

**I. Summary of Significant Accounting Policies**

**A. Reporting Entity**

Lane County, Oregon (the County) was established in 1851 and is organized under the Oregon Revised Statutes (ORS) as a municipal corporation. A Board of County Commissioners governs the County and consists of five independently elected members who serve full-time and are compensated.

The financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

New Accounting Pronouncements

Effective July 1, 2006, the County adopted the following accounting and financial reporting standard:

- *GASB Statement No. 43 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The County’s Retiree Medical Benefit Trust is not evidenced by an underlying irrevocable trust agreement. As a result, there is no impact on the financial statements in the current fiscal year. See Note IV.C. for more information about the Retiree Medical Benefit Trust internal service fund.

Component Units

As required by GAAP, these financial statements present the County and its component units -- legally separate entities for which the County is considered to be financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit’s board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government.

Component units may be either blended into the County’s operations or reported discretely in a separate column based on the closeness of their relationship to the County. The County reports the following component units:

Blended Component Units

*Lane County Metropolitan Wastewater Service District (the “District”)* contracts with the Metropolitan Wastewater Management Commission, an intergovernmental organization formed by the City of Eugene, City of Springfield, and Lane County for construction and operation of wastewater facilities. The District serves the citizens of the County located within the Eugene and Springfield city limits and is governed by the Board of County Commissioners. Because the District’s governing body is identical to Lane County’s, the funds of the District are blended with those of the County by including them in the appropriate statements and schedules of this Comprehensive Annual Financial Report. The District does not prepare separately issued financial statements.

*The Housing and Community Services Agency of Lane County (“HACSA”)* is the public housing authority for the City of Eugene, City of Springfield, and Lane County. Its mission is to provide affordable, decent, safe, and sanitary housing to low and moderate income families and households. The County Board of Commissioners and two resident members govern the Agency. Because the HACSA governing body is substantively the same as Lane County’s, the funds of HACSA are blended with those of the County for its fiscal year end September 30, 2005 by including them in the appropriate statements and schedules of this Comprehensive Annual Financial Report.

**Notes to Basic Financial Statements**

June 30, 2007

**I. Summary of Significant Accounting Policies, continued**

**A. Reporting Entity, continued**

Component Units, continued

Complete financial statements may be obtained at the following administrative office:

Housing and Community Services Agency  
177 Day Island Road  
Eugene, Oregon 97401

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the County and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on charges for services.

The statement of activities demonstrates the degree to which the direct and allocated indirect expenses of a given function or program are offset by program revenues. *Direct expenses* are those clearly identifiable with a specific function or program. *Indirect expenses* are those costs, usually administrative in nature, that support all County functions and enable direct services to be provided. Indirect expenses are allocated to business-type activities in an amount equal to their actual indirect charges paid. The balance of indirect expense is allocated to governmental activities as a percentage of direct expenses. *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 contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not included in program revenues are reported as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Basis of Presentation**

Measurement focus refers to what is being measured by a fund. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of presentation refers to the application of measurement focus and basis of accounting to financial statement types.

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all the eligibility requirements imposed by the provider have been met. An exception to these rules exists for agency funds (a type of fiduciary fund) which account for resources held in a purely custodial capacity. Although agency funds use the *accrual basis of accounting* and are reported in the Statement of Fiduciary Net Assets, they have no measurement focus and therefore are not reported in the Statement of Changes in Fiduciary Net Assets.

**Notes to Basic Financial Statements**

June 30, 2007

**I. Summary of Significant Accounting Policies, continued**

**C. Measurement Focus, Basis of Accounting, and Basis of Presentation, continued**

Government-wide, Proprietary, and Fiduciary Fund Financial Statements, continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are followed in the government-wide, proprietary fund, and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidelines.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between County proprietary funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the County's enterprise funds is housing assistance receipts, grants, and charges to customers for services. The County also recognizes as operating revenue admissions, concessions, fees, and rental of property. Operating expenses for the enterprise and internal service funds include the cost of 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

Governmental fund financial statements are reported using the *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. Expenditures are recorded when the related fund liability is incurred, with certain exceptions.

Taxes and assessments are recognized as revenues of the current fiscal period if received within 60 days of year-end. Intergovernmental revenues (entitlements, shared revenues, and grants) are recorded at the time of receipt or earlier if the susceptible-to-accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Investment earnings are recognized when earned since they are considered both measurable and available. All other receipts have been recognized as revenues of the current fiscal period if received within 45 days of year-end.

**Notes to Basic Financial Statements**

June 30, 2007

**I. Summary of Significant Accounting Policies, continued**

**C. Measurement Focus, Basis of Accounting, and Basis of Presentation, continued**

Governmental Fund Financial Statements, continued

The County has the following major governmental funds:

- *General Fund* – This is the County’s primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.
- *Road Fund* – This fund accounts for the receipt and expenditure of resources dedicated to the construction, operation, maintenance, and preservation of the County’s road system.
- *Special Revenue/Services Fund* – This fund accounts for several dedicated revenue sources and programs. Transient Room Tax funds tourism programs, and revenue generated from the sale of tax-foreclosed real property supports the property management division. Video lottery proceeds fund economic development while court fines support the traffic team. Grants awarded to the Children and Families, Youth Services, Sheriff’s Office, and District Attorney’s departments are also reported in this fund. Other dedicated revenue sources include Title III revenues that fund forestland emergency services and federal forest work crews, and systems development charges managed by Parks.
- *Health and Human Services Fund* – This fund accounts for resources, primarily from grants and state monies, used to promote and protect the health and well-being of individuals, families, and the communities within Lane County.

The County has the following major proprietary funds:

- *Fair Board Fund* – This fund accounts for the management and operation of a 55-acre complex consisting of a regional convention facility, major indoor sports facilities, and a regional celebration space. The fairgrounds are governed by the fair board, a separate board appointed by the Board of County Commissioners in accordance with ORS 565.210. Capital reinvestment and infrastructure support is provided by taxes on hotel and motel rooms supporting the hospitality industry.
- *Solid Waste Disposal Fund* – This fund accounts for waste management services provided to County residents through a network of one landfill and 16 transfer stations.
- *Housing and Community Services Fund* – This fund accounts for the operations of the Housing and Community Services Agency of Lane County. HACSA’s primary functions are the planning, development, and operation of low-income housing projects funded by the U.S. Department of Housing and Urban Development, and the administration and operation of other programs related to low-income housing assistance.

**I. Summary of Significant Accounting Policies, continued**

**C. Measurement Focus, Basis of Accounting, and Basis of Presentation, continued**

Governmental Fund Financial Statements, continued

Additionally, the County reports the following fund types:

- *Internal Service* – These funds account for operations that provide services primarily to other departments or agencies of the County, or to other governments, on a cost-reimbursement basis. The County’s internal service funds provide risk management, employee benefits, pension bond, motor and equipment, intergovernmental, computer information and replacement services, and retiree medical benefits.
- *Fiduciary* – The County’s fiduciary fund consists of a property tax agency fund that accounts for property taxes and timber receipts collected, held, and distributed by the County as an agent on behalf of other governments.

When both restricted and unrestricted resources are available, it is the County’s policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities, and Net Assets or Equity**

**1. Deposits and Investments**

The County’s cash and cash equivalents consist of cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, and equity in the County’s common cash and investments pool.

The County’s common cash and investments pool is utilized by all County funds except the Fair Board and HACSA enterprise funds, which manage their own cash and investments. Interest earned on the pool is allocated monthly based on each fund’s average daily cash and investment balance in proportion to the County’s total pooled cash and investments. For purposes of the statement of cash flows, the County considers “cash and cash equivalents” to include pooled cash and investments since the pool has the general characteristics of a demand deposit account, in that any participating fund may deposit additional cash at any time and also may withdraw cash at any time without prior notice or penalty.

ORS 294.035 authorizes the County to invest in general obligations of the United States and its agencies, debt obligations of the state of Oregon, California, Idaho, and Washington and their political subdivisions, banker’s acceptances, corporate indebtedness, commercial paper, repurchase agreements, time certificates of deposit, fixed or variable life insurance contracts, and the State Treasurer’s Local Government Investment Pool. Furthermore, ORS 456.120(18) allows HACSA to invest in limited partnerships related to certain housing projects. For bank balances in excess of federal depository insurance, the County participates in state and financial institution collateral pools.

**I. Summary of Significant Accounting Policies, continued**

**D. Assets, Liabilities, and Net Assets or Equity, continued**

**1. Deposits and Investments, continued**

The County reports, at amortized cost, all short-term highly liquid money market investments and participating interest-bearing investment contracts with a remaining maturity at purchase of one year or less. Such investments are stated at cost, increased by the accretion of discounts and reduced by amortization of premiums; both computed using the straight-line method. Investments with a remaining maturity at time of purchase of more than one year are valued at fair value, except for HACSA investments which are reported at amortized cost which approximates fair value.

**2. Restricted Assets**

Restricted cash and investments are reported in connection with certain deposits and special accounts where resources are physically segregated, or where restrictions on use change the nature or normal understanding of the availability of the asset. Lane County reports the following restricted assets:

- Cash and investments held by fiscal agents to accumulate resources for bond repayments
- Certificate of deposit held by the State of Oregon for the payment of workers' compensation claims

Restricted demand deposits are considered "cash and cash equivalents" for cash flow reporting purposes, while restricted certificates of deposit and investments are not.

**3. Receivables and Payables**

Receivables include uncollected interest, property taxes, accounts, intergovernmental grants, and other and are shown net of an allowance for uncollectibles when applicable. As of June 30, 2007, an allowance was recorded in the Special Revenue / Services Fund equal to 25% of outstanding Justice Court receivables not turned over to a collection agent and 81% turned over to a collection agent.

Intergovernmental receivables include uncollected grant revenues where all eligibility and timing requirements have been met. Eligibility requirements usually mandate monies be expended on the specific purpose or project before any amounts will be paid to the County; therefore, all eligibility requirements are considered met when the underlying expenditures are recorded. Timing requirements are usually met at the time when the allowable use of the monies has begun.

In the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from/to other funds". Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/payable" (i.e., the current portion of interfund loans) or "advances from/to other funds" (i.e., the noncurrent portion of interfund loans). Advances between funds reported in the governmental fund financial statements are offset by a fund balance reserve account to indicate that they are not available for appropriation and are not expendable available financial resources. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

**Notes to Basic Financial Statements**

June 30, 2007

**I. Summary of Significant Accounting Policies, continued**

**D. Assets, Liabilities, and Net Assets or Equity, continued**

**3. Receivables and Payables, continued**

Real and personal property taxes attach as an enforceable lien on July 1 for each fiscal year on values assessed as of January 1. Taxes are levied July 1 and are payable in three installments on November 15, February 15, and May 15. The County levies, collects, and distributes property taxes for all taxing jurisdictions within its boundaries, the activity for which is reported in an agency fund. Taxes unpaid as of May 16 are considered delinquent. In the governmental fund financial statements, property taxes are reflected as revenues in the fiscal period for which they were levied, provided they are due, or past due and receivable within the current period, and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days). Otherwise, they are reported as deferred revenues. In the government-wide financial statements, the County reports property tax revenue when levied and considers them fully collectible. Therefore, no allowance for uncollectible property taxes is made.

**4. Inventories and Prepaid Items**

All inventories are valued at the lower of cost or market using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased. However, significant inventories in governmental funds are reported as an asset with a corresponding reservation of fund balance. For proprietary funds, an expense is recognized as the materials and supplies are used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as expenditures in governmental funds and prepaid items in the government-wide and proprietary fund financial statements.

**5. Capital Assets**

Capital assets, which include land, buildings and improvements, machinery and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of \$5,000 or more (\$2,500 for HACSA) 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. Donated capital assets are recorded at estimated fair value at the date of donation.

Infrastructure, which includes bridges and culverts, roads, and right-of-ways are those capital assets that are stationary in nature and can be preserved for a significantly greater number of years than most other capital assets. As permitted by GASB, the County has limited the retroactive capitalization of governmental fund infrastructure to fiscal years ending after June 30, 1980. Although the majority of infrastructure was placed in service before that date, it has not been included in these financial statements.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Of the \$295,237 in interest expense incurred in enterprise funds during fiscal year 2007, none was required to be capitalized.

**I. Summary of Significant Accounting Policies, continued**

**D. Assets, Liabilities, and Net Assets or Equity, continued**

**5. Capital Assets, continued**

Capital assets are depreciated unless they are inexhaustible in nature (e.g., land and right-of-ways). Depreciation is an accounting process used to allocate the cost of capital assets to expense in a systematic and rational manner to those periods expected to benefit from the use of capital assets. Depreciation is not intended to represent an estimate in the decline of fair value, nor is capital assets, net of accumulated depreciation, intended to represent an estimate of the current condition of the assets, or the maintenance requirements needed to maintain the assets at their current level of condition.

Capital assets of the County, including its blended component units, are depreciated using the straight-line method over the following estimated lives:

<u>Capital Asset</u>	<u>Years</u>
Buildings and related improvements	24 – 60
Certain other improvements	8 – 20
Machinery and equipment	3 – 10
Infrastructure:	
Bridges and culverts	80
Roads	7 – 40

**6. Compensated Absences**

Vested vacation and time management benefits are recognized as a liability when earned in the government-wide and proprietary fund financial statements. In the governmental funds, the liability is recognized only when due and payable, i.e. as a result of employee resignations and retirements.

**7. Long-Term Obligations, Bond Discounts, Premiums, and Issuance Costs**

Long-term obligations and rebatable arbitrage are reported in the government-wide and proprietary fund financial statements as liabilities. The governmental fund financial statements do not report long-term obligations or rebatable arbitrage because these obligations do not require the use of current financial resources.

Bond premiums, discounts, and issuance costs are deferred and amortized over the term of the bonds using the bonds-outstanding method in the government-wide and proprietary fund financial statements, but are recognized during the current period in the governmental fund financial statements. The bonds-outstanding method does not differ significantly from the effective interest rate method.

Interest accretion on deep discount obligations is calculated based on the initial yield to maturity as set forth in the bond's Official Statement. Accreted interest increases bonds payable and interest expense as reported in the government-wide and proprietary fund financial statements. Interest accretion is not reported in the governmental fund financial statements.

**Notes to Basic Financial Statements**

June 30, 2007

**I. Summary of Significant Accounting Policies, continued**

**D. Assets, Liabilities, and Net Assets or Equity, continued**

**8. Leases**

Leases which meet certain criteria established by the Financial Accounting Standards Board are classified as capital leases, and the assets and related liabilities are recorded at amounts equal to the lesser of the present value of minimum lease payments or the fair value of the leased property at the beginning of the respective lease term. Leases which do not meet the criteria of a capital lease are classified as operating leases. The County currently has no capital leases to report.

**9. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

**10. 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 segregated for a specific future use.

**11. Use of Estimates**

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

**II. Stewardship, Compliance, and Accountability**

**A. Budgetary Information**

Legally required budgets are adopted for all funds, except HACSA and the Property Tax Agency Fund. Although exempted from Oregon Local Budget Law under ORS 294.316(8), HACSA prepares and adopts a budget for management purposes. The budgets are adopted on a modified accrual basis with the exception of the following:

- Unrealized changes in the fair value of investments are not recognized on a budget basis.
- Intrafund transfers are recognized on a budget basis.

**Notes to Basic Financial Statements**

June 30, 2007

**II. Stewardship, Compliance, and Accountability, continued**

**A. Budgetary Information, continued**

The Board of County Commissioners adopts a resolution by June 30 of each year authorizing appropriations for the next fiscal year beginning July 1. This resolution establishes appropriations at the department level within each fund and sets the spending level by which expenditures cannot legally be exceeded. A detailed budget is also prepared, containing more in-depth information than the above-mentioned expenditure appropriation categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget as allowed by state statute. A supplemental budget involves hearings before the public, legal notice publication, and approval by the County Commissioners.

The County's department directors may transfer appropriations between categories within a department so long as the overall appropriation does not exceed that authorized by the original budget resolution plus any supplemental budget. Transfers of appropriations between departments or funds require a supplemental budget resolution. For fiscal year 2007, the County Commissioners adopted three supplemental budget resolutions. Appropriations lapse at fiscal year-end.

The County does not utilize encumbrance accounting.

**B. Deficit Fund Balances/Net Assets**

The Pension Bond internal service fund reported negative net assets of \$8,561,167. This resulted from timing differences between the amortization of the deep discount on pension bonds and net pension asset, and actual revenues required to meet debt service requirements. The deficit does not affect the fund's ability to pay debt service because departmental charges are budgeted and collected to coincide with debt service requirements. Over the life of the bond as debt service increases, the deficit will be eliminated.

**III. Detailed Notes on All Funds**

**A. Deposits and Investments**

Total deposits and investments by financial statement reporting unit at June 30, 2007 are as follows:

	Government- wide Statement of Net Assets	Statement of Fiduciary Net Assets	Total
Cash and cash equivalents	\$ 151,155,314	\$ 3,040,746	\$ 154,196,060
Investments	3,528,792	-	3,528,792
Restricted cash	159,244	-	159,244
Restricted investments	2,770,500	-	2,770,500
Investments in limited partnerships	2,028,463	-	2,028,463
Total cash and investments	<u>\$ 159,642,313</u>	<u>\$ 3,040,746</u>	<u>\$ 162,683,059</u>

**III. Detailed Notes on All Funds, continued**

**A. Deposits and Investments, continued**

Total cash and investments at June 30, 2007 are comprised of the following:

<u>Cash and cash equivalents</u>	
Cash on hand	\$ <u>84,175</u>
Deposits:	
Demand deposits	2,431,011
Certificates of deposit	5,000,000
Money market accounts	<u>7,084,338</u>
Total deposits	<u>14,515,349</u>
Investments	<u>139,596,536</u>
Total cash and cash equivalents	<u>154,196,060</u>
<u>Investments</u>	<u>3,528,792</u>
<u>Restricted assets</u>	
Cash:	
Deposits:	
Demand deposits	<u>159,244</u>
Certificates of deposit	751,000
Investments	<u>2,019,500</u>
	<u>2,770,500</u>
Total restricted assets	<u>2,929,744</u>
<u>Investments in limited partnerships</u>	<u>2,028,463</u>
<u>Total cash and investments</u>	<u>\$ 162,683,059</u>

Policies

Lane County has adopted investment policies to address credit risk, concentration of credit risk, and custodial credit risk – deposits which mirror parameters for the investment of public funds set forth in the ORS. However, where statute limits investment maturities to 18 months, Lane County may invest up to three years. Although HACSA has not adopted formal written investment policies, HACSA adheres to State statutes and regulations issued by the federal Department of Housing and Urban Development regarding the investment of surplus funds.

**III. Detailed Notes on All Funds, continued**

**A. Deposits and Investments, continued**

Interest Rate Risk

The County reports the following investments and maturities at June 30, 2007. For purpose of this schedule, the County assumes its callable investments will not be called.

Investments	Fair Value	Investment Maturities			
		1 – 180 Days	181 – 360 Days	361 – 720 Days	720 – 1,080 Days
United States treasury	\$ 2,139,870	\$ 978,542	\$ 1,161,328	\$ -	\$ -
United States agencies:					
Coupons:					
Federal Farm Credit Bank	23,909,089	4,494,926	5,972,578	5,474,916	7,966,669
Federal Home Loan Bank	39,376,474	999,374	12,979,093	12,957,072	12,440,935
Federal Home Loan Mortgage Corporation	15,941,605	3,990,343	-	4,967,633	6,983,629
Federal National Mortgage Association	30,017,891	7,978,302	7,150,874	6,951,058	7,937,657
Discounts:					
Federal Home Loan Mortgage Corporation	985,198	985,198	-	-	-
Corporate indebtedness:					
Promissory Notes	11,837,535	4,000,477	5,007,779	1,036,229	1,793,050
Commercial Paper	2,604,637	2,604,637	-	-	-
Local government investment pool	16,446,872	12,993,029	1,644,687	1,809,156	-
Investment with fiscal agent	1,885,657	-	-	-	1,885,657
Limited partnerships	2,028,463	-	-	-	2,028,463
	<u>\$ 147,173,291</u>	<u>\$ 39,024,828</u>	<u>\$ 33,916,339</u>	<u>\$ 33,196,064</u>	<u>\$ 41,036,060</u>

Summary

Cash and cash equivalents	\$ 139,596,536
Investments	3,528,792
Restricted investments	2,019,500
Limited partnerships	2,028,463
Total investments	<u>\$ 147,173,291</u>

As a means of limiting exposure to fair value losses arising from rising interest rates, the County's investment policy limits its investment maturities to a percent of the investment portfolio:

<u>Maturity</u>	<u>Minimum Investment</u>
Less than 180 days	20%
Less than 360 days	30%
Less than 720 days	50%
Less than 1,080 days	100%

**III. Detailed Notes on All Funds, continued**

**A. Deposits and Investments, continued**

Credit Risk

State law and County policy require minimum ratings be maintained for certain debt securities. At June 30, 2007, minimum and actual ratings for the County's investment portfolio are as follows:

<u>Debt Security</u>	<u>Minimum Rating</u>		<u>Actual Rating</u>
United States agencies:			
Federal Farm Credit Bank	None	*	AAA
Federal Home Loan Bank	None	*	AAA
Federal Home Loan Mortgage Corporation	None	*	AAA
Federal National Mortgage Association	None	*	AAA
Corporate Indebtedness:			
Promissory notes:			
Non-Oregon	Aa	**	Aa to Aaa
Commercial paper	A-1	*	A-1

- \* Standard and Poor's
- \*\* Moody's

Concentration of Credit Risk

State law and County policy require investments not exceed the following as a percent of all monies available for investment:

- 33% in general obligations of the United States or any one of its agencies
- 25% in bankers acceptances
- 35% in corporate indebtedness, or 5% in any single corporate issuer

County investments in excess of 5% of total investments are as follows:

- United States agencies:
  - Federal Farm Credit Bank - 16.25%
  - Federal Home Loan Bank - 26.76%
  - Federal Home Loan Mortgage Corporation - 11.50%
  - Federal National Mortgage Association - 20.40%
- Local government investment pool - 11.18%
- Corporate Debt
  - Promissory Notes - 8.04%

Custodial Credit Risk - Deposits

Custodial credit risk on deposits is the risk that in the event of a bank failure, the County's deposits may not be returned. In order to minimize this risk, statute requires cash on deposit in any one bank not exceed federal depository insurance without procuring collateral certificates of participation from the bank's pool manager. State law and County policy require each certificate of participation be collateralized with eligible securities up to 25% of the amount of the certificate. Although the County is in compliance with this statutory requirement, \$5,775,916 of the County's June 30, 2007 bank balance of \$17,876,839 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**III. Detailed Notes on All Funds, continued**

**A. Deposits and Investments, continued**

Custodial Credit Risk - Investments

Custodial credit risk on investments is the risk that in the event of a failure of the counterparty, the County will not be able to recover the value of its investments that are in the possession of an outside party. The County does not have an investment policy for custodial credit risk. All investments were held by the County in its own name.

Local Government Investment Pool

The State Treasurer of the State of Oregon maintains the Oregon Short-term Fund (OSTF), of which the Local Government Investment Pool (LGIP) is a part. The OSTF is a cash and investment pool available for use by all state funds and eligible local governments. The OSTF is managed by the Investment Division of the Oregon State Treasury within the guidelines established in the OSTF Portfolio Rules. The LGIP is an open-ended, no-load diversified portfolio offered to eligible participants who by law are made custodian of, or have control over, any public funds. At June 30, 2007, the fair value of Lane County deposits with LGIP approximates cost. The OSTF financial statements and the OSTF Portfolio Rules can be obtained at [www.ost.state.or.us](http://www.ost.state.or.us).

**B. Interfund Receivables, Payables, and Transfers**

Interfund receivables and payables at June 30, 2007 are as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>		
General	General	\$	24,099
General	Road		7,742
General	Special revenue / services		3,003
General	Health and human services		8,115
General	Other governmental funds		29,018
General	Solid waste disposal		2,599
General	Other enterprise funds		1,287
General	Internal service funds		2,678
			<u>78,541</u>
Internal service funds	General		756,178
Internal service funds	Road		242,926
Internal service funds	Special revenue / services		94,216
Internal service funds	Health and human services		254,629
Internal service funds	Other governmental funds		135,985
Internal service funds	Fair board		55,941
Internal service funds	Solid waste disposal		81,547
Internal service funds	Other enterprise funds		40,380
Internal service funds	Internal service funds		84,021
			<u>1,745,823</u>
Total due to/from other funds		\$	<u>1,824,364</u>

The outstanding balances between funds result mainly from the time lag between the accrual and subsequent payment of payroll and related benefit charges to internal service funds at June 30, 2007.

**III. Detailed Notes on All Funds, continued**

**B. Interfund Receivables, Payables, and Transfers, continued**

*Interfund loans receivable/payable (current portion of advances):*

<u>Receivable Fund</u>	<u>Payable Fund</u>	
Internal service funds	Other governmental funds	\$ 8,750
Total interfund loans receivable/payable		<u>\$ 8,750</u>

The Parks and Open Spaces governmental fund borrowed \$35,000 from the Motor and Equipment Pool internal service fund to provide resources to complete the construction of a picnic shelter at Richardson's Park. The loan will be repaid over a four-year period beginning fiscal year 2005.

Interfund transfers for the year ended June 30, 2007 are as follows:

<u>Fund</u>	<u>General</u>	<u>Road</u>	<u>Special Revenue / Services</u>	<u>Health and Human Services</u>
General	\$ -	\$ -	\$ 896,940	\$ 3,790,415
Special revenue / services	102,000	-	-	-
Health and human services	79,827	-	-	-
Solid waste disposal	-	78,674	-	-
Other governmental funds	2,273,445	790,000	2,825,636	451,294
Internal service funds	-	-	-	-
Total transfers in	<u>\$ 2,455,272</u>	<u>\$ 868,674</u>	<u>\$ 3,722,576</u>	<u>\$ 4,241,709</u>

<u>Fund (continued)</u>	<u>Fair Board</u>	<u>Other Govern- mental Funds</u>	<u>Other Enterprise Funds</u>	<u>Total Transfers Out</u>
General	\$ -	\$ 3,253,456	\$ -	\$ 7,940,811
Special revenue / services	952,974	624,886	-	1,679,860
Health and human services	-	240,943	-	320,770
Solid waste disposal	-	-	-	78,674
Other governmental funds	-	500,539	-	6,840,914
Internal service funds	-	-	291,384	291,384
Total transfers in	<u>\$ 952,974</u>	<u>\$ 4,619,824</u>	<u>\$ 291,384</u>	<u>\$ 17,152,413</u>

Transfers are routinely made for the following purposes:

- To move revenues from the fund in which statute or budget requires them to be collected to the fund from which statute or budget requires them to be expended;
- To move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due;
- To move unrestricted revenues collected in the General Fund to finance various programs and activities accounted for in other funds in accordance with budgetary authorizations; and
- To move revenues collected from restricted sources to other funds to pay for direct expenses.

During fiscal year 2007, there were no non-routine transfers to report.

**III. Detailed Notes on All Funds, continued**

**C. Capital Assets**

Capital assets activity for the year ended June 30, 2007 is as follows.

<b>Governmental activities:</b>	Beginning Balance	Increases	Decreases	Adjustments/ Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 9,430,384	\$ 3,600	\$ (27,545)	\$ (3,600)	\$ 9,402,839
Construction in progress	493,394	224,090	(88,793)	(58,517)	570,174
Total capital assets not being depreciated	9,923,778	227,690	(116,338)	(62,117)	9,973,013
Capital assets being depreciated:					
Buildings/improvements	103,061,606	9,522,943	(320,494)	62,117	112,326,172
Machinery/equipment	39,578,479	5,153,819	(3,487,438)	369,214	41,614,074
Infrastructure	284,619,929	16,471,875	(4,419,909)	-	296,671,895
Total capital assets being depreciated	427,260,014	31,148,637	(8,227,841)	431,331	450,612,141
Less accumulated depreciation for:					
Buildings/improvements	(43,058,658)	(2,500,498)	295,989	-	(45,263,167)
Machinery/equipment	(27,159,159)	(2,984,292)	3,326,556	(109,891)	(26,926,786)
Infrastructure	(71,704,406)	(8,801,015)	4,419,908	-	(76,085,513)
Total accumulated depreciation	(141,922,223)	(14,285,805)	8,042,453	(109,891)	(148,275,466)
Total capital assets being depreciated, net	285,337,791	16,862,832	(185,388)	321,440	302,336,675
Governmental activities capital assets, net	\$ 295,261,569	\$ 17,090,522	\$ (301,726)	\$ 259,323	\$ 312,309,688
<b>Business-type activities:</b>					
Capital assets not being depreciated:					
Land	\$ 10,954,722	\$ 98,729	\$ -	\$ -	\$ 11,053,451
Construction in progress	2,805,921	5,172,496	-	11,713	7,990,130
Total capital assets not being depreciated	13,760,643	5,271,225	-	11,713	19,043,581
Capital assets being depreciated:					
Buildings/improvements	74,299,097	1,254,840	-	(4,733)	75,549,204
Machinery/equipment	10,829,689	501,479	(181,067)	(376,195)	10,773,906
Total capital assets being depreciated	85,128,786	1,756,319	(181,067)	(380,928)	86,323,110
Less accumulated depreciation for:					
Buildings/improvements	(32,235,726)	(2,111,069)	-	(590,264)	(34,937,059)
Machinery/equipment	(7,697,527)	(657,839)	181,067	700,156	(7,474,143)
Total accumulated depreciation	(39,933,253)	(2,768,908)	181,067	109,892	(42,411,202)
Total capital assets being depreciated, net	45,195,533	(1,012,589)	-	(271,036)	43,911,908
Business-type activities capital assets, net	\$ 58,956,176	\$ 4,258,636	\$ -	\$ (259,323)	\$ 62,955,489

**III. Detailed Notes on All Funds, continued**

**C. Capital Assets, continued**

Depreciation was charged as a direct expense to the following functions for the year ended June 30, 2007:

<u>Governmental Activities</u>	
General government	\$ 4,207,558
Public safety	819,170
Public health and welfare	35,572
Parks	74,965
Roads and bridges	9,139,428
Community development	<u>9,112</u>
Total depreciation expense - governmental activities	<u>\$ 14,285,805</u>
 <u>Business-type Activities</u>	
Fair board	\$ 1,045,647
Solid waste disposal	317,970
Housing and community services	1,010,784
Other enterprise funds	<u>394,507</u>
Total depreciation expense – business-type activities	<u>\$ 2,768,908</u>

**D. Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. In addition, governmental funds and proprietary funds report deferred revenue in connection with resources that have been received but not yet earned. Various components of deferred revenue consist of the following at June 30, 2007:

<u>Fund by Type</u>	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes receivable:			
General	\$ 1,257,874	\$ -	\$ 1,257,874
Other governmental funds	161,380	-	161,380
Other receivables:			
Road	61,400	98,792	160,192
Special revenue / services	4,949,563	-	4,949,563
Other governmental funds	-	810	810
Fair board	-	343,832	343,832
Housing and community services	-	738,932	738,932
Other enterprise funds	<u>-</u>	<u>13,630</u>	<u>13,630</u>
	<u>\$ 6,430,217</u>	<u>\$ 1,195,996</u>	<u>\$ 7,626,213</u>

**Notes to Basic Financial Statements**

June 30, 2007

**III. Detailed Notes on All Funds, continued**

**E. Leases**

The County is lessee to several buildings and office facilities under noncancellable operating leases. Lease expense to the County for such leases was \$496,352 for the year ended June 30, 2007. The future minimum lease payments to be paid under these leases are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2008	\$ 345,720
2009	232,491
2010	130,069
2011	69,870
	<u>\$ 778,150</u>

The County acts as lessor under non-cancellable operating leases that arise primarily from leasing office space in various County facilities. Because the leasing activity is not the primary use of the properties, the cost and net book value information of the leased portion has not been determined. Lease income to the County for such leases was \$279,327 for the year ended June 30, 2007. The future minimum lease payment to be received under these leases are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2008	\$ 247,986
2009	82,459
2010	36,431
	<u>\$ 366,876</u>

**F. Long-term Debt**

General Obligation Bonds

The County issues general obligation (GO) bonds to finance major construction projects in governmental activities. GO bonds are backed by the full faith and credit of the County and are serviced by general property tax revenues.

GO bonds outstanding as of June 30, 2007 are as follows:

<u>Governmental Activities</u>	<u>Interest Rates (%)</u>	<u>Ending Balance</u>
General obligation bonds serviced by general property taxes:		
GO Refunding Bonds, Series 2003A	2.750% to 5.250%	<u>\$ 19,360,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 2,070,000	\$ 808,263
2009	2,135,000	751,337
2010	2,215,000	692,625
2011	2,330,000	596,875
2012	2,440,000	515,325
2013-2015	8,170,000	809,975
	<u>\$ 19,360,000</u>	<u>\$ 4,174,400</u>

**III. Detailed Notes on All Funds, continued**

**F. Long-term Debt, continued**

Limited Tax Bonds

The County issues limited tax bonds in governmental activities. Limited tax bonds include limited tax revenue bonds, full faith and credit obligations, and limited tax pension bonds. The limited tax revenue bonds are financing public improvements to the county courthouse and jail. The full faith and credit obligations are financing public improvements to the County fairgrounds, the Orchard Point marina, and the mental health facility; the acquisition of a new computer system for the assessment and taxation department and converting/upgrading the AIRS public safety and information computer system; and financing the costs of a facility for the County Elections Division and the Plaza/Free Speech area at the County Courthouse. Limited tax pension bonds are financing a portion of the estimated unfunded actuarial liability with the Oregon Public Employees Retirement System. All limited tax bonds are backed by the full faith and credit of the County, within the limitations of Article XI of the Oregon Constitution, and are to be repaid from existing revenue sources.

Limited tax bonds outstanding as of June 30, 2007 are as follows:

<u>Governmental Activities</u>	<u>Interest Rates (%)</u>	<u>Ending Balance</u>
Limited tax bonds:		
Limited Tax Full Faith & Credit Bonds, Series 2000	4.550% to 5.375%	\$ 5,370,000
Limited Tax Full Faith & Credit Bonds, Series 2002A	4.000% to 5.000%	7,370,000
Limited Tax Full Faith & Credit Bonds, Series 2002B	3.750%	115,000
Limited Tax Full Faith & Credit Bonds, Series 2003B	3.000% to 4.450%	<u>3,710,000</u>
		16,565,000
Limited Tax Pension Bonds, Series 2002 (net of deep discount of \$14,241,396)	6.230% to 7.410%	<u>75,363,604</u>
Total limited tax bonds		<u>\$ 91,928,604</u>

Annual debt service requirements to maturity for limited tax bonds are as follows:

Year Ending June 30	<u>Governmental Activities</u>					
	<u>Limited Tax Bonds, excluding Limited Tax Pension Bonds</u>		<u>Limited Tax Pension Bonds</u>		<u>Total Limited Tax Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 1,370,000	\$ 738,029	\$ 677,813	\$ 4,166,042	\$ 2,047,813	\$ 4,904,071
2009	1,015,000	685,187	773,700	4,295,155	1,788,700	4,980,342
2010	815,000	648,933	850,730	4,453,126	1,665,730	5,102,059
2011	865,000	616,357	917,467	4,626,388	1,782,467	5,242,745
2012	920,000	580,435	977,246	4,821,609	1,897,246	5,402,044
2013-2017	5,230,000	2,249,450	5,465,800	27,733,476	10,695,800	29,982,926
2018-2022	6,140,000	896,771	14,071,706	27,307,188	20,211,706	28,203,959
2023-2027	210,000	9,345	40,690,000	10,744,702	40,900,000	10,754,047
2028	-	-	5,210,000	356,885	5,210,000	356,885
	<u>\$ 16,565,000</u>	<u>\$ 6,424,507</u>	<u>\$ 69,634,462</u>	<u>\$ 88,504,571</u>	<u>\$ 86,199,462</u>	<u>\$ 94,929,078</u>

**Notes to Basic Financial Statements**

June 30, 2007

**III. Detailed Notes on All Funds, continued**

**F. Long-term Debt, continued**

Limited Tax Bonds, continued

The Limited Tax Pension Bonds, Series 2002 are deep discount bonds and reported net of accretion. However, the annual debt service requirements to maturity are reported on the cash basis and do not account for accreted amounts. The following table reconciles the annual debt service requirements to maturity schedule to the ending balance of limited tax bonded debt:

<u>Limited Tax Bonds</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Pension debt service requirements	\$ 69,634,462	\$ 677,813
Accretion of deep discount	5,729,142	312,187
Total limited tax pension bonds outstanding	75,363,604	990,000
Non-pension debt service requirements	16,565,000	1,370,000
Total limited tax bonds outstanding	<u>\$ 91,928,604</u>	<u>\$ 2,360,000</u>

Revenue Bonds

HACSA issues revenue bonds to finance major construction projects in business-type activities. The revenue bonds are not backed by the full faith and credit of the County, but rather, are secured by a pledge of certain revenues and receipts of the Firwood Apartment Project (\$397,983 for the year ended June 30, 2007) and a deed of trust on the underlying real estate. The bonds are to be repaid from the net operating income of the Project.

<u>Business-type Activities</u>	<u>Interest Rates (%)</u>	<u>Ending Balance</u>
Revenue bonds serviced by net operating income of HACSA:		
HACSA Revenue Bonds, Series 1995A	6.450% to 6.700%	\$ 735,000
HACSA Revenue Bonds, Series 1995B	6.700%	215,000
		<u>\$ 950,000</u>

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 45,000	\$ 63,195
2009	45,000	60,256
2010	50,000	56,984
2011	55,000	53,389
2012	60,000	49,630
2013-2017	365,000	183,129
2018-2022	330,000	57,956
	<u>\$ 950,000</u>	<u>\$ 524,539</u>

**III. Detailed Notes on All Funds, continued**

**F. Long-term Debt, continued**

Notes Payable and Lines of Credit

The County issues notes to finance major construction projects in governmental and business-type activities.

<u>Governmental Activities</u>	<u>Interest Rates (%)</u>	<u>Ending Balance</u>
<u>Notes payable:</u>		
Commercial banks	8.300%	\$ <u>6,307,821</u>
<u>Business-type Activities</u>		
<u>Notes payable:</u>		
Eugene Water and Electric Board	7.000%	\$ 245,269
Commercial banks	7.750%	338,335
City of Eugene	2.000% to 8.000%	1,449,617
State agencies	0.250% to 3.690%	1,159,069
FHA	7.000% to 7.500%	522,921
Other	5.000% to 6.875%	2,760,944
		\$ <u>6,476,155</u>

Annual debt service requirements to maturity for notes payable are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 91,246	\$ 520,130	\$ 333,996	\$ 243,176
2009	99,114	512,262	331,544	226,883
2010	6,117,461	294,918	357,666	210,857
2011	-	-	344,767	190,756
2012	-	-	316,717	171,829
2013-2017	-	-	2,116,020	695,563
2018-2022	-	-	965,792	495,624
2023-2027	-	-	860,594	308,956
2028-2032	-	-	542,170	153,029
2033-2036	-	-	306,889	39,470
	\$ <u>6,307,821</u>	\$ <u>1,327,310</u>	\$ <u>6,476,155</u>	\$ <u>2,736,143</u>

Additionally, the fair board had an operating line of credit with Pacific Continental Bank for \$300,000 to meet cash flow requirements as needed. The line requires interest monthly at a variable interest rate (9.00% at June 15, 2006), and was due July 1, 2007. No draws were made on the line during fiscal year 2007. The outstanding balance at June 30, 2007 is \$0. The line was not renewed for next year.

Rebatable Arbitrage

Arbitrage reviews are performed annually on all County tax-exempt bonds and obligations, and rebates of interest earned on arbitrage are made as required by the federal tax code. Liabilities are reported in the government-wide and proprietary fund financial statements when incurred, but liabilities are not reported in the governmental fund financial statements until due and payable. As of June 30, 2007, there were no rebatable arbitrage liabilities to report.

### **III. Detailed Notes on All Funds, continued**

#### **F. Long-term Debt, continued**

##### Conduit Debt Obligations

The County has issued bonds to provide financial assistance to a private-sector entity for pollution control. The bonds are secured by assignment of all rental payments from the lease agreements, by the unconditional guarantee from the respective companies for payment of the bonds and interest, and by the property constructed by the bond proceeds. The pollution control bonds are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, the ownership transfers to the private-sector entity served by the bonds issued. The County is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2007, private-sector pollution control revenue bonds with an aggregate principal amount payable of \$7,100,000 are outstanding.

The County issued bonds in 1994 to provide financial assistance to Lane Council of Governments (LCOG) to finance the purchase of a building. On March 30, 2007, LCOG exercised their option to repay the bonds. As a result, the County transferred ownership of the building to LCOG upon satisfaction of the debt. No building bonds remain outstanding at June 30, 2007.

##### Landfill Closure and Postclosure Care Cost

The County operates the Short Mountain Landfill under a Solid Waste Disposal Permit (No. 290) from the Oregon Department of Environment Quality (ODEQ). The current permit was issued January 11, 2005 and will expire March 31, 2010.

State and federal laws and regulations require the County to place a final cover on its landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although final closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these final closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$3,063,949 reported as the landfill closure and postclosure care liability at June 30, 2007 represents current cost estimates based on the use of 16.24% of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of final closure and postclosure care of \$15,803,170 as the remaining estimated capacity is filled. Cost estimates are based on what it would cost to perform all final closure and postclosure care in 2007. Actual costs may be different due to inflation, changes in technology, or changes in regulations. The County expects to close the landfill in 2087.

*Site Development Plan:* In July 2006, the County updated its Site Development Plan (SDP). The plan was reviewed and approved by the ODEQ in July 2007.

*Financial Assurance:* Each year the County demonstrates financial assurance in connection with the closure and postclosure care activities for the Short Mountain Landfill by using the local government financial assurance test described in Title 40 of the Code of Federal Regulations, paragraph 258.74. As of June 30, 2006 (the most recent analysis), the County is in compliance with the local government financial assurance test as required by Oregon Administrative Rule 340-94-0140.

##### Internal Service Fund Debt

Based on an analysis of billings, governmental activities have been determined to be the predominant source of revenue for all internal service funds. Therefore, long-term debt in governmental activities includes those in internal service funds. As of June 30, 2007, internal service fund debt includes the Limited Tax Pension Bonds of \$75,363,604, deferred bond discounts of \$174,108, and \$329,917 in compensated absences.

**III. Detailed Notes on All Funds, continued**

**F. Long-term Debt, continued**

Compensated Absences

County employees accumulate earned but unused vacation and sick pay benefits. Prior to July 1, 1987, vacation and sick pay hours tracked separately. After that date they combined and accumulate in a time management bank. Upon termination of employment all unused vacation hours earned prior to July 1, 1987 and one-half of the time management bank pay out at the employees current pay rate. An analysis of vested compensated absences accrued and paid shows that more time management is taken the subsequent year than vests the previous year. As a result, all compensated absences are considered current.

Changes in Long-Term Liabilities

A summary of long-term liability activity is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities:</u>					
Notes payable	\$ -	\$ 6,326,603	\$ 18,782	\$ 6,307,821	\$ 91,246
 Bonds payable:					
General obligation bonds	21,360,000	-	2,000,000	19,360,000	2,070,000
Limited tax bonds	92,728,064	1,295,540	2,095,000	91,928,604	2,360,000
 Deferred amounts:					
Issuance discounts, net of premiums	(253,288)	-	(27,214)	(226,074)	-
Total bonds payable	113,834,776	1,295,540	4,067,786	111,062,530	4,430,000
 Compensated absences	5,887,762	5,687,570	5,887,762	5,687,570	5,687,570
 Claims	2,364,000	1,421,234	905,234	2,880,000	2,880,000
	\$ 122,086,538	\$ 14,730,947	\$ 10,879,564	\$ 125,937,921	\$ 13,088,816
 <u>Business-type activities:</u>					
<u>Fair board:</u>					
Line of credit	\$ -	\$ -	\$ -	\$ -	\$ -
Notes payable	338,258	-	66,438	271,820	66,974
 HACSA:					
Notes payable	4,241,435	2,202,583	239,683	6,204,335	267,022
Total notes payable	4,579,693	2,202,583	306,121	6,476,155	333,996
 Bonds payable:					
Revenue bonds	995,000	-	45,000	950,000	45,000
 Deferred amounts:					
Issuance discounts	(21,751)	-	(1,992)	(19,759)	-
Total bonds payable	973,249	-	43,008	930,241	45,000
 Compensated absences	939,454	936,600	939,454	936,600	936,600
 Landfill closure and postclosure care liability	2,842,990	220,959	-	3,063,949	-
	\$ 9,335,386	\$ 3,360,142	\$ 1,288,583	\$ 11,406,945	\$ 1,315,596

**IV. Other Information**

**A. Risk Management**

The County has established an internal service fund to account for and finance its risk of loss. The County is self-insured for workers' compensation claims and general liability claims, and carries commercial insurance for all other significant risks.

Coverage for workers' compensation claims in excess of \$500,000 is purchased from commercial insurers. General liability claims for catastrophic fire, earthquake, and flood insurance coverage up to \$50,000,000 is subject to \$250,000 and \$100,000 deductibles, respectively, per occurrence. During the past three fiscal years, no settled claims have exceeded insurance coverage levels.

Claims liabilities reported in the County's basic financial statements are based on a bi-annual actuarial estimate of the ultimate cost of settling claims, including incurred but not reported (IBNR) claims as of June 30, 2007. Claims liabilities include all incremental costs incurred directly as a result of the claim, and consider estimated recoveries on both settled and unsettled claims. Claims expense has been reduced by amounts recovered, or expected to be recovered, through excess insurance.

At June 30, 2007, a total claims liability of \$2,880,000 is reported in an internal service fund. All prior and current year claims are fully reserved and have not been discounted. The County does not utilize annuity contracts from commercial insurers, nor are they party to any structured settlements. All known liabilities have been disclosed.

The following changes occurred in the claims liability in the current and previous fiscal year:

Year Ending June 30	Liability Balance at Beginning of Year	Current-year Claims and Changes in Estimates	Claim Payments	Liability Balance at End of Year
2006	\$ 2,364,000	\$ 1,219,976	\$ 1,219,976	\$ 2,364,000
2007	2,364,000	1,421,234	905,234	2,880,000

**B. Retirement Plan**

Plan Descriptions/Funding Policies

The County, exclusive of HACSA, is a participating employer in OPERS, a cost sharing multiple-employer defined benefit public employee pension plan, and maintains a defined contribution plan for the purpose of individual retirement savings through OPERS. OPERS is administered under Oregon Revised Statutes Chapter 238 and Internal Revenue Service 401(a) by the Public Employees Retirement Board (PERB). County employees are eligible to participate in OPERS after six months of employment and benefits vest after five continuous years of service or at age 50. 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, or calling (503) 598-7377.

**Notes to Basic Financial Statements**

June 30, 2007

**IV. Other Information, continued**

**B. Retirement Plan, continued**

Plan Descriptions/Funding Policies, continued

County employees participate in one or more OPERS retirement plans that provide pension, death, disability, and post-employment healthcare benefits to members or their beneficiaries:

- PERS (Public Employee Retirement System) is a defined benefit pension plan provided to members who were hired prior to August 29, 2003. In 1995, the Legislature enacted a second level or “tier” of 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. Employer contributions to PERS are required by state statute and are made at actuarially determined rates as adopted by the PERB. Effective July 1, 2005, the County elected to pay from an “optional schedule” provided in the December 31, 2003 actuarial valuation, increasing the annual required contribution rate to 14.34% where it has remained through fiscal year 2007.
- OPSRP (Oregon Public Service Retirement Plan) is a hybrid retirement plan with two components: a defined benefit pension plan and a defined contribution pension plan.
  - The defined benefit pension plan is provided to members 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 PERB. The annual required contribution rates for the OPSRP defined benefit pension plan were 10.33% for general service employees and 13.94% for police and fire employees as of July 1, 2006. These rates were increased on February 28, 2006 to include a 2.29% factor for the unfunded actuarial liability (UAL). Prior to this increase, payments to cover the UAL were only included in the PERS contribution rate, but are now paid via employer contributions for all PERS and OPSRP members.
  - The defined contribution pension 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. PERS members retain their existing PERS accounts, however, member contributions have been deposited in the member’s IAP since the beginning of 2004 rather than into the member’s PERS account.

Annual Pension Cost

All OPERS participating employers are required by law to submit the contributions as adopted by the PERB. For the fiscal year ended June 30, 2007, the County’s annual pension expenditures/expense of \$16,078,608 consisted of employee contributions to the IAP of \$4,542,587, employer annual required contributions to the defined benefit pensions plans of \$10,468,401 (6.00% and 13.83% of covered payroll, respectively), and \$1,067,620 in amortization of the net pension asset.

**IV. Other Information, continued**

**B. Retirement Plan, continued**

Annual Pension Cost, continued

The County's annual pension cost and net pension asset for the year ended June 30, 2007 were as follows:

Annual required contribution (ARC)	\$ 10,468,401
Interest earned on net pension asset	(4,678,718)
Adjustment to the ARC	<u>5,746,338</u>
Annual pension cost	11,536,021
Contributions made	<u>(10,468,401)</u>
Decrease in net pension asset	1,067,620
Net pension asset, beginning of year	<u>66,812,072</u>
Net pension asset, end of year	<u>\$ 65,744,452</u>

Effective December 31, 2004, the actuarial cost method was changed to the "projected unit credit" (PUC) method from the "entry age" cost method. The change in UAL attributable to this change is amortized over a rolling three-year period. The unfunded actuarial accrued liabilities are being amortized as a level percentage of combined valuation payroll over 22 years from the valuation date of December 31, 2005 using the closed group fixed term method. When the amortization period reaches 20 years, the period for the existing UAL will continue to decline until it is paid off and new gains and losses recognized in each odd-year valuation will be amortized over a period of 20 years from that valuation.

The actuarial assumptions, from the most recent actuarial valuation as of December 31, 2005 include an investment return of 8% on system assets, consumer price inflation of 2.75% per year, future general wage inflation of 3.75% per year, and health care cost inflation of 9.0% in 2007, grading down by .5% per year to 5% in 2013.

The actuarial value of OPERS assets is reported at fair market value. In order to reduce year-to-year volatility in contribution requirements due to changes in asset value, new contribution rates are confined to a collar based on the prior contribution rate. New contribution rates will not increase or decrease by more than the greater of 3 percentage points or 20 percent of the current rate. If the funded percentage drops below 80% or increases above 120%, the size of the collar doubles.

The following table presents three-year trend information for Lane County's defined benefit pension plans:

	Annual Pension Cost (APC)	Contribution	Percentage of APC Contributed	Net Pension Asset
June 30, 2005	\$ 5,049,582	\$ 4,186,672	83%	\$ 67,773,721
June 30, 2006	11,058,553	10,096,904	91%	66,812,072
June 30, 2007	11,536,021	10,468,401	91%	65,744,452

**IV. Other Information, continued**

**C. Other Post-employment Benefits**

Retiree Medical Benefit Trust Fund

The County has entered into an agreement with certain of its employees (except HACSA) to provide medical insurance from the time of retirement until Medicare eligibility, and then to reimburse those employees for Medicare Part B premiums for life. The same employees are also eligible for Medicare supplement coverage for life. At June 30, 2007, there were 606 retirees receiving benefits under the plan; 277 pre-Medicare retirees and 329 retirees receiving Medicare Part B reimbursements and participating in the Medicare supplement insurance plan.

Eligibility for the benefits has been phased out during the past 15 years. Non-represented employees who worked in permanent positions on or before March 5, 1991, and who worked ten continuous years of service, are eligible for the benefits. Eligibility for represented employees is also based on hire date and continuous years of service, with some modifications. Employees hired after June 30, 1997 are not eligible for the benefits.

The County recognized \$2,211,114 in expenditures for benefits during the year ended June 30, 2007. The County has elected to advance fund future benefits by assessing a charge against payroll expenditures in all funds. The assessment is currently 5% of payroll and is accumulated in a dedicated fund. Net assets available for future benefits at the end of the year are \$6,847,974. The County may have an unrecorded liability for post-employment benefits that will be recorded beginning with the year ending June 30, 2008 in accordance with GASB Statement 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". The financial impact of implementing Statement 45 has not yet been determined.

The Retiree Medical Benefit Trust fund is not managed under a trust agreement and is classified as an internal service fund for financial reporting purposes.

**D. Joint Ventures**

The County is a participant with the City of Eugene, the City of Springfield, the Eugene Water and Electric Board and the Lane Council of Governments in the Regional Executive Group (REG). The REG is governed by seven Members consisting of the representatives of each of the participating governments, plus the County Assessor and the County Sheriff, all of whom have an equal vote in the REG operations. The REG is a joint venture established by intergovernmental agreement to administer and set policy for the Regional Information Service (RIS), the computer center serving the participating governments. Each government is responsible for its share of REG liabilities and for its proportionate share of any REG contracts entered into while bound by the intergovernmental agreement. Participants in the agreement have no explicit, measurable equity interest in the REG, although they do maintain a residual interest in the REG assets upon dissolution of the joint venture. The REG does not prepare separately issued financial statements. Lane County, as Host Agency of the REG, accounts for all REG financial activity in the Regional Information Services fund, a non-major enterprise fund of Lane County. For the fiscal year ended 2007, the Regional Information Services fund reported an operating income of \$1,376,359, an increase in net assets of \$1,810,518, and total net assets of \$6,463,279.

**IV. Other Information, continued**

**D. Joint Ventures, continued**

The County is also a participant with the City of Eugene and the City of Springfield in the Metropolitan Wastewater Management Commission (MWMC), a joint venture established by intergovernmental agreement to construct, maintain, and operate regional sewer facilities. The MWMC consists of a seven-member Commission to which the County appoints two voting members. The County has no explicit, measurable equity interest in the joint venture. MWMC, which is reflected as a component unit of the City of Springfield, reported an increase in net assets of \$137,342 and total net assets of \$96,152,038 for the fiscal year ended June 30, 2006. Separate financial statements for MWMC can be obtained from the City of Springfield Finance Department.

**E. Commitments and Contingencies**

Amounts received or receivable from grantor agencies are subject to audit and adjustments by grantor agencies, principally the federal and state government. Any unforeseen disallowed claims, including amounts already collected, could become a liability of the General Fund or other applicable funds. Management believes that adjustments, if any, will not materially affect the County's financial position.

During 1994, Lane County entered into an Intergovernmental Agreement with the City of Florence to pay the City \$200,000 per year for payment of debt related to the construction of the City of Florence All Events Center, a new conference and meeting facility. In 2004 the agreement was amended to reduce the payment to \$190,000, \$40,000 of which may be used for operational purposes. Effective for fiscal year ended June 30, 2008, the agreement was further modified to reduce their payment to \$182,171. Funding for the City of Florence debt has been appropriated from transient room tax and will continue to be paid annually, up to a total of \$4,000,000, to the extent such funds are available and appropriated from the transient room tax.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of County Counsel the resolution of these matters will not have a material adverse effect on the financial condition of the County.

**F. Reclassification**

The County has accounted for the Retiree Medical Benefit Trust fund as an internal service fund in the current year, whereas in prior years it was reported as a fiduciary fund. The change was made because the trust is not evidenced by an irrevocable trust agreement, and the funding of the benefit obligation is consistent with internal service fund operations.

**G. Subsequent Event**

On October 17, 2007, the Board of County Commissioners approved the early redemption of \$6,500,000 par of Limited Tax Pension Bonds, Series 2002B on December 18, 2007 (original maturity date June 1, 2025).