

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Clark County Treasurer (Treasurer) is empowered by the State of Washington to act as the fiduciary agent for the County (as Treasurer) and for other junior taxing districts (as ex-officio Treasurer), which includes the receipt, deposit and prudent investment of public funds as legally prescribed by the laws of the State.

Deposits

Cash on hand, demand deposits, and short-term investments with original maturity of three months or less (money market accounts) are classified as cash and cash equivalents. Deposits consist of cash and cash equivalents on deposit with the Treasurer. As of December 31, 2006, the carrying value of deposits was \$128,706,074 and the bank balance was \$129,147,314.

All receipts received by the Treasurer are deposited into qualified bank depositories as specified by the Washington Public Deposit Protection Commission. All of the deposits are either covered by federal depository insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

Equity in Pooled Investments

Investments may be made in the form of commercial paper, banker's acceptances, U.S. Treasury bills, notes, and certain other government agency obligations. County policy dictates that all investment instruments other than non-negotiable certificates of deposit and monies placed with the Washington State Local Government Investment Pool be transacted on the delivery versus payment basis.

County monies are invested by certain individual funds for the benefit of the respective fund in the Clark County External Investment Pool. Remaining County monies are aggregated in a residual account and invested in the pool for the benefit of the General Fund.

Pooled investments, during 2006, included Certificates of Deposit, Commercial Paper, Federal Agencies, Municipal bonds, monies invested with the Washington State Local Government Investment Pool and money market accounts. The carrying value of the County Pool on December 31, 2006 was \$372,898,788 of which \$69,516,554 is classified as deposits.

As of December 31, 2006, the County had the following investments, shown at fair value:

| Investment Type | Fair Value | Weighted Average Maturity (Years) |
|-------------------------------------|--------------------|-----------------------------------|
| Federal Agencies - Disc \$ | 19,516,150 | 0.47 |
| Certificates of Deposit | 60,000,000 | 0.76 |
| Federal Agencies - Semi Annual | 178,148,653 | 1.03 |
| Federal Agencies - Variable | 10,000,400 | 0.13 |
| State Investment Pool | 34,122,086 | 0.00 |
| Municipal Bonds | 1,991,540 | 0.50 |
| | <u>303,778,829</u> | |
| Portfolio weighted average maturity | | 0.79 |

As required by state law, all investments made by the Treasurer's office are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, or certificates of deposit with Washington State banks and savings and loan institutions. All investments are stated at fair value.

Outside Investments (Non-Pooled)

Certain entities direct the Treasurer to invest funds into specific investment maturities outside of the Investment Pool. On December 31, 2006, the following specific investments were held outside the pool:

| <u>Investment Type</u> | <u>Carrying Amount</u> |
|----------------------------|------------------------|
| Treasury Securities - SLGS | \$ 1,328,967 |
| Money Market Accounts | 21,955,147 |
| Federal Agencies | 12,814,965 |
| | <u>\$ 36,099,079</u> |

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the County Treasurer manages exposure to declines in fair values from interest rates by limiting the weighted average maturity of its investment portfolio to maturities that will fulfill the cash flow needs of Clark County and its junior taxing districts. The securities in the portfolio are structured in a manner that ensures sufficient cash is available to meet anticipated cash flow needs, based on historical information. Any cash in excess of that necessary to meet anticipated liquidity needs may be invested with the following maturity limitations:

| Type of Security | Maximum Maturity |
|--|------------------|
| Any single security (unless matched to a specific cash flow requirement) | 5 years |
| Repurchase and Reverse Agreements | 90 days |
| Commercial Paper | 180 days |
| Banker's Acceptances | 185 days |
| Forward Delivery Agreement | 3 years |

The maximum average maturity of the external investment pool cannot exceed one and one half years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To limit risk, state law does not allow general governments to invest in corporate debt. The state law and county policy further limits risk by placing the following credit standards on securities:

| Type of Security | Credit Standards |
|---|---|
| Banker's Acceptances | Highest short-term credit rating at the time of purchase |
| Commercial Paper | A1/P1 and "A" or equivalent |
| Repurchase Agreements and Reverse Repurchase Agreements | "A" if maturity is less than one week, or "AA" if maturity is greater than one week |
| Securities Lending Agreements | Long term rating of "A" or equivalent |
| Deposit Notes | A1/P1 and "AA" or equivalent |
| WA State Municipal Bonds | "A" or equivalent |

The ratings of debt securities as of December 31, 2006 are:

| <u>Debt Security</u> | <u>S&P Rating</u> |
|--|-----------------------|
| Fannie Mae (Federal National Mortgage Association) | AAA |
| Freddie Mac (Federal Home Loan Mortgage Corporation) | AAA |
| Federal Home Loan Bank | AAA |
| Federal Farm Credit Bank | AAA |
| Washington State Investment Pool | Not Rated |

Concentration of Credit Risk

Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Treasurer's policy requires that the portfolio be structured to diversify investments to reduce

the risk of loss by over-concentration of assets in a specific maturity, a specific issuer or a specific type of security. U.S. Treasuries and Federal Agencies (fixed rate) are not limited because they carry little credit risk. The specific limits of each eligible security are described below:

- 1) No more than 5% of the portfolio value will be invested in the securities of any single issuer with the following exceptions:
 - a. US government obligations are not limited
 - b. US agency obligations are limited to 25% per issuer
 - c. Repurchase agreement counterparties are limited to 20% per overnight or 10% if greater than one day
 - d. Non-negotiable certificates of deposit are limited to 10% per issuer
- 2) Limited to no more than 25% in either Commercial Paper or Banker's Acceptances
- 3) Limited to no more than 10% in Federal Agency Variable Rate Notes
- 4) Limited to no more than 65% in the Washington State Local Government Investment Pool or Municipal Investment Accounts
- 5) Limited to no more than 15% in mutual funds qualified & registered with Washington State
- 6) Limited to no more than 20% in Washington State municipal bonds
- 7) Limited to no more than 25% in deposit notes
- 8) Limited to no more than 25% in securities lending agreements
- 9) Limited to no more than 10% of the portfolio value in reverse repurchase agreements
- 10) Repurchase agreements are limited to no more than 100% overnight or 30% if maturity is greater than 30 days
- 11) Limiting the amount of exposure from non-negotiable certificates of deposit to no more than 40% of the total portfolio

The Treasurer has several investments in government sponsored and other private enterprises that are not explicitly backed by the federal government. Those securities that exceed 5% of the total investment portfolio market value are disclosed below:

| Issuer | % of Investment Portfolio |
|--|---------------------------|
| Federal Home Loan Bank | 17.7% |
| Fannie Mae (Federal National Mortgage Association) | 18.4% |
| Key Bank | 20.2% |
| Sterling Savings Bank | 9.8% |

Total Cash, Cash Equivalents and Pooled Investments

Clark County and other jurisdictional governments within the County had a total cash, cash equivalents and investment on December 31, 2006 of \$415,212,438. A reconciliation of cash, cash equivalents, pooled investments and investments as shown on the fund statements is as follows:

| | |
|--|-----------------------|
| Checking Accounts | \$ 3,112,286 |
| Petty Cash | 262,785 |
| Deposit with Fiscal Agents | 245,000 |
| Deposits Held in Trust | 2,792,686 |
| Fair Value of Pooled Investments | 303,251,922 |
| Fair Value of Investments Out of Pool | 36,031,205 |
| Money Market (Pooled investments classified as deposits) | 69,516,554 |
| | <u>\$ 415,212,438</u> |
| Cash, cash equivalents, pooled investments | \$ 178,531,328 |
| Cash, cash equivalents, pooled investments - fiduciary | 200,649,905 |
| Investments -county | 3,484,999 |
| Investments -fiduciary | 32,546,206 |
| | <u>\$ 415,212,438</u> |

External Investment Pool

The Treasurer administers and maintains an External Investment Pool for County and other jurisdictional governments within the County. This Pool currently has an average maturity of approximately seven months.

The Treasurer's Office uses "Bloomberg", an on-line financial services system to determine the fair market value of securities purchased on behalf of the Clark County Investment Pool (Pool). If Bloomberg does not price a particular security, the Treasurer's Office obtains three quotes from broker/dealers to determine the fair market value of the security on the specified date. Bloomberg has a pricing model called "Bloomberg Fair Value" (BFV), which establishes an investment's theoretical value based on where similar bonds, as defined by credit quality and market sector, have traded. This value is not based on market price, but incorporates an option adjusted spread methodology in deriving the theoretical value.

The Treasurer's Office does not report any securities at amortized cost. All securities are reported using the security's fair market value. The Pool is not SEC-registered. Authority to manage the Pool is derived from the Revised Code of Washington (RCW) in RCW 36.29.022. Regulatory oversight is provided by the finance committee, which by statute consists of the Treasurer, the Auditor, and the Chair of the Board of County Commissioners. The committee approves the investment policy and makes all appropriate rules and regulations to carry out the provisions of RCW 36.48.010 through 36.48.060.

The Treasurer's Office uses an investment advisor, which is dependant on budgetary constraints. During 2005, the Treasurer contracted with Public Financial Management, Inc. to review the investment portfolio and assist with the portfolio strategy on a quarterly basis. The Treasurer's Office uses an Intergovernmental Investment Pool Committee that is made up of some of the pool participants from the junior taxing districts within Clark County. The committee meets on a quarterly basis and assists in sharing information with other pool members, regarding the pool strategy and the need for cash management information from the participants. The Treasurer's Investment Strategy Committee is made up of the Treasurer, Deputy Treasurer, Finance Manager, Investment Officer, and Asset/Liability Manager, within the Treasurer's Office, who meet weekly to discuss investment strategies, economic conditions, analysis of yield curve shifts, possible Federal Reserve Board actions, cash flow forecasts, and spreads on various securities. This committee also reviews the fair market value of the Pool.

Participation in the Pool is voluntary. All participants have the option of investing in the Pool, or requesting specific investment amounts and maturity dates for investments outside the Pool. The Treasurer provides monthly fair value investment reports on a fund level to all participants through footnote disclosures. This information is based on the Net Asset Value of each share in the Pool, and is based on each fund's month-end investment balance. For 2006, the Treasurer's Office allocated and reported each participant's share of \$1,573,022 in unrealized gains. The Treasurer allocated and reported the change in fair value on a quarterly basis during 2006, as a minimum.

An interlocal agreement is entered into with each pool participant that allows the Clark County Treasurer's Office to invest their funds in the Pool. There are no specific legally binding guarantees given to participants to support the value of the shares.

| |
|---|
| Condensed Statement of Net Assets Year Ended December 31, 2006 |
|---|

| | |
|---|--------------------|
| Assets | |
| Cash, cash equivalents and pooled investments | 372,768,474 |
| Accrued Interest Receivable | 3,380,096 |
| Total Assets | 376,148,570 |
| Liabilities | |
| Total liabilities | 0 |
| Net assets held in trust for pool participants | 376,148,570 |

The carrying amount of investments is the same as the fair value. An overall interest rate on all investments is calculated. Investment interest rates ranged from 3.8% to 5.2%, and averaged 4.5% for the year. The average maturity dates range from 45 to 372 days.

| |
|--|
| Condensed Statement of Changes in Net Assets Year Ended December 31, 2006 |
|--|

| | |
|---|-----------------------|
| Changes in net assets resulting from operations | \$ 19,054,607 |
| Distributions to participants | (19,054,607) |
| Changes in net assets resulting from depositor transactions | (51,370,491) |
| Net Assets Available | |
| Beginning of Year | \$ 427,519,061 |
| End of Year | |
| Private Purpose Trust Fund | 66,530 |
| Internal Funds | 193,897,662 |
| External Funds | 182,184,378 |
| Total net assets available | \$ 376,148,570 |

B. Property Taxes

Property tax revenues are recognized when they become available, meaning due or past due, and receivable within the current period. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied during October for the ensuing year, and are payable in two installments on April 30th and October 31st. Delinquent property taxes accrue interest at twelve percent per annum and are assessed a penalty of from three to eleven percent, depending on the duration of delinquency.

Clark County bills and collects its own property tax, and also bills and collects property taxes for the State of Washington, cities and towns within the county, school districts, fire districts, cemetery districts, and port districts. Such collections are accounted for in agency funds. The County is permitted to levy taxes for general governmental services, subject to two limitations:

- a) Initiative 747 limits annual property tax increase to 1% or the Implicit Price Deflator (IPD), whichever is less. An increase above 1% is allowed only with voter approval. The 1% limit excludes increases due to the addition of new construction.
- b) The Washington state constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.

The County is also authorized to levy taxes in unincorporated areas for road construction and maintenance, which is subject to the same limitations as the levy for general government services. The maximum amounts which may be levied and the actual 2007 and 2006 levies for the General Fund and the County Roads Fund were (per \$1,000 of assessed value):

| | Maximum Levy | 2007 Actual Levy | 2006 Actual Levy |
|--------------|-----------------|---------------------|---------------------|
| General Fund | \$1.80 | \$1.13 | \$1.34 |
| County Roads | \$2.25 | \$1.53 | \$1.83 |

C. Receivables

Receivables as of December 31, 2006, for the County's individual major funds, nonmajor, internal service and fiduciary funds in the aggregate, including the applicable allowance for uncollectible accounts, are shown in the following table.

| | Taxes | Accounts | Special Assessments | Due from other Governments | Interest & Penalties on Property | Total |
|--|--------------|--------------|------------------------|----------------------------------|--|---------------|
| General Fund | \$ 1,701,713 | \$ 3,330,005 | \$ 0 | \$ 1,220,058 | \$ 3,912,819 | \$ 10,164,595 |
| County Roads | 1,136,478 | 3,034,553 | 0 | 2,435,478 | 0 | 6,606,509 |
| Community Services Grants Nonmajor | 0 | 10,034 | 0 | 764,546 | 0 | 774,580 |
| Governmental | 180,316 | 2,198,026 | 397,151 | 3,870,229 | 0 | 6,645,722 |
| Sanitary Sewer | 0 | 742,564 | 0 | 0 | 0 | 742,564 |
| Clean Water Nonmajor | 0 | 540,263 | 0 | 0 | 0 | 540,263 |
| Enterprise | 0 | 331,206 | 0 | 184,643 | 0 | 515,849 |
| Internal Service | 0 | 736,171 | 0 | 191,193 | 0 | 927,364 |
| sub-total | 3,018,507 | 10,922,822 | 397,151 | 8,666,147 | 3,912,819 | 26,917,446 |
| Fiduciary | 11,267,232 | 895,524 | 0 | 435,179 | 0 | 12,597,935 |
| Total Gross Receivables | \$14,285,739 | \$11,818,346 | \$ 397,151 | \$ 9,101,326 | \$ 3,912,819 | \$ 39,515,381 |

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

| | | |
|--|----------------------------|-------------|
| Property taxes receivable (General Fund) | Unavailable \$1,701,713 | Unearned |
| Interest & penalties on delinquent property taxes (General Fund) | 3,912,819 | |
| Property taxes receivable (Road Fund) | 1,136,478 | |
| Property taxes receivable (other Governmental funds) | 180,316 | |
| Revenues received but not yet earned | | \$ 300,290 |
| Notes and contracts receivable not yet due | 9,756,117 | |
| Telephone revenue (General Fund) | 219,615 | |
| Special assessments not yet due | 397,151 | |
| Grants received prior to meeting all eligibility requirements | | 4,421,082 |
| Total deferred/unearned revenue for governmental funds. | \$17,304,209 | \$4,721,372 |

D. Capital Assets

Capital asset activity for the year ended December 31, 2006 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|-----------------------|----------------------|---------------------|-----------------------|
| Governmental Activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land - restated* | \$ 191,492,912 | \$ 22,126,173 | \$ 452,439 | \$ 213,166,646 |
| Infrastructure - restated* | 506,488,589 | 12,535,573 | 0 | 519,024,162 |
| Construction in progress | <u>85,838,214</u> | <u>(10,871,800)</u> | <u>3,636,155</u> | <u>71,330,259</u> |
| Total capital assets, not being depreciated | 783,819,715 | 23,789,946 | 4,088,594 | 803,521,067 |
| Capital assets, being depreciated: | | | | |
| Buildings | 120,375,357 | 37,741,855 | 877,041 | 157,240,171 |
| Improvements other than buildings | 50,594,303 | 242,255 | (4,233,987) | 55,070,545 |
| Machinery and equipment | 48,023,904 | 4,062,200 | 2,344,607 | 49,741,497 |
| Infrastructure | <u>6,305,095</u> | <u>1,060,692</u> | <u>0</u> | <u>7,365,787</u> |
| Total capital assets being depreciated | 225,298,659 | 43,107,002 | (1,012,339) | 269,418,000 |
| Less accumulated depreciation for: | | | | |
| Buildings | 41,103,300 | 8,457,598 | 686,095 | 48,874,803 |
| Improvements other than buildings | 9,726,592 | 2,475,514 | (79,957) | 12,282,063 |
| Machinery and equipment | 25,231,394 | 3,622,659 | 3,095,889 | 25,758,164 |
| Infrastructure ** | <u>16,323,098</u> | <u>458,021</u> | <u>0</u> | <u>16,781,119</u> |
| Total accumulated depreciation | 92,384,384 | 15,013,791 | 3,702,027 | 103,696,148 |
| Total capital assets, being depreciated, net | <u>132,914,275</u> | <u>28,093,211</u> | <u>(4,714,366)</u> | <u>165,721,852</u> |
| Governmental activities capital assets, net | <u>\$ 916,733,990</u> | <u>\$ 51,883,157</u> | <u>\$ (625,772)</u> | <u>\$ 969,242,919</u> |

Depreciation expense was charged to functions as follows:

| | |
|-------------------------------|------------------|
| General governmental services | \$ 8,295,117 |
| Judicial | 361,052 |
| Public Safety | 401,344 |
| Physical Environment | 108,014 |
| Transportation | 185,404 |
| Economic Environment | 38,488 |
| Mental and physical health | 894,548 |
| Culture and recreation | <u>2,471,214</u> |
| | 12,755,181 |

Depreciation on capital assets held by the County's internal service funds is charged to various functions based upon their usage of the assets.

2,258,610

Total governmental activities depreciation expense

\$ 15,013,791

* Land and Infrastructure was restated, related to roads contributed by developers in prior years.

** Governmental Infrastructure assets were first added in 2001, with the implementation of GASB # 34. All infrastructure was depreciated until 2003, when the County chose to report road, stormwater, and bridge systems using the modified approach. The accumulated depreciation amount includes depreciation on infrastructure that is now classified as capital assets not being depreciated.

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|-----------------------|----------------------|---------------------|-----------------------|
| Business-type Activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 31,144,277 | \$ 1,747,535 | \$ 1,023,496 | \$ 31,868,316 |
| Infrastructure | \$ 51,089,202 | \$ 203,753 | \$ 3,419,811 | 47,873,144 |
| Construction in progress | \$ 10,538,864 | \$ 17,648,716 | \$ 1,075,127 | 27,112,453 |
| Total capital assets, not being depreciated | 92,772,343 | 19,600,004 | 5,518,434 | 106,853,913 |
| Capital assets, being depreciated: | | | | |
| Buildings | 400,781 | 0 | 0 | 400,781 |
| Improvements other than buildings | 73,537,892 | 0 | 0 | 73,537,892 |
| Machinery and equipment | 393,949 | 45,198 | 53,442 | 385,705 |
| Infrastructure | 3,844,029 | 0 | 0 | 3,844,029 |
| Total capital assets being depreciated | 78,176,651 | 45,198 | 53,442 | 78,168,407 |
| Less accumulated depreciation for: | | | | |
| Buildings (1) | 225,079 | (12,413) | 0 | 212,666 |
| Improvements other than buildings | 11,945,243 | 865,910 | 0 | 12,811,153 |
| Machinery and equipment | 209,557 | 30,275 | 48,098 | 191,734 |
| Infrastructure (2) | 4,265,856 | 28,535 | 0 | 4,294,391 |
| Total accumulated depreciation | 16,645,735 | 912,307 | 48,098 | 17,509,944 |
| Total capital assets, being depreciated, net | 61,530,916 | (867,109) | 5,344 | 60,658,463 |
| Business-type activities capital assets, net | <u>\$ 154,303,259</u> | <u>\$ 18,732,895</u> | <u>\$ 5,523,778</u> | <u>\$ 167,512,376</u> |
| Depreciation expense was charged to functions as follows: | | | | |
| Sanitary Sewer (3) | | \$ 831,974 | | |
| Solid Waste | | 10,425 | | |
| Water Quality | | 69,908 | | |
| Total business-type activities depreciation expense | | <u>\$ 912,307</u> | | |

(1) Accumulated Depreciation was adjusted for a building.

(2) Stormwater infrastructure was first added in 2001. All infrastructure was depreciated until 2003, when the County chose to report road, stormwater, and bridge systems using the modified approach. The accumulated depreciation amount includes depreciation on infrastructure that is now classified as capital assets not being depreciated.

(3) This differs from Depreciation operating expense shown on the Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets, which also includes bond premium amortization.

E. Commitments

The County has two projects with large capital commitments as of December 31, 2006 (new taxation/assessment technology and the expansion and improvements of the sewer treatment plant).

| Project | Project Budget | Spent-to-date | Remaining commitment |
|--|----------------|---------------|-------------------------|
| Assessment/Taxation System | \$ 5,400,000 | \$ 1,659,437 | \$ 3,740,563 |
| Sewer Treatment Plant Expansion and Interceptor upgrades | \$ 71,000,000 | \$ 26,400,992 | \$ 44,599,008 |

General obligation bonds finance most of the commitment for the assessment/taxation system system. The treatment plant expansion is being paid for by the City of Battle Ground and Clark Regional Wastewater District, as provided for through an interlocal agreement.

F. Interfund Receivables, Payables and Transfers

Interfund transactions usually involve the exchange of goods and services between funds in a normal

business relationship. The composition of interfund receivables at December 31, 2006 is shown in the following table:

| Due to Other Funds | Due From Other Funds | | | | | | | | Total |
|-------------------------------|----------------------|--------------------|-----------------|----------------|----------------|-----------------------|---------------------|------------------|--------------------|
| | General Fund | Road Fund | Comm. Services | Sanitary Sewer | Clean Water | Nonmajor Governmental | Nonmajor Enterprise | Internal Service | |
| General Fund | 0 | \$5,646 | 0 | \$685 | \$2,696 | \$281,425 | \$158 | \$21,607 | \$312,217 |
| Road Fund | 29 | 0 | 0 | 0 | 363 | 0 | 81,740 | 899 | 83,031 |
| Grants | 12 | | 30,348 | 0 | 0 | 38,549 | 0 | 0 | 68,909 |
| Sanitary Sewer | 0 | 539 | 0 | 0 | 0 | 0 | 0 | 0 | 539 |
| Nonmajor governmental | 120,014 | 23,013 | 7,293 | 0 | | 315,649 | 0 | 182,157 | 648,126 |
| Nonmajor enterprise | 0 | 81,740 | 0 | 0 | 0 | 23,013 | 0 | 0 | 104,753 |
| Internal service funds | 139,552 | 1,040,076 | 33 | 5,926 | 360 | 85,279 | 270 | 14,557 | 1,286,053 |
| Total Due to/ Due from | \$259,607 | \$1,151,014 | \$37,674 | \$6,611 | \$3,419 | \$743,915 | \$82,168 | \$219,220 | \$2,503,628 |

Interfund Advances To/From Other Funds – To Be Repaid in More than One Year

| To | From | Amount |
|-------------------|---|---------------------------|
| County Roads Fund | Road Guarantee Fiduciary Fund (part of "Other Agencies" in Agency Statements) | \$ 318,291 |
| REET Fund | CRESA Emergency Services | <u>1,108,346</u> |
| Total | | <u>\$1,426,637</u> |

The County Roads Fund – Road Guarantee Fund advance is required by State law for the purpose of providing payments to bondholders should the special assessment collections be insufficient to provide for debt service obligations on the special assessment debt. The advance between the REET Fund and CRESA Emergency Services Fund is for financing the replacement of the 800 MHz backbone equipment and CAD/E911 equipment, with repayment to be paid by December 31, 2009.

Interfund transfers represent subsidies and contributions provided to operating funds and capital project funds with no corresponding debt or promise to repay. The purpose of the General Fund transfers is to subsidize capital project activities and debt service, while transfers from nonmajor governmental funds are generally for debt service and capital project funding. Interfund transfers between individual major funds, nonmajor governmental, nonmajor enterprise, and internal service funds of the County during the year ended December 31, 2006 are as follows:

| Transfer out | Transfer In | | | | | | Total |
|------------------------|--------------------|--------------------|--------------------|-----------------------|---------------------|--------------------|---------------------|
| | General Fund | Road Fund | Comm. Services | Nonmajor Governmental | Nonmajor Enterprise | Internal Service | |
| General Fund | \$0 | \$0 | \$1,268,263 | \$7,959,526 | \$0 | \$6,997,018 | \$16,224,807 |
| Road Fund | 0 | 0 | 0 | 1,069,188 | 0 | 0 | 1,069,188 |
| Comm. Services | 0 | 0 | 0 | 249,463 | 0 | 0 | 249,463 |
| Clean Water Fund | 95,000 | 0 | 0 | 0 | 0 | 0 | 95,000 |
| Nonmajor governmental | 7,850,386 | 3,306,500 | 0 | 11,744,338 | 0 | 2,310,299 | 25,211,523 |
| Nonmajor enterprise | 0 | 0 | 0 | 600,000 | 0 | 0 | 600,000 |
| Internal service funds | 67,780 | 0 | 0 | 829,190 | 12,500 | 507,175 | 1,416,645 |
| Total transfers | \$8,013,166 | \$3,306,500 | \$1,268,263 | \$22,451,705 | \$12,500 | \$9,814,492 | \$44,866,626 |

There were approximately \$16 million in routine transfers from the General Fund to other funds to subsidize operations in 2006. In addition, \$13 million was transferred from various funds for debt

services payments. The Building Construction Fund and the Campus Development Fund each transferred \$1.2 million and \$1 million, respectively, to the Central Support Services Fund for reimbursement of maintenance and utilities costs. Several special revenue funds collect sales tax revenues that are then transferred to the General Fund to support law and justice programs. In 2006, this amounted to \$7.1 million.

There were several non-routine and infrequent transfers in 2006, including a General Fund transfer of \$1 million to the Information Reserve Fund for the new assessment/tax system (ATS). The General Fund transferred \$250,000 to the Permanent Reserve Fund to increase fund balance. The Development Impact Fee Fund transferred \$3 million in traffic impact fees to the County Roads Fund for eligible road project costs incurred during 2006.

G. Leases

1. *Operating Leases*

The County is committed under various leases for buildings, office space, and other equipment. Such leases are considered to be operating leases for accounting purposes. Lease expenditures for the year ended December 31, 2006 amounted to approximately \$1,517,000. The future minimum lease payments for these leases are:

| <u>December 31</u> | <u>Amount</u> |
|--------------------|--------------------|
| 2007 | \$1,054,646 |
| 2008 | 1,065,837 |
| 2009 | 1,070,837 |
| 2010 | 1,090,837 |
| 2011 | <u>1,095,837</u> |
| Total | \$5,377,994 |

2. *Capital Leases*

The County has entered into a lease agreement as lessee for financing energy, plumbing and lighting savings improvements in various county buildings, with an interest rate 4.34%. The leased assets and related obligations are accounted for in the statement of net assets. The net capital lease amount shown below reflects the assets continuing to be financed through the capital lease. This lease agreement qualifies as a capital lease for accounting purposes, and has been recorded at the present value of the future minimum lease payments as of the inception date. The minimum capital lease payments reflect the remaining capital obligations on these assets.

| | |
|---|------------------------------------|
| <u>Net Capital Lease Amount</u> | <u>Governmental Activities</u> |
| Building Improvements | \$ 1,318,500 |
| Less Accumulated Depreciation | <u>171,787</u> |
| | <u>\$ 1,146,713</u> |
| <u>Minimum Capital Lease Payments</u> | |
| 2007 | 141,929 |
| 2008 | 141,928 |
| 2009 | 141,928 |
| 2010 | 141,928 |
| 2011 | 141,928 |
| 2012-2014 | <u>425,787</u> |
| <i>Total Minimum Lease Payments</i> | 1,135,428 |
| Less Interest | <u>(184,711)</u> |
| Present Value of Minimum Lease Payments | <u>\$ 950,717</u> |

H. Long Term Debt

General Obligation Bonds

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. The beginning balance of outstanding general obligation bonds issued in prior years was \$149,640,000. During the year, general obligation bonds totaling \$36,285,000 were issued to refund portions of the 1999A and 2001A Limited Tax General Obligation Bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

| Description | <u>Amount Outstanding</u> |
|---|--------------------------------------|
| \$7,985,000 1997 Limited Tax General Obligation Bonds due in annual installments of \$130,000 to \$185,000 through 2007; interest from 4.455% to 4.65%. The Tri-Mountain Golf O & M Special Revenue Fund is servicing this issue. This issue was partially refunded in April 2005. | 185,000 |
| \$20,415,000 1998 Limited Tax General Obligation Bonds due in annual installments of \$320,000 to \$1,250,000 through 2008; interest from 4.50%. The Conservation Futures II Capital Fund (51%) and the Real Estate Excise Tax Capital Fund (49%) service this issue. This issue was partially refunded in April 2005. | 1,700,000 |
| \$6,400,000 1999 Limited Tax General Obligation Bonds due in annual installments of \$250,000 to \$285,000 through 2009; interest from 4.0% to 4.45%. This issue is being serviced by the Real Estate Excise Tax Capital Fund (89%), Tri-Mountain Golf O & M Special Revenue Fund (4%), and the General Fund (7%). This issue was partially refunded in January 2006. | 820,000 |
| \$3,000,000 1999 Limited Tax General Obligation Bonds due in annual installments of \$90,000 to \$135,000 through 2009; interest from 5.0% to 5.6%. The General Fund services this issue. This issue was partially refunded in April 2005. | 390,000 |
| \$37,090,000 2001 Limited Tax General Obligation Bonds due in annual installments of \$50,000 to \$3,065,000 through 2011; interest from 4.125% to 4.5%. This issue is being serviced by the Real Estate Excise Tax Capital Fund. This issue was partially refunded in January 2006. | 3,150,000 |
| \$2,780,000 2002 Limited General Obligation Refunding Bonds due in annual installments of \$70,000 to \$665,000 through 2013; interest from 3.0% to 4.3%. This issue is being serviced by the General Fund. | 815,000 |
| \$11,835,000 2003 Limited Tax General Obligation and General Obligation Refunding Bonds due in annual installments of \$210,000 to \$2,040,000 through 2023; interest from 2.0% to 4.75%. The \$7,440,000 new issue is being serviced by the General Fund, Tri-Mountain Golf O & M Special Revenue Fund, Central Support Services Fund, and CAD 800 MHz System Replacement Fund. The \$4,395,000 1994 LTGO refunding issue is being serviced by Conservation Futures Capital Project Fund and "911" CRESA Special Revenue Fund. | 8,380,000 |

| | |
|---|------------|
| \$5,395,000 2003 Limited Tax General Obligation Refunding Bonds due in annual installments of \$60,000 to \$615,000 through 2016; interest from 2.0% to 4.1%. This issue is being serviced by the Capital Project Real Estate Excise Tax Fund and the "911" CRESA Special Revenue Fund. This issue refunded portions of the 1996A and 1996B LTGO issues. | 5,185,000 |
| \$55,620,000 2004 Limited Tax General Obligation bonds due in installments of \$500,000 to \$3,845,000 through 2034; interest from 3.0% to 5.25%. This issue is being serviced by the General Fund, the Health District Campus Facility Capital Projects Fund, the Exhibition Hall Dedicated Special Revenue Fund, and the Conservation Futures Capital Project Fund. | 54,145,000 |
| \$1,810,000 2004 Limited Tax General Obligation bonds due in installments of \$165,000 to \$235,000 through 2013; interest from 4.0% to 4.63%. This issue is being serviced by the Community Services Grants Special Revenue Fund. | 1,465,000 |
| \$24,520,000 2005 Limited Tax General Obligation Refunding bonds due in annual installments of \$80,000 to \$2,225,000 through 2027; interest from 3.0% to 5.0%. The Conservation Futures II Capital Fund, Real Estate Excise Tax Capital Fund, General Fund, Building Construction Capital Fund, and Tri-Mountain Golf O & M Special Revenue Fund service this issue. This issue refunded portions of the 1997, 1998, and 1999B LTGO issues. | 24,440,000 |
| \$5,715,000 2005B Limited Tax General Obligation bonds due in annual installments of \$80,000 to \$345,000 through 2035; interest from 3.7% to 6%. The Health District Campus Facility Capital Fund services this issue. | 5,715,000 |
| \$36,285,000 2006 Limited Tax General Obligation Refunding bonds due in annual installments of \$290,000 to \$3,025,000 through 2026; interest from 4.0% to 5.0%. This issue is being serviced by the Real Estate Excise Tax Capital Fund, Tri-Mountain Golf O & M Special Revenue Fund, and the General Fund. This issue refunded portions of the 1999A and 2001 LTGO issues. | 36,285,000 |

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

| Year Ending December 31 | Governmental Activities | |
|----------------------------|-------------------------|---------------|
| | Principal | Interest |
| 2007 | \$ 5,705,000 | \$ 6,465,556 |
| 2008 | 5,605,000 | 6,273,596 |
| 2009 | 5,790,000 | 6,068,655 |
| 2010 | 5,625,000 | 5,865,151 |
| 2011 | 5,835,000 | 5,666,879 |
| 2012-2016 | 31,650,000 | 24,437,378 |
| 2017-2021 | 31,320,000 | 16,460,163 |
| 2022-2026 | 34,980,000 | 8,716,541 |
| 2027-2031 | 10,705,000 | 2,524,878 |
| 2032-2035 | 5,460,000 | 550,825 |
| Totals | \$ 142,675,000 | \$ 83,029,622 |

Special Assessment Bonds

The government also issues special assessment bonds for the construction of roads and like improvements in certain areas. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or

delinquent special assessments at the time a debt service payment is due, the County must provide the resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received.

At December 31, 2006, special assessment receivables of \$2,706 were considered delinquent. The special assessment bonds outstanding are as follows:

| <u>Description</u> | <u>Amount Outstanding</u> |
|---|-------------------------------|
| \$582,338 R.I.D. No. 15/16 Special Assessment Bond due in 2014; interest at 5.5% to 7%. These bonds are being serviced by R.I.D. No. 15/16 Debt Service Fund from special assessments levied. | 145,000 |
| \$198,261 R.I.D. No. 17 Special Assessment Bonds due in 2016; interest at 4% to 6.3%. These bonds are serviced by R.I.D. No. 17 Debt Service Fund from special assessments. | 45,000 |
| \$73,954 R.I.D. No. 18 Special Assessment Bonds due in 2019; interest at 6.35%. These bonds are serviced by R.I.D. No.18 Debt Service Fund from special assessments. | 38,954 |

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

| <u>Year Ending December 31</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|-------------------|-------------------|
| 2007 | \$ 0 | \$ 15,456 |
| 2008 | 0 | 15,457 |
| 2009 | 0 | 15,457 |
| 2010 | 0 | 15,456 |
| 2011 | 0 | 15,456 |
| 2012-2016 | 190,000 | 56,980 |
| 2017-2021 | 38,954 | 7,421 |
| Totals | \$ 228,954 | \$ 141,683 |

Revenue Bonds

The County also issues bonds where income derived from the acquired or constructed assets is pledged to pay debt service. The beginning balance of outstanding bonds issued in prior years was \$27,020,000. These bonds are serviced by the Sanitary Sewer Fund as follows:

| <u>Description</u> | <u>Amount Outstanding</u> |
|--|-------------------------------|
| \$5,425,000 2001 Refunding Sewer Revenue bonds due in annual installments of \$80,000 to \$640,000 through 2015; interest from 3.2% to 4.75%. | 4,020,000 |
| \$25,765,000 2001 Refunding Sewer Revenue bonds due in annual installments of \$245,000 to \$3,155,000 through 2016; interest from 3.2 % to 5.25%. | 20,930,000 |

Revenue bond debt service requirements to maturity are as follows:

| <u>Year Ending December 31</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|----------------------|---------------------|
| 2007 | \$ 2,050,000 | \$ 1,222,750 |
| 2008 | 2,150,000 | 1,124,000 |
| 2009 | 2,250,000 | 1,026,400 |
| 2010 | 2,360,000 | 911,487 |
| 2011 | 2,465,000 | 811,188 |
| 2012-2016 | <u>13,675,000</u> | <u>2,140,087</u> |
| Totals | <u>\$ 24,950,000</u> | <u>\$ 7,235,912</u> |

In Proprietary funds, unamortized debt issuance costs are recorded as deferred charges and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt issue costs and discounts.

Advance Due to Other Governments

The County also receives loans from other governments. During 2006, the County drew down \$650,000 from one existing loan, to pay for county road projects. The County has 15 low-interest (.05% and 2%) loans from the State Department of Community Development Public Works Trust Fund that will be repaid within 20 years in annual installments on each loan, which range from \$12,695 to \$187,500 per loan. The funds from these loans were used for sewer improvement projects or county road projects. These loans will be paid back by the Sanitary Sewer Fund and the County Roads Fund.

A loan from the State Department of Transportation for Chelatchie Railroad improvements is also outstanding. This loan is interest free with annual payments of \$13,397, ending in 2008. Advances Due to Other Governments for debt service requirements to maturity are as follows:

| <u>Year Ending December 31</u> | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|------------------------------------|--------------------------------|-------------------|---------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 897,008 | \$ 61,504 | \$ 286,885 | \$ 13,966 |
| 2008 | 897,009 | 57,056 | 286,885 | 10,629 |
| 2009 | 883,611 | 52,668 | 240,058 | 7,292 |
| 2010 | 883,611 | 48,251 | 153,216 | 4,891 |
| 2011 | 696,112 | 43,832 | 153,215 | 3,359 |
| 2012-2016 | 3,480,555 | 166,952 | 182,694 | 2,122 |
| 2017-2021 | 3,480,555 | 79,938 | 0 | 0 |
| 2022-2026 | 1,109,181 | 8,461 | 0 | 0 |
| Totals | <u>\$ 12,327,642</u> | <u>\$ 518,662</u> | <u>\$ 1,302,953</u> | <u>\$ 42,259</u> |

Prior Year Defeasance of Debt

In prior years, the County defeased certain sewer revenue and general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the County's financial statements. At December 31, 2006, \$66,490,000 of bonds outstanding is considered to be defeased.

Advance and Current Refundings

The government issued \$36,285,000 of 2006 general obligation bonds to provide resources to purchase securities that were placed in an irrevocable trust, for the purpose of generating resources for all future debt service payments of the 1999 and 2001 Limited General Obligation Bonds. The refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price of the new debt exceeded the net

carrying amount of the old debt refunded by \$1,902,473. This amount is being netted against the new debt and amortized over the remaining life of the old debt. This advance refunding was undertaken to reduce total debt service payments over the next 22 years by \$3,465,097. This issue resulted in an economic gain from a present value perspective of \$1,468,435.

Changes in Long Term Liabilities

Following is a summary of the County's long-term debt transactions for the year ended December 31, 2006:

| | <u>Balance</u> | <u>Issues</u> | <u>Retirements</u> | <u>Balance</u> | <u>One Year</u> |
|---|-----------------------|----------------------|----------------------|-----------------------|---------------------|
| Governmental activities | | | | | |
| Bonds payable | | | | | |
| General obligation bonds | \$ 149,640,000 | \$ 36,285,000 | \$ 43,250,000 | \$ 142,675,000 | \$ 5,705,000 |
| Special assessment bonds | 228,954 | 0 | 0 | 228,954 | 0 |
| Less deferred amounts | | | | | |
| For issuance discounts/premiums | 2,564,381 | 2,780,724 | 115,423 | 5,229,682 | 115,423 |
| On refunding | <u>(1,257,128)</u> | <u>(1,902,473)</u> | <u>(298,393)</u> | <u>(2,861,208)</u> | <u>(298,393)</u> |
| Total bonds payable | 151,176,207 | 37,163,251 | 43,067,030 | 145,272,428 | 5,522,030 |
| Capital lease | 1,048,210 | 0 | 97,493 | 950,717 | 101,768 |
| Claims and judgments | 2,785,000 | 0 | 265,000 | 2,520,000 | 61,448 |
| Advances due to other governments | 12,699,648 | 650,000 | 1,022,006 | 12,327,642 | 897,008 |
| Compensated absences | 7,587,054 | 12,679,213 | 11,949,284 | 8,316,983 | 214,243 |
| Governmental activity long term liabilities | <u>\$ 175,296,119</u> | <u>\$ 50,492,464</u> | <u>\$ 56,400,813</u> | <u>\$ 169,387,770</u> | <u>\$ 6,796,497</u> |

| | <u>Beginning Balance</u> | <u>New Issues</u> | <u>Retirements</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|-----------------------|---------------------|---------------------------|--------------------------------|
| Business-type activities | | | | | |
| Bonds payable | | | | | |
| Revenue bonds | \$ 27,020,000 | \$ 0 | \$ 2,070,000 | \$ 24,950,000 | \$ 2,050,000 |
| Less deferred amounts | | | | | |
| For issuance discounts/premiums | 358,820 | 0 | 32,620 | 326,200 | 32,620 |
| Total bonds payable | 27,378,820 | 0 | 2,102,620 | 25,276,200 | 2,082,620 |
| Advance due to other governments | 1,589,838 | 0 | 286,885 | 1,302,953 | 286,885 |
| Compensated absences | 198,776 | 235,050 | 232,386 | 201,440 | 16,787 |
| Business-type activity long term liabilities | <u>\$ 29,167,434</u> | <u>\$ 235,050</u> | <u>\$ 2,621,891</u> | <u>\$ 26,780,593</u> | <u>\$ 2,386,292</u> |

For governmental activities claims and judgments are generally liquidated by the General Liability Internal Service Fund and compensated absences are liquidated by the funds incurring the liability. The County is limited to a non-voted debt capacity of 1½% and a voted debt capacity of 2½% of the assessed valuation. At December 31 2006, the remaining non-voted capacity was \$514,619,892 and the remaining voted and non-voted capacity was \$1,070,792,735.

I. Short Term Debt

During the year, the County obtained a tax anticipation note authorized at \$5,000,000 for the purpose of paying expenditures of the General Fund and other funds pending the receipt of taxes and other revenues. This note is drawn down as needed, similar to a line of credit. The following funds shared in the borrowing: Community Services Grants, Substance Abuse, Campus Development, Mental Health, Elections, and Central Support Services. Also, the County obtained a \$10,000,000 tax anticipation note for the purpose of paying expenditures of the County Roads Fund pending the receipt of taxes and grants.

Additionally, several funds issued registered warrants to provide resources in advance of property tax collections and grant receipts. Short term debt activities for the year ended December 31, 2006 was as follows:

| | <u>Beginning Balance</u> | <u>Proceeds</u> | <u>Repayment</u> | <u>Ending Balance</u> |
|--|------------------------------|----------------------|----------------------|---------------------------|
| Tax Anticipation Note (line of credit) | \$ 720,681 | \$ 6,366,906 | \$ 6,764,651 | \$ 322,936 |
| Road Fund Line of Credit | 0 | 22,677,976 | 22,677,976 | 0 |
| <u>Registered Warrants</u> | | | | |
| Child Abuse Intervention | 6,908 | 0 | 6,908 | 0 |
| Elections | 6,760 | 165,305 | 172,066 | 0 |
| Substance Abuse | 0 | 503 | 503 | 0 |
| Central Support Services | 0 | 32,945 | 32,945 | 0 |
| Total Short term Debt | <u>\$ 734,349</u> | <u>\$ 29,243,635</u> | <u>\$ 29,655,049</u> | <u>\$ 322,936</u> |

J. Conduit Debt

The County has authorized the issuance of revenue bonds so that the Industrial Revenue Bond Corporation (IRBC) can finance the acquisition and/or construction of facilities deemed to be in the public interest. The County has no obligation for the debt issued by the IRBC. As of December 31, 2006, the IRBC has the following bond issue outstanding:

| <u>Name of Issue</u> | <u>Date of Issue</u> | <u>Date of Final Maturity</u> | <u>Amount Originally Issued</u> | <u>Redemption to Date</u> | <u>Unmatured Debt</u> |
|----------------------|--------------------------|---------------------------------------|---|-------------------------------|---------------------------|
| Camas Power Boiler | 8/1/1993 | 8/1/2007 | \$15,000,000 | \$13,395,000 | \$1,605,000 |