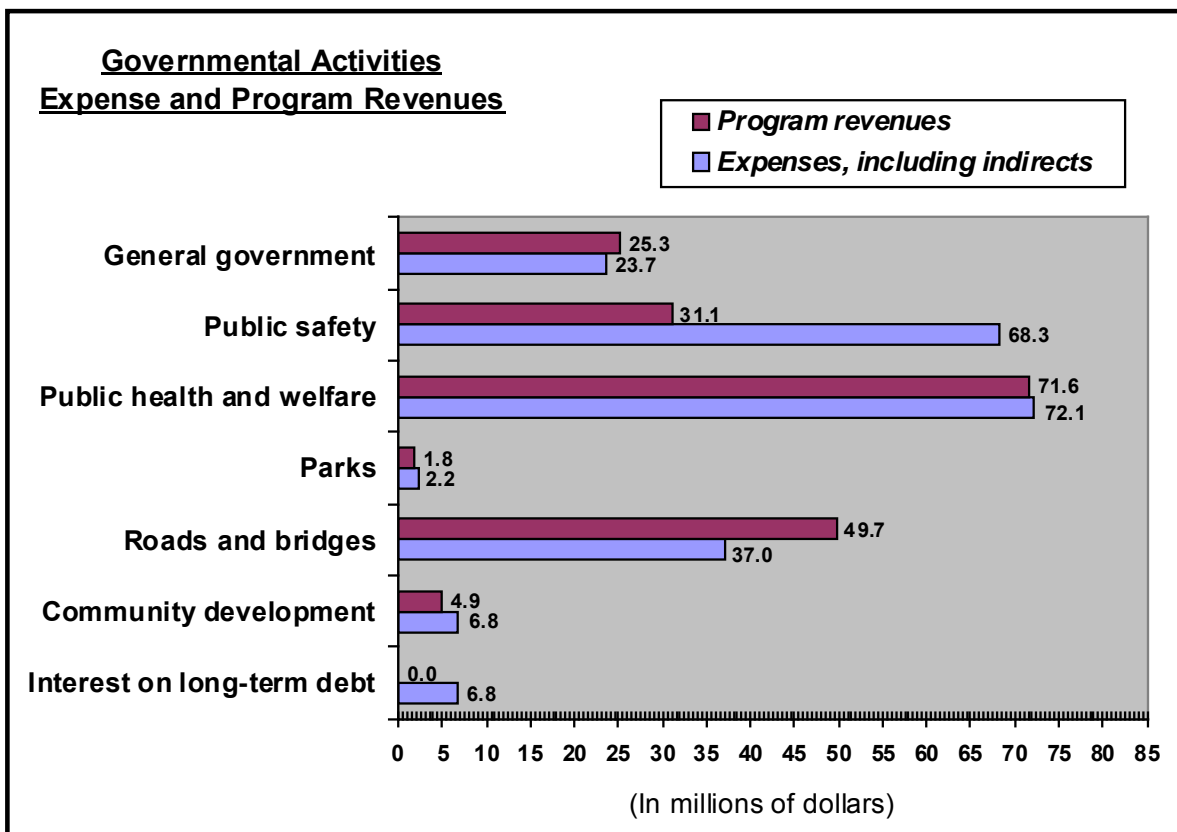
At the end of the current and prior fiscal years, the County is able to report positive balances in all three categories of net assets for both the government as a whole and for its separate governmental and business-type activities.

Lane County's Changes in Net Assets (In thousands)						
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$81,125	\$73,635	\$33,963	\$37,618	\$115,088	\$111,253
Operating grants and contributions	103,273	93,546	20,635	20,549	123,908	114,095
Capital grants and contributions	-	-	1,029	2,104	1,029	2,104
General revenues:						
Taxes	39,315	38,057	-	-	39,315	38,057
O&C timber receipts	13,561	15,037	-	-	13,561	15,037
Unrestricted investment earnings	2,568	3,195	1,377	1,579	3,945	4,774
Unrestricted grants	5,302	5,034	-	-	5,302	5,034
Total revenues	245,144	228,504	57,004	61,850	302,148	290,354
Expenses: *						
General government	23,708	24,314	-	-	23,708	24,314
Public safety	68,307	69,774	-	-	68,307	69,774
Public health and welfare	72,142	65,144	-	-	72,142	65,144
Parks	2,229	2,035	-	-	2,229	2,035
Roads and bridges	36,963	34,269	-	-	36,963	34,269
Community development	6,834	6,735	-	-	6,834	6,735
Interest on long-term debt	6,764	7,087	-	-	6,764	7,087
Lane events center	-	-	4,624	5,488	4,624	5,488
Solid waste disposal	-	-	12,994	12,224	12,994	12,224
Housing and community services	-	-	23,645	24,210	23,645	24,210
Corrections commissary	-	-	255	316	255	316
Regional information systems	-	-	5,804	5,862	5,804	5,862
Land management	-	-	4,716	5,128	4,716	5,128
Total expenses	216,947	209,358	52,038	53,228	268,985	262,586
Change in net assets before transfers	28,197	19,146	4,966	8,622	33,163	27,768
Transfers in (out)	(1,832)	(2,084)	1,832	2,084	-	-
Increase in net assets	26,365	17,062	6,798	10,706	33,163	27,768
Net assets – beginning of year	395,655	378,593	106,092	95,386	501,747	473,979
Net assets – end of year	\$422,020	\$395,655	\$112,890	\$106,092	\$534,910	\$501,747

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

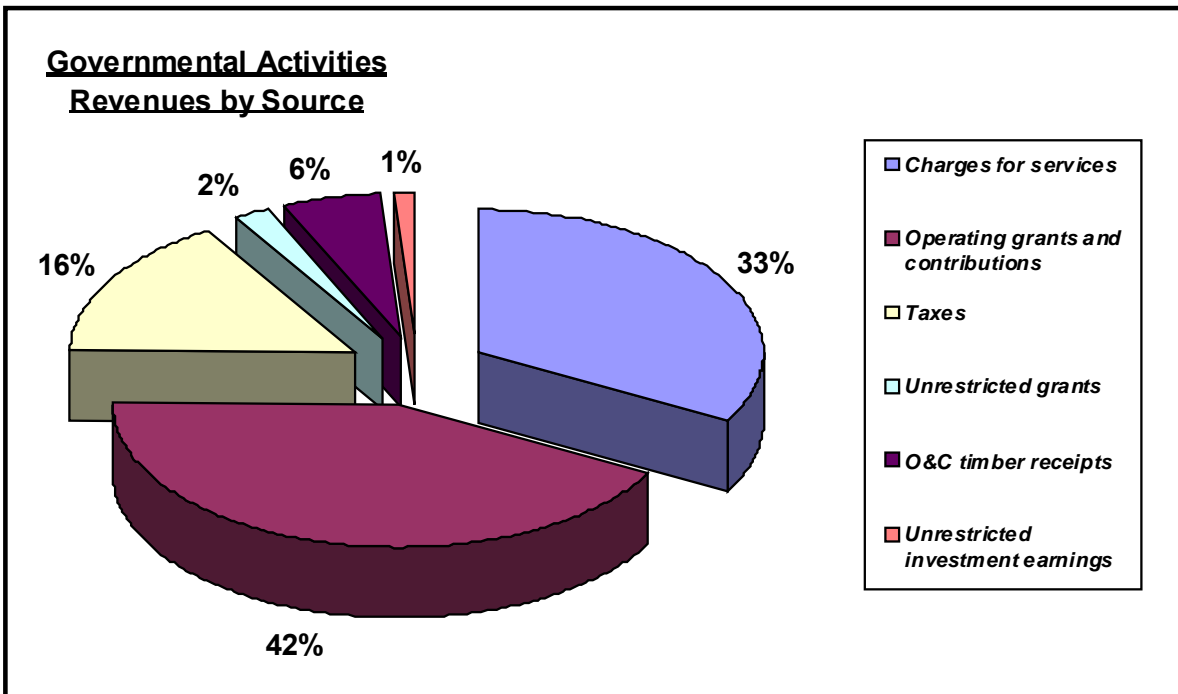
Governmental activities. Governmental activities increased the County's net assets by \$26.4 million, accounting for 79.5% of the total growth in net assets. The primary factors for this increase were as follows:

- Funding for the Secure Rural Schools program was not reauthorized by Congress until after the County budget was adopted. When the program was reauthorized in October 2008, the County received \$13.6 million and chose to hold \$12.7 million in reserves to provide for future General Fund stability.
- Net capital assets increased \$9.0 million, primarily as a result of a \$5.8 million increase in net infrastructure, the purchase of a \$2.1 million facility to house the primary clinic in the County's federally qualified health center network, and \$1.1 million in improvements to the Armitage Park campground.
- Long-term liabilities decreased by \$3.0 million through principal debt repayments from current resources.



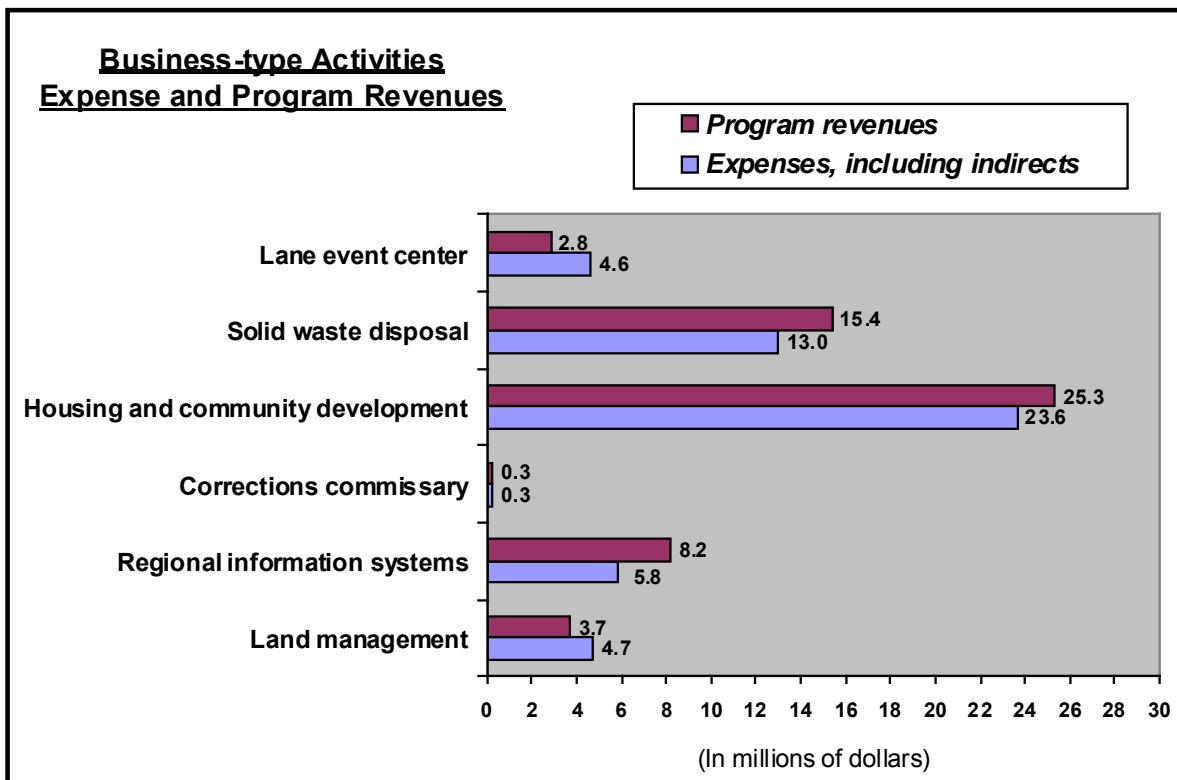
With the exception of general government and roads and bridges, all governmental activities relied on general revenues to support the function.

As illustrated on the next page, 42% of revenues for governmental activities comes from operating grants and contributions which includes, among other items, national forest timber sale proceeds of \$19.6 million, County School monies of \$6.5 million, State gas tax and road revenues of \$12.1 million, and Oregon Health Plan payments of \$24.1 million. One-third of the revenue comes from charges for services. O&C timber receipts of \$13.6 million make up another 6% of governmental revenues. Taxes make up only 16% of overall revenues for governmental activities.



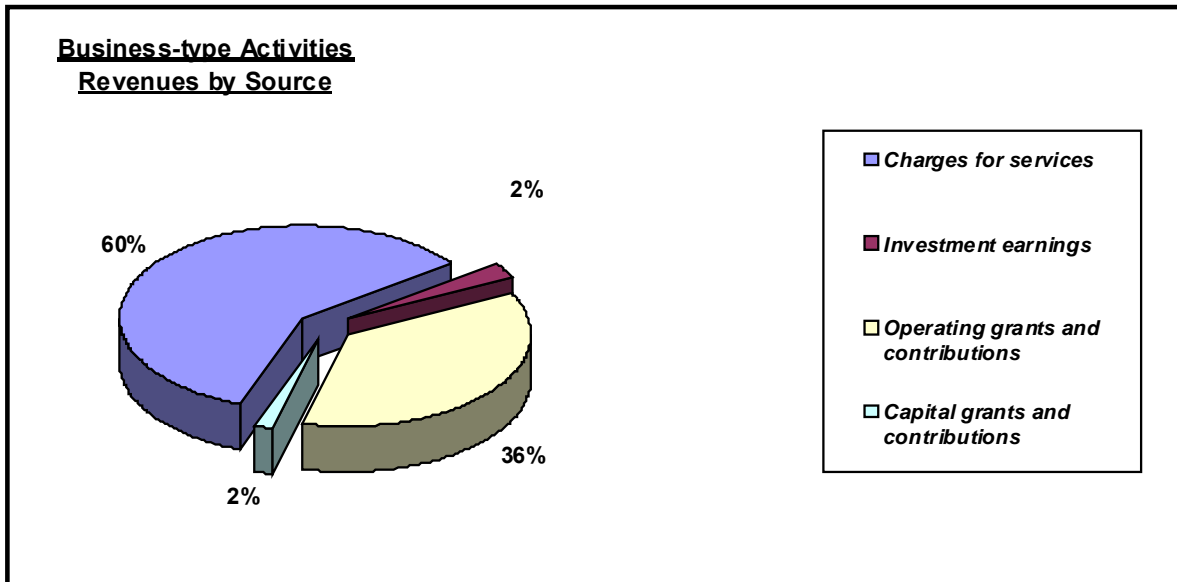
Business-type activities. Business-type activities increased the County’s net assets by \$6.8 million, accounting for 20.5% of the total growth in net assets. Key components of the increase are as follows:

- \$2.9 million accumulation of income from landfill operations to fund landfill site development costs and closure and post-closure care reserves.
- \$2.1 million investment to expand housing and community service projects.
- \$2.4 million accumulation of reserves to implement the public safety communications conversion (AIRS) project.



Within the business-type activities, the revenues generated during the year by the events center and land management operations were not sufficient to cover current year expenses.

Approximately 60% of the revenues for business-type activities come from charges for services, as illustrated below with another 36% coming from operating grants and 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 \$101.2 million, an increase of \$15.5 million over the prior year. Approximately 98.2% of this total amount (or \$99.4 million) constitutes unreserved fund balance, which is available for appropriation in the subsequent year by the Board of County Commissioners. The remaining 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 \$25.4 million, while total fund balance for the General Fund was \$25.6 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 33.4% of total General Fund revenues. Total fund balance represents 33.6% of those same General Fund revenues for the current fiscal year.

The fund balance of the **General Fund** increased \$13.1 million from the prior year due to the receipt of \$13.6 million of Secure Rural Schools funding, \$12.7 million of which was held in reserve in anticipation of the eventual phase-out of the federal program in fiscal year 2012.

During the current fiscal year, the ending fund balance of the **Road Fund** increased by \$5.0 million to \$47.2 million, due to the receipt of \$9.6 million in Oregon Department of Transportation revenues (to help offset the loss of Secure Rural Schools funding), offset by a decrease in Secure Rural Schools funding of \$2.2 million and reductions of \$1.4 million in gas tax revenues and \$1.2 million in land sales.

The **Special Revenue/Services Fund** accounts for several dedicated revenue sources and programs. The fund balance experienced a modest decrease of \$0.3 million during the year.

In the current fiscal year, the fund balance of the **Health and Human Services (H&HS) Fund** experienced a small decrease of \$0.5 million.

Proprietary funds. The County’s proprietary funds provide the same type of information found in the government-wide financial statements, but offer more detail. Total proprietary fund net assets increased by \$6.1 million during the year to a total of \$150.7 million, of which \$69.3 million is unrestricted.

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

	Amount	Percentage Of Total
Lane events center	\$ 0.3 million	2.1%
Solid waste disposal	22.0 million	53.7%
Housing & community services	14.9 million	34.5%
Corrections commissary	0.3 million	100.0%
Regional information systems	3.3 million	29.4%
Land management	0.1 million	91.0%
Self insurance	(0.7 million)	N/A
Employee benefits	2.8 million	100.0%
Pension bond	(5.0 million)	N/A
Motor and equipment pool	20.8 million	63.5%
Intergovernmental services	0.2 million	93.8%
Information services	1.9 million	96.1%
PC replacement	1.0 million	79.4%
Retiree medical benefit trust	7.4 million	100.0%

The **Lane Events Center Fund** net assets decreased by \$1.0 million during the year. This decrease was \$0.5 million higher over the prior year due mainly to poor Fair attendance in August 2008 attributed to unfavorable weather conditions, coupled with the disposal of certain capital assets during the year.

The net assets of the **Solid Waste Disposal Fund** increased by \$2.9 million during the year in order to accumulate sufficient reserves to fund landfill site development costs and closure and post-closure care reserves.

The **Housing and Community Services Fund** net assets increased by \$2.1 million in order to expand housing and related community service projects.

General Fund Budgetary Highlights

The difference between the original adopted budget and the final amended budget (including contingency) for the General Fund was a \$13.4 million increase in expenditure appropriations, or 15.4% of the adopted budget. This increase was primarily due to following adjustments:

- Increase of \$13.6 million to reflect receipt of Secure Rural Schools funding not anticipated at the time the budget was adopted.

For the current fiscal year, the County realized a net positive budget variance in the General Fund of \$25.3 million. This was the result of cost cutting efforts that reduced General Fund expenditures by \$2.1 million and avoiding the use of the budgeted contingency of \$23.2 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, 2009 was \$400.2 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 2.5%.

The major capital events during the current fiscal year were the construction of \$15.2 million in infrastructure and the purchase of a \$2.1 million clinic facility for the County's federally qualified health center network.

Lane County's Capital Assets, Net of Accumulated Depreciation (In thousands)						
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$9,834	\$9,403	\$11,177	\$11,053	\$21,011	\$20,456
Construction in progress	2,805	1,319	10,336	17,708	13,141	19,027
Buildings and building improvements	67,744	65,269	48,547	39,411	116,291	104,680
Machinery and equipment	13,838	14,748	2,151	3,217	15,989	17,965
Infrastructure	233,768	228,295	-	-	233,768	228,295
Total capital assets	\$327,989	\$319,034	\$72,211	\$71,389	\$400,200	\$390,423

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 \$99.3 million, \$98.5 million of which is serviced by governmental activities. Of this amount, \$15.1 million represents general obligation bonds serviced by general property taxes. The County also had \$83.4 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 \$0.8 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	
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$15.1	\$17.3	\$ -	\$ -	\$15.1	\$17.3
Limited tax bonds (net of deep discount of \$14.2)	83.6	84.4	-	-	83.6	84.4
Revenue bonds	-	-	.8	.9	.8	.9
Less – other deferred amounts	(.2)	(.2)	-	-	(.2)	(.2)
Total bonded debt	\$98.5	\$101.5	\$.8	\$.9	\$99.3	\$102.4

The County's total bonded debt decreased \$3.1 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:

- Aa3 (high quality) for general obligation bonds (confirmed September, 2008)
- A1 (upper medium quality) for other issues (November 2009)

Oregon Revised Statutes require the following debt limits:

- General obligation debt issues are limited to 2% of the real market value of all taxable property within the County's boundaries. The \$15.1 million in general obligation debt is \$857.5 million below the statutory ceiling.
- Limited tax obligation debt issues are limited to 1% of the real market value of all taxable property within the County's boundaries. The \$14.2 million in limited tax obligation debt is \$422.2 million below the statutory ceiling.
- Limited tax pension debt issues are limited to 5% of the real market value of all taxable property within the County's boundaries. The \$69.4 million in limited tax obligation debt is \$2.1 billion below the statutory ceiling.

In addition to bonded debt, the County has issued notes to finance major construction projects. The outstanding balance of these notes is \$11.9 million.

On November 2, 2009, the County issued a \$27,930,000 bank qualified full faith and credit obligation bond (Series 2009) to finance major improvements to the Public Health Facility (Charnelton Place building), refund the majority of the County's full faith and credit obligations (Series 2000), refinanced the purchase of the Public Health Facility, and fund several other capital projects around the County.

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 decisions had to be made with regards to how to use the Secure Rural Schools funding and how many years of stability to build into the budget. The County Administrator submitted a budget that provides sustainability for three plus years. Following are the major factors and assumptions used in developing the fiscal year 2010 budget:

- The Adopted Budget represents a step-up in services for the District Attorney and Sheriff's Office while holding constant appropriations in most other programs. Total authorized expenditures dropped from the previous year by \$5.9 million (3.93%).
- Property tax will increase 3% (annual average is 4.5%) due to the slowing local economy and the housing slump that is driving down the price and demand for new houses.
- Federal funding will drop \$7.1 million (10%) due primarily to the step-down formula for Secure Rural School timber funding.
- State funding will drop \$7.0 million (7.6%) due primarily to removal of a one-time payment of \$9.6 million from the Oregon Department of Transportation to help partially offset the loss of Secure Rural Schools federal funding.
- Local revenue will decline \$4.7 million (37.9%) due primarily to the end of the Road Fund revenue exchange program between the County and the Cities of Eugene and Springfield.
- Fees and charges are expected to increase \$5.0 million (4.5%) due primarily to the increase in employee benefit costs.
- Personnel services are up \$8.4 million (6.3%) due to minor cost of living adjustments, increases in health care costs (5.5%), and increases due to some service restorations. The pension contribution rate is flat next year (23.8% of payroll).
- Materials and services are up \$4.8 million (2.5%) due to a rise in insurance costs and the addition of 84 jail beds.
- The County's long-range forecast indicates a structural deficit resulting from projected revenue growth of approximately 3% - 3.5% while expenses are projected to grow at 5% - 6% per 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. Additionally, the policy requires a minimum of 10% reserve in the General 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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