

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lane Council of Governments
Eugene, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of Lane Council of Governments as of and for the year ended June 30, 2010, which collectively comprise Lane Council of Governments' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lane Council of Governments' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of Lane Council of Governments as of June 30, 2010 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2010 on our consideration of Lane Council of Governments' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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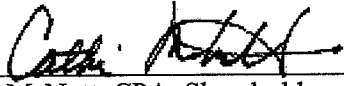
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lane Council of Governments' basic financial statements. The other statements and schedules listed in the table of contents and the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

By: 
Cathi McNutt, CPA, Shareholder
Eugene, Oregon
November 19, 2010

INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS

To the Board of Directors
Lane Council of Governments
Eugene, Oregon

We have audited the basic financial statements of Lane Council of Governments as of and for the year ended June 30, 2010, and have issued our report thereon dated November 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States..

Compliance

As part of obtaining reasonable assurance about whether Lane Council of Governments' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures necessary to address the required comments and disclosures which included, but were not limited to the following:

- Deposit of public funds (ORS Chapter 295).
- Indebtedness limitations, restrictions, and repayment.
- The preparation, adoption, and execution of annual budgets contained in ORS 294.900 through 294.930 (LCOG is not subject to Local Budget Law, ORS 294.305 to 294.565).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources. Separate reports related to compliance with federal awards programs are included in the Grant Compliance Review section.
- Authorized investment of funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).

In connection with our procedures nothing came to our attention that caused us to believe Lane Council of Governments was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations except:

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- Notices of budget committee meetings on April 8, 2010, and May 13, 2010, were not published during the proper period and did not include all required information.

OAR 162-10-0230 Internal Control

Separate reports related to internal control are included in the Grant Compliance Review section.

This report is intended solely for the information and use of the board of directors and management of Lane Council of Governments and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

By: 
Cathi McNutt, CPA, Shareholder
Eugene, Oregon
November 19, 2010

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Lane Council of Governments
Eugene, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of Lane Council of Governments as of and for the year ended June 30, 2010, which collectively comprise Lane Council of Governments' basic financial statements and have issued our report thereon dated November 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lane Council of Governments' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lane Council of Governments' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lane Council of Governments' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lane Council of Governments' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Lane Council of Governments' financial statements that is more than inconsequential will not be prevented or detected by the Lane Council of Governments' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Lane Council of Governments' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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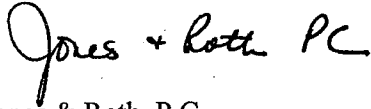
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lane Council of Governments' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Jones + Roth PC". The signature is written in a cursive, flowing style.

Jones & Roth, P.C.
Eugene, Oregon
November 19, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Lane Council of Governments
Eugene, Oregon

Compliance

We have audited the compliance of Lane Council of Governments with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Lane Council of Governments' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lane Council of Governments' management. Our responsibility is to express an opinion on Lane Council of Governments' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lane Council of Governments' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lane Council of Governments' compliance with those requirements.

In our opinion, Lane Council of Governments complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Lane Council of Governments is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered

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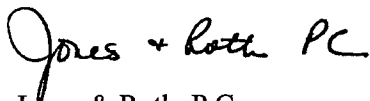
Lane Council of Governments' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lane Council of Governments' internal controls over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-1. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Lane Council of Governments' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Lane Council of Governments' response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Jones & Roth, P.C.
Eugene, Oregon
November 19, 2010

LANE COUNCIL OF GOVERNMENTS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2010

1. Purpose of the Schedule:

The accompanying schedule of expenditures of federal awards is a supplementary schedule to Lane Council of Government's (LCOG's) basic financial statements and is presented for purposes of additional analysis. Because the schedule presents only a selected portion of the activities of LCOG, it is not intended to and does not present either the financial position, the changes in financial position, or cash flows of LCOG.

2. Significant Accounting Policies:

Reporting Entity

The reporting entity is fully described in Note 3 to LCOG's basic financial statements. The schedule includes all federal programs administered by LCOG for the year ended June 30, 2010.

Basis of Presentation

The information in the schedule is presented in accordance with OMB Circular A-133.

Federal Financial Assistance

Pursuant to the Single Audit Act and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, nonmonetary federal assistance, including federal surplus property, is included in federal financial assistance and, therefore, is reported on the schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between LCOG and the federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

Major Programs

The Single Audit Act and OMB Circular A-133 establish criteria to be used in defining major programs. Major programs for LCOG are those programs selected for testing by the auditor using a risk assessment model, as well as certain minimum expenditure requirements, as outlined in OMB Circular A-133. Programs with similar requirements may be grouped into a cluster for testing purposes.

Revenue Recognition

The receipt and expenditure of federal awards are accounted for under the modified accrual basis of accounting. Revenues are recorded when measurable and available, or in the case of grants where expenditure is the prime factor for determining eligibility, when the expenditure is made. Expenditures are recorded when a liability is incurred.

LANE COUNCIL OF GOVERNMENTS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
For The Year Ended June 30, 2010

3. Insurance Coverage:

Insurance in effect during the year ended June 30, 2010 is disclosed in the supplementary information to LCOG's basic financial statements.

4. Loans from the Federal Government:

At June 30, 2010, LCOG owed the U.S. Department of Agriculture \$3,578,008 for loans related to its Intermediary Relending Program.

5. Non-Cash Assistance:

A total of \$192,300 was received in non-cash assistance in the form of interest subsidies on loans from the U.S. Department of Agriculture, and is included in federal revenues and federal awards expended on the schedule.

LANE COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

A. Summary of Auditor's Results:

- (1) The auditor's report expresses unqualified opinions on the financial statements that collectively comprise Lane Council of Governments' basic financial statements.
- (2) No significant deficiencies in internal control were disclosed by the audit of the financial statements.
- (3) No instances of noncompliance material to the financial statements were disclosed during the audit.
- (4) One significant deficiency in internal control was disclosed by the audit of the major federal award programs.
- (5) The auditor's report on compliance for the major federal award programs for Lane Council of Governments expresses an unqualified opinion.
- (6) There was one audit finding relative to the major federal award programs of Lane Council of Governments which is required to be reported under §__510(a) of OMB Circular A-133.
- (7) The programs tested as a major program were:
 - Broadband Technology Opportunities Program (BTOP): CFDA #11.557
 - West Coast Estuaries Initiative: CFDA # 66.119
 - Aging Cluster: Special Programs for the Aging: Title III, Part B (CFDA #93.044), Title III, Part C (CFDA# 93.045), Nutrition Services Incentive Program (CFDA #93.053), ARRA – Aging Home-Delivered Nutrition Services for States (CFDA #93.705), and ARRA – Aging Congregate Nutrition Services for States (CFDA #93.707)
 - Special Programs for the Aging: Title III, Part E (CFDA #93.052)
 - Food Stamp Administration, Type B Funds (CFDA #10.561)
- (8) The threshold for distinguishing between Type A and Type B programs was \$300,000.
- (9) Lane Council of Governments qualified as a low-risk auditee under §530 of OMB Circular A-133.

B. Findings – Financial Statement Audit:

None.

C. Findings and Questioned Costs – Major Federal Award Programs Audit:

Finding 2010-1:

Significant Deficiency in Internal Control: Program managers, who review and work with grants/contracts that contain federal funds, did not always notify the financial reporting department when federal funds were received.

LANE COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

C. Findings and Questioned Costs – Major Federal Award Programs Audit, continued:

Finding 2010-1, continued:

Criteria: OMB Circular A-133, §__.300 requires the auditee to identify all federal awards received and expended and the federal programs under which they were received.

Condition: While performing procedures on the schedule of expenditures of federal awards, we discovered four programs that had not been identified as federal awards. All four awards were from pass-through agencies and each was less than \$100,000. Without proper identification of federal awards it is possible that compliance requirements related to federal awards would not be met and/or the schedule of expenditures of federal awards would be misstated.

Effect of Condition: None. Total federal awards were not significantly greater than the preliminary estimate, the programs were less than the threshold for consideration as a major program, and the omission had no effect on the auditor's determination of major programs. Inquiry of program managers for the programs in question indicated they were aware of program requirements; however we did not test the programs for compliance because they were below the threshold for possible selection as a major program.

Recommendation: Although it is the pass-through agency's responsibility (OMB Circular A-133, §__.400(d)(1)) to inform subrecipients of the details of federal awards, the auditee should be more diligent in ascertaining the source of funds received through pass-through agencies. Program managers should be educated on the importance of communicating the source of funds to those responsible for financial and grant reporting for the auditee.

Auditee Response: As stated by the auditor, all four of the programs that received federal resources that were not placed on the original Schedule of Expenditures of Federal Funds (SEFA) came from funds passed through Lane County or the State of Oregon, not directly from the federal government. It can be difficult to know if local and State of Oregon pass-through amounts include federal resources. The two programs cited from Lane County had not been placed on the SEFA in prior years, so there was no information available to LCOG fiscal staff that those should be reported as federal resources. The two programs from the State of Oregon were processed by a recently hired financial services manager that no longer works at LCOG. LCOG financial services staff plan to educate program managers and revenue sources of the requirement to identify the source of all revenue.

LANE COUNCIL OF GOVERNMENTS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2010

There were no findings or questioned costs reported in the prior year.