



December 10, 2008

Citizens of Lane County  
Members of the Board of County Commissioners  
Jeff Spartz, County Administrator

The Management Services Department, Financial Services Division of Lane County, Oregon is pleased to submit the County's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008, together with the report thereon of Lane County's independent auditors. This report is published to provide the Board of County Commissioners, our citizens, County staff, and other readers with detailed information about the financial position and results of operations of the County, and to demonstrate fiscal and operational accountability in the use of County resources. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with Lane County management. To provide a reasonable basis for making these representations, management has established an internal control structure designed to safeguard County assets against loss, theft, or misappropriation, and to compile sufficient, reliable information for the preparation of the County's financial statements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

## THE REPORT

In accordance with Oregon law and Lane County Code, Moss Adams, LLP has audited the County's basic financial statements. The objective of the audit is to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2008, are free of material misstatement. The audit was conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and Minimum Standards for Audits of Oregon Municipal Corporations as prescribed by the Secretary of State, State of Oregon. The unqualified opinion rendered in this report indicates that the financial statements were prepared in accordance with generally accepted accounting principles (GAAP) accepted in the United States of America and meet the standards prescribed by the Secretary of State. The auditor's report on these financial statements is located in the Financial Section of this report.

The independent audit of the financial statements was part of a broader, federally mandated "Single Audit". The Single Audit standards require that the independent auditor report not only on the fair presentation of the basic financial statements, but also on the County's internal controls and legal requirements involving the administration of federal grant awards. Those reports are included in the Government Auditing Standards Section of this report.

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

## PROFILE OF THE COUNTY

Lane County was established in 1851 and is geographically situated on the west side of Oregon, about midway down the state's coastline. The County encompasses 4,620 square miles and, in many ways, typifies Oregon. The County's lands are geographically a microcosm of the state—ranging from rugged glaciated mountains in the east, through a broad valley spreading across the Willamette River mid-county, to a beautiful and rugged coastline along the western edge. With a population of 343,140, Lane County is the fourth most populous county in Oregon and the third most populous metropolitan statistical area (MSA) in the state. Lane County's population continues to increase, with a growth rate of 6.9% since 2000.



The Lane County Home Rule Charter is the basic law under which the County operates, and can be amended only by a vote of the people. The Charter grants authority to a full-time compensated, five-person Board of County Commissioners to legislate and administer County government within the limits of that authority. Commissioners are individually elected for four-year terms by Lane County voters from specific geographic regions. The County operates under the provisions of the County Charter and the Lane County Code, as well as the Oregon Constitution and State law (Oregon Revised Statutes). Board action is effected by a simple majority vote of three of the five Board members.

As a general purpose government, the mission of Lane County is to effectively provide essential government services for all County citizens as authorized in its Charter. Lane County consists of service departments grouped into three categories: Support Services (which includes the Board of Commissioners, County Administration, County Counsel, Human Resources, Management Services, and Information Services), Public Services (which includes Health & Human Services, Public Works, Assessment and Taxation, Children and Families, Workforce Partnership and the County Fair Board), and Public Safety (which includes the Sheriff's Office, Justice Courts, the District Attorney, and Youth Services).

As the foundation of the County's annual financial planning and control, the budget is prepared and adopted for all County funds as required by Oregon Local Budget Law (ORS Chapters 294.305-294.565). The board order adopting the budget establishes appropriations for each fund which expenditures cannot legally exceed. Budgetary control is internally administered at a more restrictive level. Budget and Actual comparisons are presented in this report for each individual fund for which an

appropriated annual budget has been adopted. For the General Fund, Road Fund, Special Revenue / Services Fund, and Health and Human Services Fund, this comparison is presented in this report as Required Supplementary Information. For all other funds, except the Housing and Community Services Fund which is exempt from local budget law, the Budget and Actual comparisons are presented as Other Supplementary Information. Additional information on the County's budgetary process can be found in Note II.A. of the Notes to Basic Financial Statements in this report.

For financial reporting purposes, the County is a primary government under the provisions of Governmental Accounting Standards Board Statement No. 14. This report also includes all organizations and activities for which the elected officials exercise financial control. The County reports two blended component units; the Lane County Metropolitan Wastewater Service District and the Housing and Community Services Agency of Lane County (HACSA). The financial information of each of these entities is included in this report as appropriate to their relationship to the County. More information on the reporting entity and its component units can be found in Note I.A. of the Notes to Basic Financial Statements in this report.

## **FINANCIAL CONDITIONS AND OUTLOOK**

**Local Economy** - For well over 100 years, Lane County's main industry had been lumber and wood-based products. When this industry went into decline in the late 1970s, Lane County, like most of the state, began to diversify into the services and retail industries. However, through the 1980s, Lane County's economy was still heavily tied to lumber and wood products, and suffered as a result. During the early 1990s, Lane County's manufacturing sector made a comeback when several high-technology manufacturing firms located here. At the same time, large gains in the stock markets accompanied by early retirements contributed to a tremendous growth in orders for luxury motor homes and the expansion of motor home manufacturing firms added a number of jobs in this sector.

This period of economic growth went into decline for Lane County and the rest of the State as the recession that began in 2001 forced several firms to either layoff employees or permanently shut down. The economy entered a period of slow-to-negative growth for a number of years, followed by a broad-based recovery that leveled off in late 2006 as evidenced by stable employment levels.

More recently, Lane County has experienced some of the effects of the national economic slowdown. While the Northwest in general has not experienced the same level of downturn in home values as the rest of the nation, Lane County is experiencing an impact in employment levels as some large local employers have announced layoffs. Lane County's unemployment rate increased to 6.7% in September 2008, up from 4.9% recorded a year earlier (not seasonally adjusted). This is also higher than the statewide average of 5.9% and the nationwide average of 6.0% (also not seasonally adjusted).

**Financial Outlook** – For many years the County was the recipient of timber payments under federal legislation. These payments were made by the federal government in recognition of the fact that, with more than 50% of property in the County under federal ownership, the federal government generated significant costs for local governments, but paid no taxes to help cover the cost of services. The Secure Rural Schools and Community Self-determination Act (the Act) passed by the 2000 Congress provided a

six-year guarantee of federal payments that expired in fiscal year 2007, followed by a one year extension that provided direct revenues of approximately \$48 million to the County. However, failure to renew these programs for subsequent years required that Lane County significantly reduce General Fund programs and staffing levels at the end of fiscal year 2008.

In October of 2008, Secure Rural Schools funding was reinstated in a reduced form as part of the Emergency Economic Stabilization Act of 2008 approved by the US Congress. The County expects to receive approximately \$33 million in fiscal year 2009, stepping down to \$27 million by the latter part of 2011. A fourth year is also guaranteed and will be based on new formula incorporating historic timber payments, average income levels and acreage of federal land. The County's Budget Committee is scheduled to reconvene in December 2008 to consider options for use of the additional funding.

**Long-term Financial Planning** - The County makes use of two primary financial planning models. The first model is a multi-year forecast for the County's General Fund and the second is a similar model prepared for the Road Fund. In order to allow for more accurate study and evaluation of the financial future of Lane County, the Board of Commissioners and citizen members of the Budget Committee began working with the financial forecasting model of the General Fund in 1988. A similar model for the Road Fund was put into use in 1995. Both models are designed to predict over a multi-year horizon the outcome of certain policy choices, ranging from policy-driven expenditure reductions and revenue enhancements to externally-driven factors such as rising health care costs and fluctuating levels of timber receipts. While these financial models can be very helpful, they are not without limitations. The models are thoughtfully built on a series of assumptions that represent, at one point in time, the best judgments of information available to preparers of the model. Fluctuations of a mere 1-2% in certain assumptions can significantly alter the financial projections produced by the models.

As in past years, the County continues to face a financial "structural deficit" in regards to service delivery, with revenues increasing at a rate of around 3% annually, while expenses increase closer to 6%. Lane County's ability to increase revenues is severely constrained by the passage of Ballot Measures 5, 47 and 50 which placed statewide constitutional limitations on tax rate increases and tax ceilings.

**Major Initiatives** – In view of the step-down of Secure Rural Schools funding and the projected structural deficit, the County is evaluating options to provide stable service delivery which is sustainable for the next several years. County voters turned down two recent income tax initiatives prompting the Board of Commissioners to determine that service stabilization should be achieved with existing and known resources. Options for strategically investing SRS funds to reduce long run operating costs are being considered.

**Relevant Financial Policies** – The County has adopted financial and budget policies to support the County's strategic goals, ensure stability in service delivery and promote the efficient use of public funds. It is Lane County's policy to establish reserve funds which can be used to reduce the impact of substantial revenue fluctuations, thus providing for a more stable delivery of services to Lane County citizens. The adopted financial policies direct that each fund except the General Fund should have a minimum 5% prudent person reserve, and that the General Fund should maintain a reserve balance of at least

10% of General Fund operating revenues. In the financial statements, these reserves can be observed as part of cash and cash equivalents, as well as fund balance.

## AWARDS AND ACKNOWLEDGEMENTS

**Certificate of Achievement** – The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Lane County, Oregon for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the fifth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

**Acknowledgements** - The preparation of this CAFR would not have been possible without the dedicated services of the entire staff of the Financial Services Division. We extend our sincere appreciation to all of the Financial Services staff who contributed to this significant effort and also acknowledge the cooperation and assistance of other County staff who contributed to the information required for a fair presentation of the County's financial information.

We also want to acknowledge the professional and technical assistance provided by the municipal audit team from Moss Adams, LLP. Finally, appreciation is extended to the County Administrator, the members of the Finance & Audit Committee and the full Board of County Commissioners for their interest and support in managing the financial operations of Lane County.

Respectfully submitted,



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