

MANAGEMENT'S DISCUSSION AND ANALYSIS

Clark County's discussion and analysis provides a narrative overview and analysis of the County's financial activities for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with additional information in the letter of transmittal, which can be found preceding this narrative, and with the County's financial statements and notes to the financial statements which follow this discussion.

FINANCIAL HIGHLIGHTS

- Clark County's total assets exceeded its liabilities at December 31, 2007 by \$1.2 billion.
- Total net assets of the County (governmental and business-type, combined) are comprised of the following:
 - 1) Capital assets, net of related debt, of \$1.03 billion include property, infrastructure, and equipment, net of accumulated depreciation, reduced for outstanding debt related to the purchase or construction of capital assets.
 - 2) Restricted net assets of \$131 million represent the portion restricted by constraints imposed from outside the County such as debt covenants, grants, and laws.
 - 3) Unrestricted net assets of \$65 million represent the portion available to maintain the County's continuing obligations to citizens and creditors.
- As of December 31, 2007, Clark County's governmental activities reported combined ending net assets of \$1.04 billion, compared to \$977 million at the end of 2006 (6.4 percent increase). Details of factors contributing to this increase are discussed later within this management's discussion and analysis. Of the \$1.04 billion in net assets, \$857 million was invested in capital assets, \$131 million was legally restricted for specific projects or programs, and \$51 million was available for spending at the County's discretion.
- The December 2006 adoption of a new 0.2 percent optional sales tax earmarked for law and justice programs and an additional 0.1 percent countywide sales tax earmarked for substance abuse and mental health treatment resulted in \$6.2 million in new revenue for these programs in 2007.
- Unreserved/undesignated fund balance for the General Fund was \$13.8 million at December 31, 2007, compared to \$15 million in 2006. In addition, both years have fund balances designated for specified future service: \$4.1 million in 2007 and \$3.2 million in 2006.
- Clark County's total long term debt at December 31, 2007 was \$190 million, with a remaining capacity for non-voted debt of \$602 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Clark County's basic financial statements which include three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

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

statements distinguish functions of Clark County that are principally supported by taxes and intergovernmental revenues ("governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges ("business-type activities"). Governmental activities include services provided to the public, such as law enforcement and public safety; the superior, juvenile, and district court systems; legal prosecution and indigent defense; jails and corrections; road construction and maintenance; community planning and development; parks and open space preservation; public health; and care and welfare of the disadvantaged and mentally ill. Other general government services provided include elections, property assessment, tax collection, and the issuance of permits and licenses. Business-type activities of Clark County include solid waste, sanitary sewer, and clean water management.

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 the County's 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 on how the County's net assets changed during 2007. 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. As a result, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods, such as revenues pertaining to uncollected taxes, unpaid vendor invoices, and earned but not used vacation and sick leave. This statement separates program income (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program). By separating program revenue from general revenue, users can identify the extent to which each program relies on taxes for funding. Certain administrative costs or indirect costs are allocated to the various programs, but are eliminated from the direct program costs for comparative purposes.

Both of the government-wide financial statements have separate columns for two different types of County programs or activities:

Governmental activities - The activities in this section are primarily supported by taxes and intergovernmental revenues. Most of the County's basic services fall into this category, including general government; public safety; judicial; physical environment; transportation; economic environment; health and human services; culture and recreation; and debt service. Also included within the governmental activities are the operations of five blended component units: Industrial Revenue Bond Corporation, Fairgrounds Site management Group (Clark County Fair Fund), Emergency Medical Services District, Metropolitan Parks District, and the Clark County Public Facilities District. Although legally separate from the County, these component units are blended with the primary government (Clark County) because of their governance relationship with the County and fiscal dependency. These five entities are reflected in the non-major combining special revenue fund statements. You will find further information regarding these blended component units in the *Summary of Significant Accounting Policies*, on the first page of the notes to the financial statements. The County has no separately identified component units included in the government-wide financial statements. The County has also reported its investment in one governmental joint venture: Clark Regional Emergency Services Agency (CRESA). A description of this joint venture is found in note 21 of the notes to the financial statements.

Business-type activities - The total assets and total liabilities between the government-wide statements and fund statements will differ slightly because the "internal balances" line on the government-wide statement combines the "due from other funds" (asset) and the "due to other funds" (liabilities) from the fund statement into a single line in the asset section of the statement.

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Clark County can be divided into three categories: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

Governmental funds are used to account for most of a government's tax-supported activities and are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements' use of accrual accounting, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This gives readers a better understanding of the long-term impact of the government's financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the governmental activities column in the government-wide statements, in order to facilitate this comparison.

The governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances present separate columns of financial data for the General Fund, County Roads Fund, and Community Services Grants Fund, which are considered major funds for financial reporting purposes. The governmental fund financial statements can be found immediately following the government-wide financial statements. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements, outside of the basic financial statements (following the notes to the financial statements).

The County maintains budgetary controls with a biennial appropriated budget to ensure compliance with legal provisions. Budgets for governmental funds are established in accordance with state law, and are adopted on a fund level, except for the General Fund, which is adopted on a department level. A budgetary comparison of revenues, expenditures, and changes in fund balances is provided for the General Fund, all special revenue funds, and all capital project funds. Major fund budgetary variance statements are included with the basic financial statements, while nonmajor fund budget variance schedules follow the combining fund statements. Budgetary variances for the General Fund are discussed in more detail later in this section.

Proprietary funds are used to account for a government's business type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. Proprietary fund statements follow governmental fund statements in this report.

The County maintains two types of proprietary funds:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds account for the County's solid waste, clean water, and sewer operations. The Sanitary Sewer and Clean Water funds are

both considered major funds for financial reporting purposes. The County reports one nonmajor enterprise fund, the Solid Waste Fund.

Internal service funds are used to report activities that provide services to the County's other programs and activities on a cost reimbursement basis. The County uses internal service funds to account for its vehicle fleet, election services, insurance reserves, radio and computer equipment replacement reserves, and various other administrative services. The revenues and expenses of the internal service funds that are duplicated in other funds through allocations are eliminated in the government-wide statements, with the remaining balances included in the governmental activities column. All internal service funds are aggregated in a single column in the basic proprietary fund financial statements.

Fiduciary funds are used to account for resources that are held by a government as a trustee or agent for parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support Clark County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The County has three types of fiduciary funds: 1) Investment Trust Funds (which report the portion of County investments that belong to other jurisdictions), 2) Private Purpose Trust Funds (which report trust arrangements where the principal and interest benefit those outside of the County), and 3) Agency Funds (which are clearing accounts for assets held by Clark County in its role as custodian until the funds are allocated to the private parties, organizations, or government agencies to which they belong). The basic fiduciary fund financial statements can be found following the proprietary fund financial statements.

Notes to the 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 immediately following the basic financial statements in this report.

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Net Assets

Net Assets may serve over time as a useful indicator of a government's financial position. As indicated in the condensed financial information below, which was derived from the government-wide Statement of Net Assets, the County's combined net assets (governmental and business-type activities) were \$1.2 billion at the end of 2007. This is an increase of 8 percent or \$93 million over year-end 2006. Most of the increase is in capital assets. The County spent \$37 million on capital assets (primarily for road construction, parks acquisitions and improvements, and technology projects), developers contributed \$32 million in roads and storm water facilities (including prior period contributions, booked in 2007) and intergovernmental contributions of \$24 million funded the expansion of the sewer treatment plant. Capital asset disposals (mostly roads and stormwater facilities annexed and road right of way sales) and depreciation accounted for a \$29 million decrease in net capital assets. The remaining increase in net assets was in cash and investments, with the County Road Fund (\$5.2 million), Campus Development Fund (\$3.8 million), and new sales tax funds (\$4 million) accounting for most of this increase.

Of the County's total net assets, 84 percent are invested in capital assets less outstanding debt used to acquire those assets (no change from 2006), 11 percent are subject to external restrictions by outside parties, and the remaining 5% (down from 6 percent in 2006), represents the amount that may be used to meet the County's ongoing general purpose obligations.

Total long term liabilities were \$190 million (down \$5.6 million from 2006), with \$9.4 million coming due within a year. Long term liabilities decreased in 2007 due to debt service payments on the debt. Refer to the notes to the financial statements for a more in depth discussion of long term debt note 12.

The condensed financial information that follows is derived from the government-wide Statement of Net Assets and reflects how the County's net assets in 2007 compare with 2006.

	<i>Clark County Net Assets</i>						
	Governmental Activities		Business-type Activities		Total		% Change
	2007	2006	2007	2006	2007	2006	
Current & other assets	\$ 239,498,780	\$ 207,703,009	\$ 44,772,471	\$ 46,795,349	\$ 284,271,251	\$ 254,498,358	11.7%
Capital assets (net of depreciation)	1,000,847,919	969,242,919	199,563,137	167,512,376	1,200,411,056	1,136,755,295	5.6%
Total assets	1,240,346,699	1,176,945,928	244,335,608	214,307,725	1,484,682,307	1,391,253,653	6.7%
Long term liabilities	165,624,347	169,387,770	24,447,345	26,780,593	190,071,692	196,168,363	(3.1%)
Other liabilities	35,783,255	30,621,570	29,907,077	28,284,154	65,690,332	58,905,724	11.5%
Total liabilities	201,407,602	200,009,340	54,354,422	55,064,747	255,762,024	255,074,087	0.3%
Net assets:							
Invested in capital assets, net of related debt	856,838,027	820,236,670	175,353,489	140,933,223	1,032,191,516	961,169,893	7.4%
Restricted	131,249,717	112,923,527	0	0	131,249,717	112,923,527	16.2%
Unrestricted	50,851,353	43,776,392	14,627,697	18,309,755	65,479,050	62,086,147	5.5%
Total net assets	\$ 1,038,939,097	\$ 976,936,588	\$ 189,981,186	\$ 159,242,978	\$ 1,228,920,283	\$ 1,136,179,567	8.2%

Governmental activities - Although net assets of the County's governmental activities increased 6 percent to \$1.04 billion in 2007, \$988 million are either subject to external restrictions as to how they may be used, or are invested in capital assets less any related outstanding debt used to acquire those assets. Unrestricted net assets for governmental activities of \$51 million (up from \$44 million in 2006) are available for future spending.

Business-type activities - Business-type activities saw an increase of 19 percent, or \$31 million in net assets in 2007. Of total net assets, \$175 million is invested in capital assets, net of related debt. Business-type activities use their capital assets to provide services to customers. Consequently, these assets are not available for future spending. \$14.6 million in unrestricted net assets is available for future spending.

Analysis of Changes in Net Assets

The increase in the County's total net assets in 2007 (\$93 million) resulted from revenues exceeding related expenses (\$79 million) and prior year adjustments, mainly for developer contributed roads, storm water facilities and land (\$14 million). The increase in net assets reflects the County's ability to meet its ongoing obligations including its debt service requirements.

Approximately 36 percent of the total revenues came from property, sales and excise taxes. Grants and contributions amount to 36 percent and charges for services account for 23 percent of total revenues. In 2007, total revenues (\$386 million) increased by \$29 million. Governmental activities provided \$346 million in revenues (90%), while business-type activities provided \$40 million. This changed slightly from 2006, when governmental activities accounted for 91% of the total. Total interest earnings increased slightly in 2007, \$1.5 million from 2006.

The County's expenses cover a range of services, the largest of which were for public safety, health and human services, general government and transportation, accounting for 73 percent, combined, of total expenses. County total expenses for the year were \$307 million, up from \$269 million in 2006 (a \$38 million increase). Governmental activities accounted for \$293 million (96%) of total County expenses. Business-type activity expenses went down by \$1.2 million from 2006 because in 2006 expenses were higher from recording losses on disposals and annexations of storm water facilities.

The condensed financial information that follows is derived from the government-wide Statement of Activities and reflects how the County's 2007 changes in net assets compare with 2006.

	Clark County Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Program Revenues						
Charges for services	\$ 75,845,341	\$ 67,052,279	\$ 14,305,472	\$ 13,220,050	\$ 90,150,813	\$ 80,272,329
Operating grants-contributions	84,871,491	80,051,789	423,362	691,184	85,294,853	80,742,973
Capital grants-contributions	29,697,601	37,582,436	24,186,707	17,655,595	53,884,308	55,238,031
<i>General revenues:</i>						
Taxes	139,905,767	127,543,513	0	0	139,905,767	127,543,513
Gain on sale of assets	4,240,428	2,189,341	0	0	4,240,428	2,189,341
Interest earnings	11,328,836	9,818,004	912,017	895,623	12,240,853	10,713,627
Total revenues	345,889,464	324,237,362	39,827,558	32,462,452	385,717,022	356,699,814
Program Expenses:						
General government	54,379,093	53,155,487	0	0	54,379,093	53,155,487
Public safety	68,801,479	63,224,832	0	0	68,801,479	63,224,832
Judicial	15,148,819	13,027,623	0	0	15,148,819	13,027,623
Physical environment	2,770,587	2,021,459	0	0	2,770,587	2,021,459
Transportation	42,264,449	24,831,795	0	0	42,264,449	24,831,795
Economic environment	23,746,274	22,922,354	0	0	23,746,274	22,922,354
Health and human services	57,096,639	50,512,872	0	0	57,096,639	50,512,872
Culture & recreation	22,277,256	17,660,469	0	0	22,277,256	17,660,469
Solid Waste	0	0	3,141,376	2,234,201	3,141,376	2,234,201
Water	0	0	4,566,721	7,168,266	4,566,721	7,168,266
Sewer	0	0	5,811,798	5,276,622	5,811,798	5,276,622
Interest on long term debt	6,667,752	6,718,340	0	0	6,667,752	6,718,340
Total expenses	293,152,348	254,075,231	13,519,895	14,679,089	306,672,243	268,754,320
Excess (deficiency) of revenues over (under) expenses	52,737,116	70,162,131	26,307,663	17,783,363	79,044,779	87,945,494
Transfers	98,990	682,500	(98,990)	(682,500)	0	0
Change in Net Assets	52,836,106	70,844,631	26,208,673	17,100,863	79,044,779	87,945,494
Net assets as of January 1	976,936,589	883,245,469	159,242,978	142,570,420	1,136,179,567	1,025,815,889
Prior period adjustments	9,166,402	22,846,489	4,529,535	(428,305)	13,695,937	22,418,184
Net Assets as of December 31	\$ 1,038,939,097	\$ 976,936,589	\$ 189,981,186	\$ 159,242,978	\$ 1,228,920,283	\$ 1,136,179,567

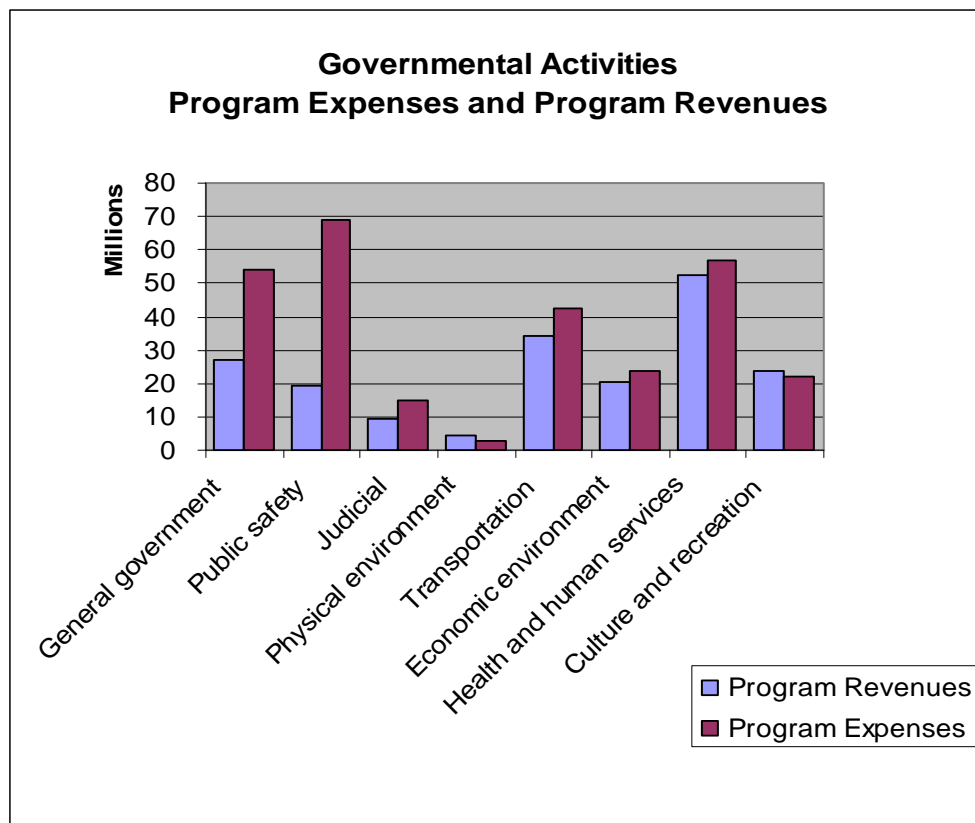
Governmental activities - Governmental activity revenues increased by \$22 million over 2006, while expenses increased by \$39 million. Taxes contributed to \$12 million of the increase in revenues, while charges for services increased by \$9.5 million. Property taxes increased by \$8.4 million while sales taxes increase by \$6.7 million for mainly because of new local option sale taxes approved in 2007 for law and justice and mental health programs. The charge for services increase was mainly due to additional park improvement and maintenance reimbursements from the City of Vancouver through an interlocal agreement (\$5 million) and increased transportation impact fees (\$1.2 million) from a new impact fee area.

Transportation expenses saw the largest increase, \$17 million dollars, in 2007 from 2006, in part due to annexations of roads and land by other jurisdictions and increased costs relating to the

services the County Road Fund provided to the City of Vancouver for the newly formed metropolitan parks district. Health and human services expenses increased by \$7 million in 2007, mainly in the mental and public health programs which were mostly funded by intergovernmental revenues. Public safety programs saw the next largest increase from 2006 with a \$5.5 million increase for law and justice programs.

Culture and recreation expenses increased \$5 million in 2007, mainly because of increased expenses of \$3 million for the continued clean-up of the old Camp Bonneville army site which is funded by an operating grant. In addition, the Clark County Public Facilities District has been identified as a blended component unit of the County and so \$1.5 million in additional culture and recreations expenses were added in 2007 for this new fund. General government expenses increased only \$1 million from 2006.

The following graph illustrates the governmental activities program revenues and expenses by function.



Business-type activities - Revenues increased from 2006 by \$7.4 million mainly from capital contributions by other jurisdictions for the sewer treatment plant upgrade. Total expenses for business-type activities fell by \$1.2 million. The sewer and solid waste programs had increases in expenses of \$500,000 and \$900,000 respectively, while the clean water program reported a decrease in expense of \$2.6 million, in part because in 2006 expenses were higher from recording losses on disposals and annexations of storm water facilities.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, Clark County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The following is a discussion of the financial highlights of the County's governmental and proprietary funds.

Governmental Funds Analysis

The focus of Clark County's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Unreserved/undesignated fund balance serves as a useful measure of the County's net resources available for spending at the end of the fiscal year.

As of December 31, 2007, the County's governmental funds reported combined ending fund balances of \$170 million, an increase of \$25.4 million in comparison with the prior year. Approximately 94 percent (\$160.6 million) constitutes unreserved, undesignated fund balance which is available for spending in the coming year at the County's discretion. The remainder of the fund balance is reserved or designated for debt service, prepayments, technology improvements, housing, community development programs, and compensated absences. Most of the \$25.2 million increase is due to an increase in cash and investments balances (\$18 million), composed of a \$4.8 million increase in the County Road Fund from delayed road projects and several increases in the nonmajor funds totaling \$13 million (this amount is due to the establishment of two new sales tax funds, the Metropolitan Parks District Fund showing a full year of activity for the first time, and the Campus Development Fund's collection of building rents for the center for community health, which was completed in 2006). The remainder of the increase in fund balances includes \$4 million in grants receivable for parks, a \$4 million increase in notes receivable for first home loans in the Community Services Grants Fund, and \$2 million in notes receivable in the Clark County Public Facility District blended component unit fund (which was added to the County's fund statements for the first time in 2007).

Overall governmental fund revenues totaled approximately \$317 million for 2007, which represents an increase of 7 percent, or \$21 million over the year ended December 31, 2006. The increase was primarily due to strong growth in property taxes (up \$4.4 million), retail sales and use taxes (up \$6.6 million), increases in intergovernmental revenues and grants (up \$3.4 million), and charges for services, mainly in the County Roads Fund for reimbursements from the city of Vancouver for metropolitan parks projects (up \$7.5 million).

The General Fund, County Roads Fund, and Community Services Grant Fund were the only major governmental funds in 2007.

The **General Fund** is the chief operating fund for the County. At the end of 2007, total fund balance for the General Fund equaled \$17.9 million, compared to \$18.3 million at the end of 2006. Unreserved, undesignated fund balance, the amount considered available to spend, totaled \$13.8 million at the end of 2007. Of this, \$4.1 million has been designated for compensated absences (\$1.8 million) and for development services within the special revenue County Building Fund (\$2.3 million).

General Fund revenues increased by 4 percent, or \$4.5 million, from 2006 to 2007, mainly due to increased property tax revenues and intergovernmental (grant) revenues. General Fund expenditures increased 12.6 percent or \$13 million from the previous year. The largest expenditure increases were in public safety programs (\$5 million); general government programs (\$3 million); and judicial programs (\$2 million). Most of the expenditure increases were a result of staffing increases in the Sheriff, Clerk, Superior Court, Assessor, and Indigent Defense departments, as a result of the adoption of a new 0.2 percent optional sales tax earmarked for law and justice programs. The remainder of the General Fund expenditure increase was due to a reorganization of the planning and code department, with four programs (community planning, animal control, fire marshal, and code enforcement) moving to the General Fund in 2007 from the special revenue County Building Fund. Transfers-in increased by \$5 million mainly from the transfer of sales tax monies earmarked for law and justice programs.

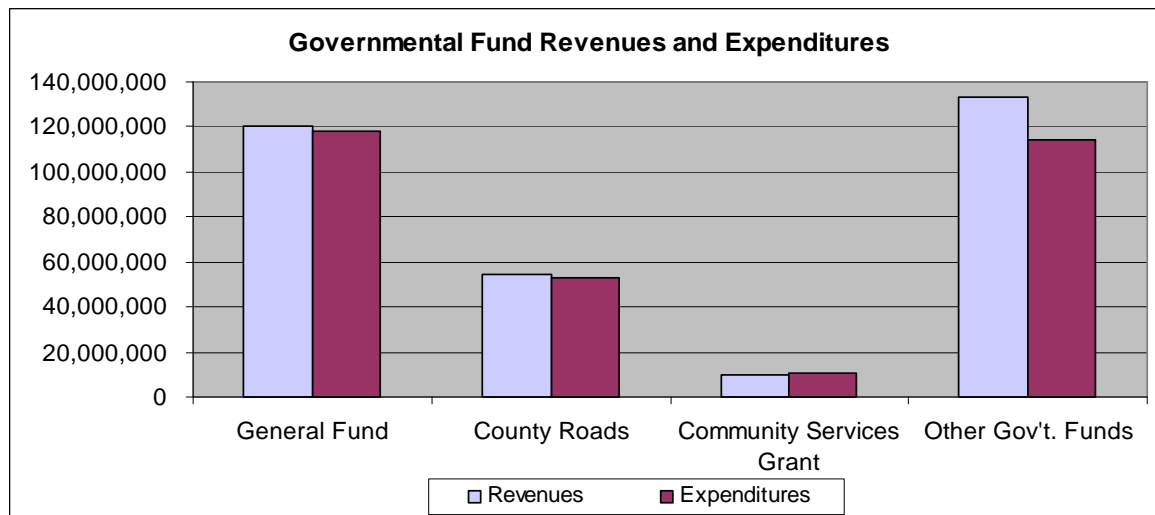
In 2007, there was a decrease in fund balance of \$0.8 million. A prior period adjustment resulted in a \$364,056 overall reduction of fund balance, from the December 31, 2006 financial statement.

County Roads Fund, a special revenue fund, is used to account for the maintenance and operations of the public roads and bridges of the County. At the end of the current fiscal year, total fund balance increased by \$7.5 million. Most of the increase was due to increased charges for services (\$5.5 million), as explained earlier, for City of Vancouver reimbursements for metropolitan park district projects. In addition, property tax revenues increased \$2.6 million. During the same period, County Road Fund expenditures increased by only \$1 million, as several road projects were delayed during the year.

Community Services Grants Fund is a special revenue fund that receives the majority of its funding through state and federal grants for various housing, weatherization, and youth programs. In 2007, the fund balance remained almost the same at \$4.5 million as compared with 2006 (\$4.4). The notes receivable and deferred revenue amounts both increased by \$4 million due to the recording of home loans for first time home buyers from Community Development Block Grant funds. Revenues decreased by \$1.4 million, mainly in the area of intergovernmental grant revenues, which decreased due to two federal multi-year grant programs coming to closure in 2007. Expenditures decreased by about \$0.4 million in 2007.

Governmental Funds Revenue/Expenditure Analysis

The following chart shows the revenue and expenditure amounts for the year ended December 31, 2007 for the three major governmental funds and for all other governmental funds, combined. Revenues don't include interfund transfers or proceeds from debt and the sale of assets.



Proprietary Funds Analysis

The County's enterprise funds provide the same type of information found in the government-wide financial statements for business-type activities. This information is presented in the same accounting, but provides more detail. Internal service funds, although proprietary, are not included in the following section.

Clark County has three enterprise funds, two of which (Sanitary Sewer and Clean Water) are considered major funds. Enterprise funds net assets increased by \$31 million mainly as a result of additional capital assets in the form of construction of the expanded sewer treatment plant (\$27

million) and new storm water land and facilities (\$6 million). The table that follows reflects the Enterprise Funds Statement of Net Assets for the year ending December 31, 2007.

Clark County Washington
Enterprise Funds - Statement of Net Assets

	Major				Non-Major		Total	
	Sanitary Sewer		Clean Water		Solid Waste			
	2007	2006	2007	2006	2007	2006		
Total current assets	4,585,331	4,733,285	11,246,376	10,613,273	5,035,878	5,288,036	20,867,585	20,634,594
Total noncurrent assets	140,108,918	116,456,518	82,672,232	76,580,637	698,055	728,174	223,479,205	193,765,329
Total assets	144,694,249	121,189,803	93,918,608	87,193,910	5,733,933	6,016,210	244,346,790	214,399,923
Total current liabilities	6,412,856	3,323,505	1,532,103	875,299	546,546	310,887	8,491,505	4,509,691
Total noncurrent liabilities	45,752,449	50,550,910	79,361	63,511	42,289	32,833	45,874,099	50,647,254
Total liabilities	52,165,305	53,874,415	1,611,464	938,810	588,835	343,720	54,365,604	55,156,945
Total net assets	\$ 92,528,944	\$ 67,315,388	\$ 92,307,144	\$ 86,255,100	\$ 5,145,098	\$ 5,672,490	\$ 189,981,186	\$ 159,242,978

The **Sanitary Sewer** Fund accounts for operations, maintenance, capital improvements and expansions of the County's waste water facility and sewer lines. Net assets of the Sewer Fund increased \$25.2 million from 2006 as a result of capital contributions and operating income. The Sewer Fund reported \$2.7 million in operating income in 2007 and \$23.6 million in capital contributions for the treatment plant expansion, which is fully funded by two other government entities. The Sewer Fund is in the middle of a \$71 million facilities expansion and upgrade of the treatment plant.

The **Clean Water** Fund accounts for the operations, maintenance, and capital improvements of the County's water pollution control facilities. Total net assets in the Clean Water Fund were \$92.3 million at the end of 2007. Of this amount, 90 percent (\$82.7 million) was invested in capital assets, net of related debt, with the remaining 10 percent (\$9.6 million) unrestricted and available for spending. Net assets increased by \$6 million in 2007 from 2006, due to capital improvements (most of which were prior period contributions by developers). Total operating revenues for 2007 were \$4.9 million (no change from 2006), while operating expenses were \$4.6 million (an increase of \$1 million from 2006).

Enterprise Funds Revenue and Expense Analysis

Capital contributions by developers for storm water facilities (including prior year adjustments of \$4.5 million) and intergovernmental capital contributions for upgrades at the sewer treatment plant were the main factors for net assets in the Sewer and Clean Water funds increasing in 2007. Total enterprise operating revenues increased by \$1 million from increased fees in solid waste and sewer programs, while total operating expense in the enterprise funds increased by \$3 million. A new program of bio-solid management at the treatment plant, increased curb-side recycling expenditures in the Solid Waste Fund, increases in interfund expenditures within the Clean Water Fund, and an increase in depreciation expenses make up the bulk of the increased expenses in the enterprise funds.

The following table reflects the Enterprise Funds revenues and expenses for the year ending December 31, 2007, compared to the prior year.

Clark County Washington
Enterprise Funds - Revenues and Expenses

	Major				Non-Major		Total	
	Sanitary Sewer		Clean Water		Solid Waste			
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Total operating revenues	\$ 7,219,758	\$ 6,773,251	\$ 4,888,398	\$ 4,873,401	\$ 2,112,605	\$ 1,561,936	\$ 14,220,761	\$ 13,208,588
Total operating expenses	4,595,377	3,362,858	4,566,721	3,794,468	3,141,376	2,234,201	12,303,474	9,391,527
Operating income (loss)	2,624,381	3,410,393	321,677	1,078,933	(1,028,771)	(672,265)	1,917,287	3,817,061
Total non- operating revenues (expenses)	(1,018,416)	(1,694,275)	716,716	(2,916,808)	505,369	921,790	203,669	(3,689,293)
Income (loss) before transfers and contribution	1,605,965	1,716,118	1,038,393	(1,837,875)	(523,402)	249,525	2,120,956	127,768
Capital contribution	23,607,591	16,457,817	579,116	1,197,778	0	0	24,186,707	17,655,595
Transfers, net	0	0	(95,000)	(95,000)	(3,990)	(587,500)	(98,990)	(682,500)
Change in net assets	25,213,556	18,173,935	1,522,509	(735,097)	(527,392)	(337,975)	26,208,673	17,100,863
Net Asset, January 1	67,315,388	49,141,453	86,255,100	87,418,502	5,672,490	6,010,465	159,242,978	142,570,420
Prior year adjustments	0	0	4,529,535	(428,305)	0	0	4,529,535	(428,305)
Net assets, December 31	92,528,944	67,315,388	92,307,144	86,255,100	5,145,098	5,672,490	189,981,186	159,242,978

GENERAL FUND BUDGETARY HIGHLIGHTS

Analysis of Original versus Final 2007/2008 Budget

The County adopts a biennial budget which is amended during the budget years by supplemental appropriation resolutions. General Fund budgeted revenues increased by 2% from the original budget, while budgeted expenditures also increased by 2%. Budgeted revenues increased mainly in the intergovernmental category for additional grants received during the year. Budgeted expenditures increased in public safety mainly for jail inmate medical services (\$1.5 million), additional law enforcement personnel, and costs associated with a regional emergency response exercise (\$1.3 million). In other expenditures, increases were for transportation programs related to the new community planning department (\$2 million), for capital outlay for a new drug court treatment building (\$550,000), and for computer storage capacity increases (\$500,000). Net interfund transfers increased by 215%, more than double the original budget amount. Most of the interfund transfer increase was for a \$2 million technology upgrade designated in 2006 and for regular and one-time subsidies to the County Building special revenue fund for planning and code development services (\$2.5 million).

General Fund Budget to Actual Comparison

The following table shows the changes between the original and the final biennial General Fund budget, and the variances between the final budget and the actual revenues and expenditures, as of December 31, 2007.

Clark County Washington

**General Fund Budgeted and Actual Revenues and Expenditures
For the Year Ended December 31, 2007**

	Original 2007/2008 <u>Budget</u>	Final 2007/2008 <u>Budget</u>	Change Positive / (Negative)	Actual Biennium- To-Date	Variance Positive / (Negative)	Percentage of Actual to Final Budget
<u>Revenues:</u>						
Taxes	\$ 145,122,696	\$ 145,122,696	\$ 0	\$ 69,556,343	\$ (75,566,353)	48%
Intergovernmental	40,484,014	43,574,880	3,090,866	21,783,199	(21,791,681)	50%
Charges for services	37,600,401	39,494,029	1,893,628	18,515,403	(20,978,626)	47%
Other revenues	16,267,036	16,476,368	209,332	10,127,792	(6,348,576)	61%
Total revenues	<u>239,474,147</u>	<u>244,667,973</u>	<u>5,193,826</u>	<u>119,982,737</u>	<u>(124,685,236)</u>	49%
<u>Expenditures</u>						
General government	80,704,946	80,118,577	586,369	36,061,762	44,056,815	45%
Public safety	119,952,767	122,803,237	(2,850,470)	58,667,384	64,135,853	48%
Judicial	29,623,357	30,333,843	(710,486)	14,670,435	15,663,408	48%
All other expenditures	18,835,118	21,911,769	(3,076,651)	8,953,713	12,958,056	41%
Total expenditures	<u>249,116,188</u>	<u>255,167,426</u>	<u>(6,051,238)</u>	<u>118,353,294</u>	<u>136,814,132</u>	46%
Excess (deficiency) of revenues over expenditures	(9,642,041)	(10,499,453)	(857,412)	1,629,443	12,128,896	-16%
Other financing sources	1,440,584	1,440,584	0	934,013	(506,571)	65%
Net Interfund transfers	<u>(4,367,291)</u>	<u>(9,385,951)</u>	<u>(5,018,660)</u>	<u>(3,386,908)</u>	<u>5,999,043</u>	36%
Net change in fund balance	(12,568,748)	(18,444,820)	(5,876,072)	(823,452)	17,621,368	4%
Fund Balance - January 1	20,351,387	20,351,387	0	18,254,438	(2,096,949)	90%
Prior Period Adjustment	<u>0</u>	<u>0</u>	<u>0</u>	<u>459,396</u>	<u>459,396</u>	0%
Fund Balance -1/1-restated	<u>20,351,387</u>	<u>20,351,387</u>	<u>0</u>	<u>18,713,834</u>	<u>(1,637,553)</u>	92%
Fund balance -December 31	<u>\$ 7,782,639</u>	<u>\$ 1,906,567</u>	<u>\$ (5,876,072)</u>	<u>\$ 17,890,382</u>	<u>\$ 15,983,815</u>	938%

Since the County adopts a biennial budget, comparison between the final budget and actual amounts are difficult to analyze in depth. Total revenues are running at 49 percent of budget at the end of 2007, about what you should expect. The second year of the biennium should result in slightly higher property taxes, which is the major revenue source for the County. Total expenditures are running at 46 percent, which is a little behind anticipated results for year-end. This is due mainly to vacancies in law and justice and mental health positions (which were authorized under the new optional local sales tax resolution) that will not be filled until 2008. The net amount of interfund transfers is only at 36 percent because a \$10 million budgeted transfer for a new jail facility has not yet been made.

CAPITAL ASSET, INFRASTRUCTURE, AND DEBT ADMINISTRATION

Capital Assets

Clark County's total investment in capital assets for its governmental and business type activities as of December 31, 2007, is \$1.2 billion (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, road and bridge subsystems, stormwater facilities, trails, and construction in progress on buildings and systems. Of this amount, 48 percent is from infrastructure such as roads, bridges, and storm water facilities. Land makes up 22 percent of the County's capital assets, and construction in progress make up 11 percent. Major capital asset events during the current fiscal year included the following:

- A variety of projects for new road construction and expansion of existing roads were ongoing during the year. The County spent \$19 million in 2007 on road projects.
- Vehicles, road equipment, and trailers were added to the fleet as either new equipment or replacements during the year, at a cost of \$1.4 million. Fleet equipment with an original cost of \$1.1 million and a net depreciated value of \$189,978 was disposed of in 2007.
- Park acquisitions and improvements amounting to \$6.2 million were added in 2007.
- The Sanitary Sewer Fund is in construction phase number four of the expansion of the Salmon Creek Treatment Plant. Project costs in 2007 were \$24 million dollars, and included construction work on interceptor and transmission lines, pump station upgrades, and planning and engineering costs. In addition, Clark Regional Wastewater District contributed a pump station upgrade to the County, at a value of \$3.2 million. The phase four expansion will continue for several years, and is expected to cost \$71 million at completion.
- Residential roads and right of way contributed by developers in 2006 and 2007, at a value of \$26 million, were added to County capital assets in 2007 (see note #23 in notes to financial statements for prior period detail). In 2007, road annexations valued at \$5.6 million were removed from County capital assets.
- Stormwater facilities and land contributed by developers in 2005, 2006, and 2007, at a value of \$5.1 million, were added to County capital assets in 2007 (see note #23 in notes to financial statements for prior period detail).

Infrastructure

The County has elected to use the modified approach in reporting roads, bridges and storm water facilities. Under the modified approach, asset condition is reported rather than recording depreciation. The rating scales for roads, bridges, and storm water facilities are further explained in the required supplementary information which follows the notes to the basic financial statements.

The County performs condition assessments on its network of roads using the County's pavement management system, which generates a pavement condition index (PCI) for each segment of road. The PCI is a numerical index on a 100-point scale that represents the pavement's functional condition based on the quantity, severity, and type of visual distress. Condition assessments are undertaken every three years. Maintenance and preservation activities have been budgeted at sufficient levels to maintain the road condition to a level at or above the established standard. The County spent \$14.6 million for road system preservation and maintenance in 2007, or 95% of the annual budget of \$15.4 million.

Most of the County's bridges were built prior to 1980, and are not included in the listing of capital asset infrastructure, in accordance with reporting requirements. However, all County bridges are monitored and assessed every twenty four months, at a minimum. The County has employed detailed State mandated evaluation methodologies for several years in managing the bridge network, and the ratings are sent to the State of Washington and are incorporated in a state-wide bridge inspection database. Maintenance activities are budgeted at sufficient levels to maintain the bridge condition to a level at or above the established standard. Due to the timing of maintenance schedules and other efficiencies in 2007, the County spent only 88% of the annual budget (\$288,093 out of a \$326,345 budget) for bridge maintenance during the year.

Storm water facilities consist mainly of holding ponds, and are commonly earthen in construction with no moving parts or non-earthen structural layers. A few facilities include some rugged construction, generally consisting of cinderblock retention walls. The storm water facilities are

intended to collect water and allow it to seep into the ground over time. There is very little maintenance or preservation activity required for this subsystem, when compared to the investment in the subsystem. The County spent \$328,225 for storm water maintenance in 2007, or 99.5% of the annual budget of \$330,000.

The following is a table which shows the value of infrastructure assets being reported using the modified approach and how their current assessed condition compares with the condition level established by the County:

**Infrastructure Assets Using the Modified Approach
Condition Assessment as of December 31, 2007**

	<i>Accum.</i>			<i>Average Assessment Value</i>			<i>Established</i>
	<i>Historical</i>	<i>Depreciation</i>	<i>Net</i>	*			<i>Condition</i>
	<i>Cost</i>	<i>as of 12/31/02</i>	<i>Cost</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>Level</i>
Road Subsystem	509,214,711	16,553,296	492,661,415	87	89	89**	70
Stormwater Subsystem	51,992,131	4,260,384	47,731,747	87**	86	86**	70
Bridges Subsystem	10,434,962	288,802	10,146,160	74	73	73	50
Total	571,641,804	21,102,482	550,539,322				

*Although the County has only recorded infrastructure constructed after 1980 on the capital asset listing, all county roads, stormwater facilities, and bridges are assessed, regardless of when they were constructed.

** Indicates that a complete assessment was not done during this period, and the rating applies to the last period for which a complete assessment was done

Each of the three infrastructure categories in the table above had an average assessed value well above the established condition level. Road and storm water subsystem condition assessments are done on a rotating basis, where a full assessment is completed over a three year cycle, at a minimum. Bridges are assessed every two years, at a minimum.

Additional information on Clark County's capital assets can be found in note #7 of the notes to the financial statements.

Debt Administration

At December 31, 2007, Clark County had total bonded debt outstanding of \$162 million (compared to \$171 million at December 31, 2006). Governmental activities had general obligation bonds payable of \$138.8 million (down \$6.2 million from 2006) which is backed by the full faith and credit of the County. Business-type activities had \$23 million in revenue bonds payable (a decrease of \$2 million from 2006) which are secured solely by specified revenue sources. The decrease in bonded debt outstanding was due to \$5.7 million and \$2.1 million debt service payments in governmental activities and business-type activities, respectively. The County maintains a Moody's Aaa rating for its limited tax general obligation debt. The County's revenue bonds maintain a Moody's Aaa rating and a Standard & Poor's AAA rating. Additional information on the County's long-term debt can be found in notes 11 and 12 of the notes to the financial statements.

ECONOMIC OUTLOOK

Economic factors have a direct impact on County revenues and the demand for services. Overall, the County's financial condition remains healthy. The County's main revenue source includes taxes, charges for service and intergovernmental (grant) revenues. The County experienced unprecedented growth in building construction activities and population growth from 1990 through 2005. In late 2005, building activities began declining and continued to decline through 2007. Currently, building activities are at the lowest level in the past 10 years.

In 2007, property taxes make-up 24% of total government-wide revenues. Even though property taxes tend to be stable, State and voter approved limitations to property taxes have kept the property tax increases to 1 percent each year, plus any new construction. Due to the time lag in assessing new construction, the recent building slowdown did not impact 2007 property taxes.

In addition, the local inflation rate increased to 4.1 percent at the end of December 2007, compared to 2.5 percent in 2006. Another major revenue source, retail sales and use taxes, increased in 2007 due to new sales taxes mentioned below. Excluding the new sales taxes, there was a slight decrease in sales tax revenue that can be attributed to the slow down in construction activity. Non-construction retail sales had modest growth.

There have been a series of voter initiatives over the last several years, as well as both State of Washington and Federal legal changes that will have an impact on future finances of the County. A listing of legislative conditions and decisions that may significantly affect the future financial condition of the County follows:

- Initiative 747 which was approved by voters in Washington on November 6, 2001, limits the 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.
- Senate Bill 6211 took effect in 1997. This bill allows counties to recoup costs for regional services for misdemeanor offenders. This includes the costs associated with District Court, Corrections, and Jail Services. In 2007, the County recouped about \$6.2 million.
- In December 2006 the Board of County Commissioners passed a resolution increasing the optional sales tax by 0.2% to provide additional funding for law enforcement and courts, and an additional 0.1% countywide sales tax to raise revenue for substance abuse, mental health treatment, and enhanced therapeutic jurisprudence. Both increases were effective beginning April 2007.

The County experienced a 3.8% increase in population, county unemployment went from 5.2% in 2006 to 5.6% in 2007, and there were 1,703 building permits issued in 2007.

Requests for Information

This financial report is designed to provide a general overview of Clark County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Auditor's Office, Clark County, 1300 Franklin Street, P.O. Box 5000, Vancouver, WA, 98666-5000.