

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, 2008. 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, 2008, by \$501.7 million (total net assets). Of this amount, \$86.2 million may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's overall financial position increased by \$27.8 million during the current fiscal year. The primary component of the increase was use of current revenues to acquire capital assets in both governmental and business-type activities of \$15.2 million. The County also undertook a concerted effort to reduce expenses and increase revenues in anticipation that Secure Rural Schools funding may not be renewed.
- At June 30, 2008, the County's governmental funds reported combined ending fund balances of \$85.7 million, an increase of \$3.1 million. Approximately \$83.8 million is unreserved and available for spending by the board.
- The unreserved fund balance for the General Fund is \$12.3 million at the end of the current fiscal year, or 17.7% of General Fund total revenues.

Overview of the Financial Statements

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

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

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

The *Statement of Net Assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

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

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

The governmental activities of the County include the following

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

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

- Fair Board
- Solid waste disposal
- Housing and community services
- Corrections commissary
- Regional information systems
- 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 County Fair Board which is governed by a separate board appointed by the Board of County Commissioners. At June 30, 2008, there were no active Fair Board members, and the Board of Commissioners served as the Fair Board.

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financial decisions. Both the governmental fund balance sheet and 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, 15 special revenue funds, 3 debt service funds, and 3 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 Fund, 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 73-74 of this report. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements on pages 76-79, 93-94, and 99-100. 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 its Fair Board operations, 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-types 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 Fair Board, 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 105-107 and 114-119 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 129.

Budgetary Comparisons. The County adopts an annual appropriated budget for all its funds, except the Housing and Community Services special revenue fund which is exempted under ORS 94.316(8), and for agency funds. To demonstrate compliance, budgetary comparison statements have been provided for major funds as part of the basic financial statements on pages 67-70 of this report. Budgetary comparisons for all other funds are provided on pages 80-91, 95-97, 101-103, 108-112, and 120-127 of this report.

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-65 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 71-72 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 \$501.7 million for the current fiscal year.

The largest portion of the County's net assets (68.7%) 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 14.1% 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 (\$86.2 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	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$213,549	\$209,819	\$49,798	\$47,778	\$263,347	\$257,597
Capital assets	319,034	312,310	71,389	62,956	390,423	375,266
Total assets	532,583	522,129	121,187	110,734	653,770	632,863
Long-term liabilities outstanding	104,507	112,849	9,944	10,092	114,451	122,941
Other liabilities	32,421	30,687	5,151	5,256	37,572	35,943
Total liabilities	136,928	143,536	15,095	15,348	152,023	158,884
Net assets:						
Invested in capital assets, net of related debt	280,364	270,549	64,367	55,549	344,731	326,098
Restricted	68,603	66,396	2,178	2,179	70,781	68,575
Unrestricted	46,688	41,648	39,547	37,658	86,235	79,306
Total net assets	\$395,655	\$378,593	\$106,092	\$95,386	\$501,747	\$473,979

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	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$73,635	\$79,742	\$37,618	\$27,526	\$111,253	\$107,268
Operating grants and contributions	93,546	108,014	20,549	20,875	114,095	128,889
Capital grants and contributions	-	-	2,104	758	2,104	758
General revenues:						
Taxes	38,057	36,326	-	-	38,057	36,326
Forest and timber receipts	15,037	15,068	-	-	15,037	15,068
Unrestricted grants	5,034	4,401	-	-	5,034	4,401
Unrestricted investment earnings	3,195	3,329	1,579	1,647	4,774	4,976
Total revenues	228,504	246,880	61,850	50,806	290,354	297,686
Expenses: *						
General government	24,314	23,343	-	-	24,314	23,343
Public safety	69,774	72,513	-	-	69,774	72,513
Public health and welfare	65,144	77,823	-	-	65,144	77,823
Parks	2,035	2,099	-	-	2,035	2,099
Roads and bridges	34,269	38,152	-	-	34,269	38,152
Community development	6,735	10,244	-	-	6,735	10,244
Interest on long-term debt	7,087	6,811	-	-	7,087	6,811
Fair Board	-	-	5,488	5,653	5,488	5,653
Solid waste disposal	-	-	12,224	11,344	12,224	11,344
Housing and community services	-	-	24,210	23,377	24,210	23,377
Corrections commissary	-	-	316	361	316	361
Regional information systems	-	-	5,862	5,338	5,862	5,338
Land management ***	-	-	5,128	-	5,128	-
Total expenses	209,358	230,985	53,228	46,073	262,586	277,058
Change in net assets before transfers	19,146	15,895	8,622	4,733	27,768	20,628
Transfers in (out)	(2,084)	(906)	2,084	906	-	-
Increase in net assets	17,062	14,989	10,706	5,639	27,768	20,628
Net assets – beginning of year	378,593	358,582	95,386	89,747	473,979	448,329
Reclassification**	-	5,022	-	-	-	5,022
Net assets, restated	378,593	363,604	95,386	89,747	473,979	453,351
Net assets – end of year	\$395,655	\$378,593	\$106,092	\$95,386	\$501,747	\$473,979

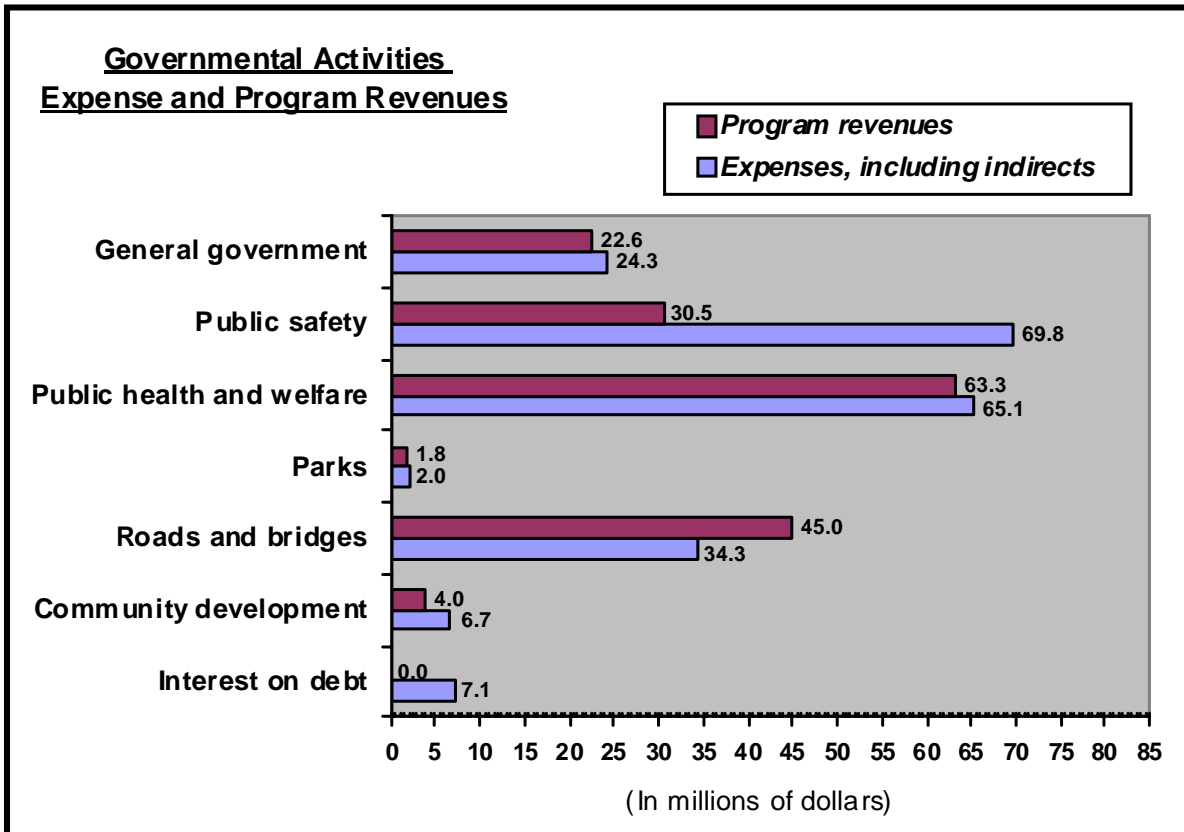
* Expenses include the indirect expense allocation as presented on Page 26 of the basic financial statements.

** A \$5,022 adjustment was required when the Retiree Medical Benefit Trust fund was reclassified from fiduciary to internal service.

*** The Land Management division was previously reported as a governmental activity.

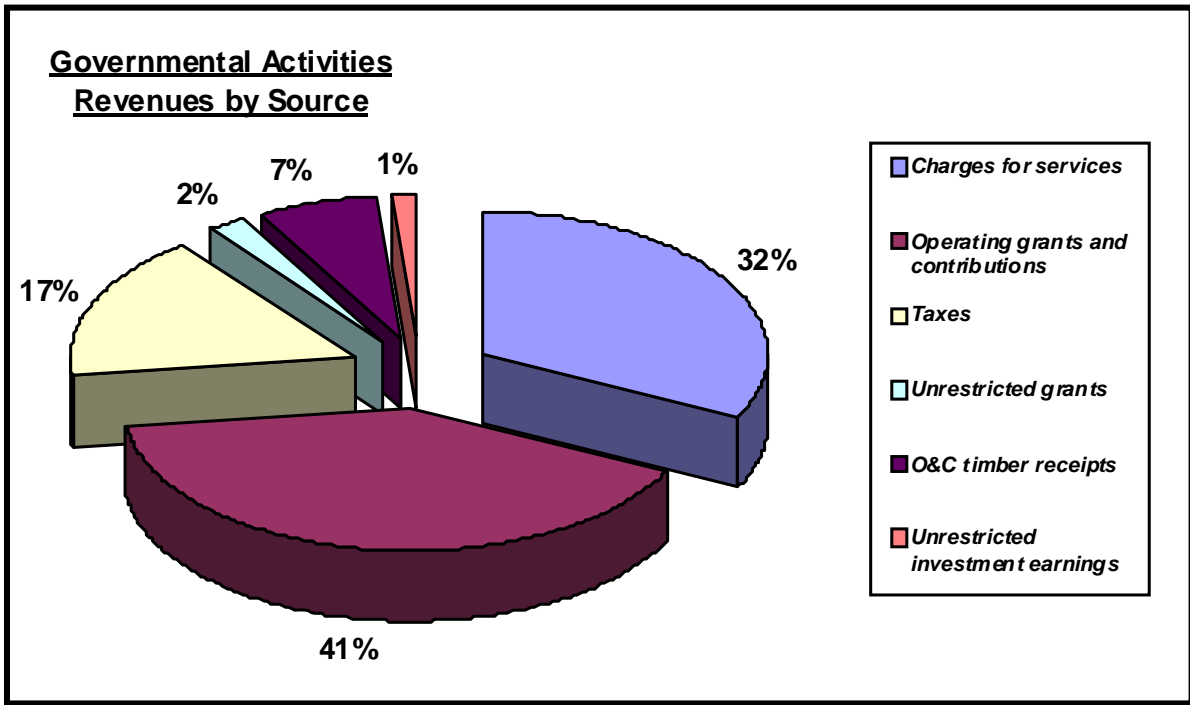
Governmental activities. Governmental activities increased the County's net assets by \$17.1 million, accounting for 61.4% of the total growth in net assets. The primary factors for this increase were as follows:

- Net capital assets increased \$7.7 million primarily as a result of infrastructure additions.
- Current assets increased by \$5.8 million as a result of an accumulation of assets for equipment replacement and a reduction in expenditures to address the potential non-renewal of the Secure Rural School act.
- The remaining \$3.6 million was the result of reduction in long-term liabilities through principal debt repayments from current resources. Additionally, the County redeemed \$6.5 million in PERS bonds with existing resources.



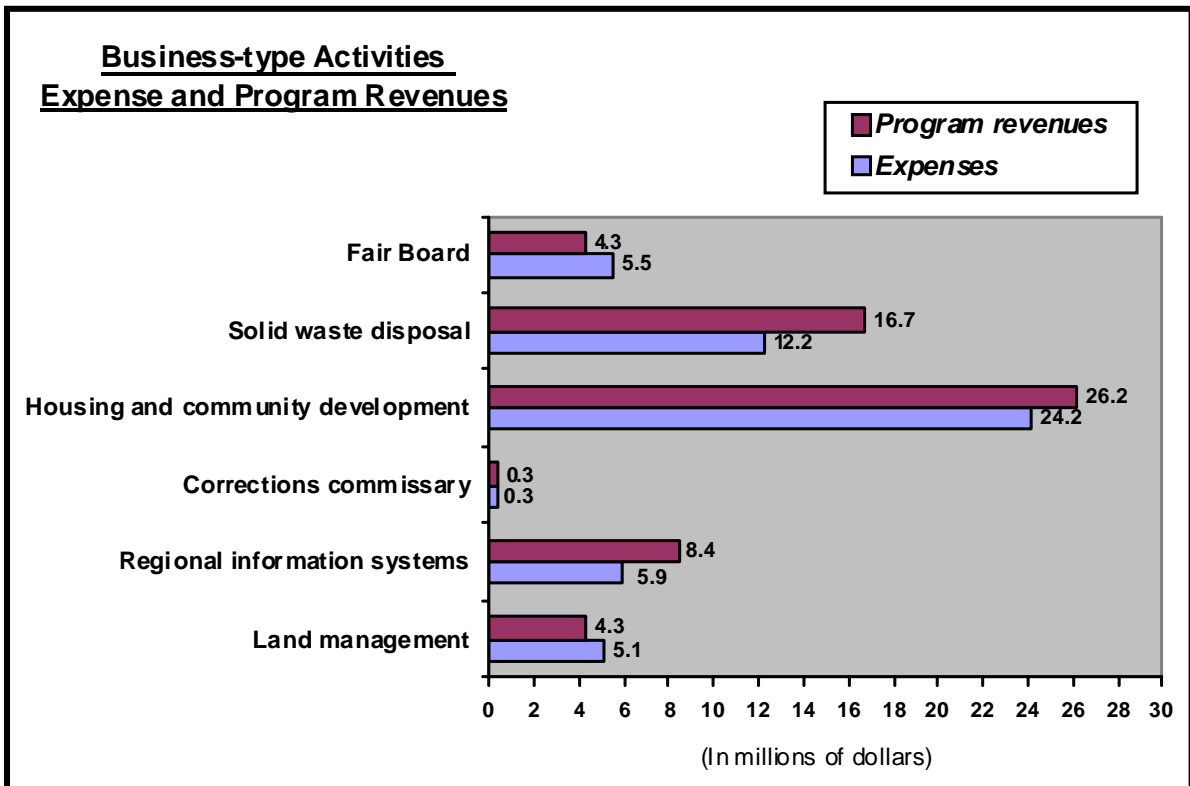
With the exception of roads and bridges, all governmental activities relied on general revenues to support the function.

As illustrated on the next page, 41% of revenues for governmental activities comes from operating grants and contributions which includes, among other items, national forest timber sale proceeds of \$21.8 million, County School monies of \$7.3 million, State gas tax and road revenues of \$13.6 million, and Oregon Health Plan payments of \$20.5 million. Nearly one-third of the revenue comes from charges for services. O&C timber receipts of \$15.0 million make up another 7% of governmental revenues. Taxes make up only 17% of overall revenues for governmental activities.



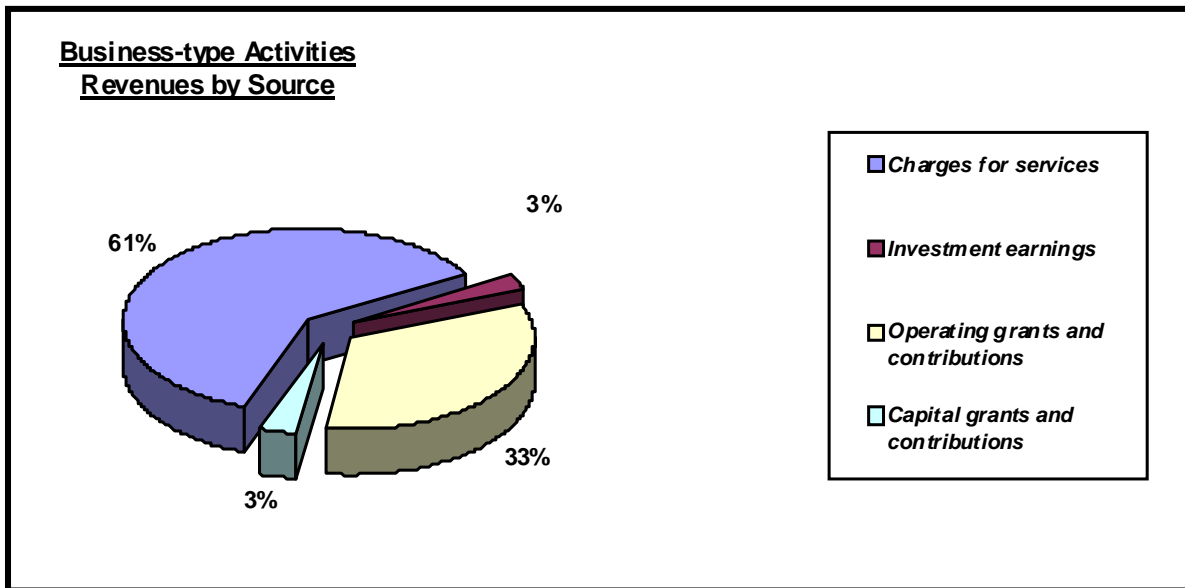
Business-type activities. Business-type activities increased the County's net assets by \$10.7 million, accounting for 38.6% of the total growth in net assets. Key components of the increase are as follows:

- \$5.1 million from an increase in and accumulation of system benefit and disposal fees to fund landfill site development costs and closure and post-closure care reserves.
- \$2.4 million investment to expand housing and community service projects.
- \$2.5 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 Fair Board and Land management operations were not sufficient to cover current year expenses.

Approximately 61% of the revenues for business-type activities come from charges for services, as illustrated below with another 33% 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 \$85.7 million, an increase of \$3.1 million over the prior year. Approximately 97.8% of this total amount (or \$83.8 million) constitutes unreserved fund balance, which is available for appropriation in the subsequent year by the Board of County Commissioners. The remainder of fund balance is reserved to indicate that it is not available for new spending because it represents amounts that have already been spent (\$1.9 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 \$12.3 million, while total fund balance for the General Fund was \$12.5 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 17.7% of total General Fund revenues. Total fund balance represents 18.0% of those same General Fund revenues for the current fiscal year.

The fund balance of the **General Fund** increased \$.4 million from the prior year due to the cost cutting efforts in response to the anticipated loss of Secure Rural Schools funding.

During the current fiscal year, the ending fund balance of the **Road Fund** increased by \$1.8 million to \$42.2 million as a result of a reduction in expenditures for road projects. The reduction was intended to stabilize the fund in anticipation of the non-renewal of Secure Rural Schools funding.

The **Special Revenue/Services Fund** accounts for several dedicated revenue sources and programs. The fund balance experienced a modest increase of \$.1 million during the year.

In the current fiscal year, the fund balance of the **Health and Human Services (H&HS) Fund** decreased \$1.5 million during the year. The primary components of the decrease are the recognition of \$.8 million estimated liability for repayment of Title XIX funds and expenditures for additional acute care services provided.

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 \$13.1 million during the year to a total of \$144.6 million, of which \$64.2 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
Fair Board	\$ 0.5 million	3.0%
Solid waste disposal	19.3 million	50.5%
Housing & community services	13.1 million	32.0%
Corrections commissary	0.3 million	100.0%
Regional information systems	2.6 million	29.0%
Land management	0.3 million	92.5%
Self insurance	(1.0 million)	N/A
Employee benefits	3.3 million	100.0%
Pension bond	(2.9 million)	N/A
Motor and equipment pool	18.8 million	60.8%
Intergovernmental services	0.4 million	96.3%
Information services	1.6 million	97.9%
PC replacement	0.8 million	67.8%
Retiree medical benefit trust	7.2 million	100.0%

The **Fair Board Fund** net assets decreased by \$.5 million during the year. This decrease is consistent with prior year results.

The net assets of the **Solid Waste Disposal Fund** increased by \$5.1 million during the year as a result of an increase in system benefit and disposal fees to fund current landfill site development costs and closure and post-closure care reserves.

The **Housing and Community Services Fund** net assets increased by \$2.4 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 \$3.8 million increase in expenditure appropriations, or 4.1% of the adopted budget. This increase was primarily due to following adjustments:

- Increases in transfers out of \$1.2 million to transfer operation of the land management division to an enterprise fund.

- Increase in reserves of \$1.2 million to reflect changes in Secure Rural Schools funding allocations.
- Increases in beginning budgetary resources and budgeted expenditures of \$.7 million for the difference between estimated beginning fund balances and actual fund balances at the end of the prior year.
- Increases in transfers of \$.5 million to the motor and equipment pool internal service fund for Sheriff's Office fleet needs.

For the current fiscal year, the County realized a net positive budget variance in the General Fund of \$12.3 million. This was the result of County-wide cost cutting efforts that reduced expenditures by \$1.0 million and avoided the use of budgeted contingency of \$11.3 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, 2008 was \$390.4 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 4.0%.

The major capital events during the current fiscal year were the construction of \$17.0 million in infrastructure and \$6.6 million for phase 5 development costs at the landfill.

Lane County's Capital Assets, Net of Accumulated Depreciation (In thousands)						
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$9,403	\$9,403	11,053	\$11,054	\$20,456	\$20,457
Construction in progress	1,319	570	17,708	7,990	19,027	8,560
Buildings and building improvements	65,269	67,063	39,411	40,612	104,680	107,675
Machinery and equipment	14,748	14,687	3,217	3,300	17,965	17,987
Infrastructure	228,295	220,587	-	-	228,295	220,587
Total capital assets	\$319,034	\$312,310	\$71,389	\$62,956	\$390,423	\$375,266

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 \$102.4 million, \$101.5 million of which is serviced by governmental activities. Of this amount, \$17.3 million represents general obligation bonds serviced by general property taxes. The County also had \$84.4 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 \$1 million have been issued to finance major construction projects and are secured by real estate.

Lane County's Outstanding Bonds, Less Deferred Amounts (In millions)						
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$17.3	\$19.3	\$ -	\$ -	\$17.3	\$19.3
Limited tax bonds (net of deep discount of \$14.2)	84.4	91.9	-	-	84.4	91.9
Revenue bonds	-	-	.9	1.0	.9	1.0
Less – other deferred amounts	(.2)	(.2)	-	-	(.2)	(.2)
Total bonded debt	\$101.5	\$111.0	\$.9	\$1.0	\$102.4	\$112.0

The County's total bonded debt decreased \$9.5 million during the year as a result of repayments, including \$6.5 million early redemption of limited tax pension bonds.

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

- Aaa for general obligation bonds (confirmed September, 2008)
- A1 for other issues (confirmed September 2008).

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 \$17.3 million in general obligation debt is \$817.3 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 \$15.2 million in limited tax obligation debt is \$402.2 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 \$69.2 million in limited tax obligation debt is \$2 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 \$12.4 million.

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

Economic Factors and Next Year's Budgets and Rates

During the preparation of the budget for the ensuing fiscal year the uncertainty surrounding renewal of Secure Rural Schools funding was central. As little progress had been made on reauthorization, the Board of County Commissioners directed the County Administrator to prepare a budget that assumed no continued SRS funding. Following are the major factors and assumptions used in developing the fiscal year 2009 budget:

- The Adopted Budget represents a step-down in services geared toward long-term stability without SRS funding which has historically contributed between \$45 and \$50 million annually to the County. Total authorized expenditures dropped from the previous year by \$83 million, including a reduction of 188 FTE, primarily in the public safety arena.
- Revenue aside from Federal revenues is stable with flat or moderate growth. The decline in the housing market is not expected to significantly impact property tax revenues due to the gap between market value and assessed value.
- State funding, primarily in the form of dedicated grants, includes a one-time payment of \$10.0 million from the Oregon Dept. of Transportation to help partially offset the loss of Secure Rural Schools federal funding.
- Wages are being held to minimal cost of living increases and are down \$5.2 million as a result of the positions eliminated. Health benefit costs are budgeted to increase 13.7%, while the Pension contribution rates show no change from the prior year.
- The County's long-range forecast indicates a structural deficit resulting from projected revenue growth of approximately 3% while expenses are projected to grow at 6% per year. In October 2008 the Secure Rural Schools funding was reauthorized for an additional four years. The County will reconvene the Budget Committee in December 2008 to prepare a supplemental budget for fiscal year 2009 and consider options to address the structural deficit.
- 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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