

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, 2008. 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 experienced an economic downturn in 2008, mainly from declining activity related to the housing industry and slow retail sales.
- Clark County's total assets exceeded its total liabilities at December 31, 2008 by \$1.29 billion, compared to \$1.23 billion in 2007 (5 percent increase). Details of factors contributing to this increase are discussed later within this management's discussion and analysis.
- Total net assets of the County (governmental and business-type, combined) are comprised of the following:
 - 1) Capital assets, net of related debt, of \$1.1 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 \$130 million represent the portion restricted by constraints imposed from outside the County such as debt covenants, grants, and laws.
 - 3) Unrestricted net assets of \$57 million represent the portion available to maintain the County's continuing obligations to citizens and creditors.
- As of December 31, 2008, Clark County reported a change in net assets (before prior year adjustments) of \$63 million, compared to \$79 million at the end of 2007 (20 percent decrease). Details of factors contributing to this decrease are discussed later within this management's discussion and analysis.
- Unreserved/undesignated fund balance for the General Fund was \$6.1 million at December 31, 2008, compared to \$13.8 million in 2007. In addition, both years have fund balances designated for specified future service: \$4.7 million in 2008 and \$4.1 million in 2007.
- Clark County's total long term debt at December 31, 2008 was \$194 million, with a remaining capacity for non-voted debt of \$582 million. Long-term debt increased in 2008 resulting from capital lease proceeds of \$8 million for energy conservation equipment and \$4.2 million for road improvement projects.

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 storm 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 2008. 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 - 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 beginning* 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" are combined into a single line in the asset section on the government-wide 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, general obligation bond fund 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, storm 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. Individual fund data can be found in the combining 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 \$1.29 billion at the end of 2008. This is an increase of 5 percent or \$62 million over year-end 2007. Most of the increase is in capital assets which increased by \$77 million.

Capital assets increases are primarily for road construction, parks acquisitions, sewer treatment plant improvements, and technology projects. Contributed assets totaled \$44.2 million, with developers contributing \$13.4 million in roads, land and storm water facilities. Intergovernmental contributions of \$30.8 million funded parks acquisition and development, expansion of the sewer treatment plant, and land returned to the County previously deeded to Washington State University. Capital asset disposals consisted mostly of fleet vehicles and technology assets.

Current assets decreased \$4.5 million, mainly in the business activities cash and investments and receivables in the governmental activities. Total liabilities increased \$11 million primarily for increased park project reimbursements to the city of Vancouver and for payments on new sustainability energy efficient improvements. In addition, long term liabilities increased by \$4

million with the new capital lease for the sustainability energy project and public works trust fund loans for road improvements.

Of the County's total net assets, 86 percent are invested in capital assets less outstanding debt used to acquire those assets (up 2 percent from 2007), 10 percent are subject to external restrictions by outside parties, and the remaining 4 percent (5 percent in 2007), represents the amount that may be used to meet the County's ongoing general purpose obligations.

Total long term liabilities were \$194 million (up \$4.2 million from 2007 as explained above), with \$11 million coming due within a year. 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 2008 compared with 2007.

<i>Clark County Net Assets</i>							
	Governmental Activities		Business-type Activities		Total		% Change
	2008	2007	2008	2007	2008	2007	
Current & other assets	\$ 240,460,773	\$ 239,498,780	\$ 39,358,596	\$ 44,772,471	\$ 279,819,369	\$ 284,271,251	(1.6%)
Capital assets (net of depreciation)	1,055,586,709	1,000,847,919	221,581,036	199,563,137	1,277,167,745	1,200,411,056	6.4%
Total assets	1,296,047,482	1,240,346,699	260,939,632	244,335,608	1,556,987,114	1,484,682,307	4.9%
Long term liabilities	172,202,572	165,624,347	22,048,076	24,447,345	194,250,648	190,071,692	2.2%
Other liabilities	45,243,209	35,783,255	27,031,970	29,907,077	72,275,179	65,690,332	10.0%
Total liabilities	217,445,781	201,407,602	49,080,046	54,354,422	266,525,827	255,762,024	4.2%
Net assets:							
Invested in capital assets, net of related debt	903,453,419	856,838,027	199,840,892	175,353,489	1,103,294,311	1,032,191,516	6.9%
Restricted	130,564,829	131,249,717	0	0	130,564,829	131,249,717	(0.5%)
Unrestricted	44,583,453	50,851,353	12,018,694	14,627,697	56,602,147	65,479,050	(13.6%)
Total net assets	\$ 1,078,601,701	\$ 1,038,939,097	\$ 211,859,586	\$ 189,981,186	\$ 1,290,461,287	\$ 1,228,920,283	5.0%

Governmental activities - Although net assets of the County's governmental activities increased 4 percent to \$1.08 billion in 2008, \$1.03 billion 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 \$45 million (down from \$51 million in 2007) are available for future spending.

Business-type activities - Business-type activities saw an increase of 12 percent, or \$22 million in net assets in 2008. Of total net assets, \$199.8 million is invested in capital assets, net of related debt, while \$12 million (down \$3 million from 2007) is unrestricted and available for future spending. Business-type activities use their capital assets to provide services to customers. Consequently, these assets are not available for future spending.

Analysis of Changes in Net Assets

The increase in the County's total net assets in 2008 was \$62 million, compared to a \$93 million increase in 2007. The increase in net assets reflects the County's ability to meet its ongoing obligations including its debt service requirements. Net assets for governmental activities increased \$40 million, with \$11 million coming from developer capital asset contributions, \$9.5 million from intergovernmental contributed capital assets and the remaining from operations.

Business activities had a \$22 million increase in net assets, almost all due to contributed sewer treatment plant expansion capital assets.

Approximately 35 percent of total revenues came from property, sales and excise taxes. Grants and contributions amount to 38 percent and charges for services account for 24 percent of total revenues. In 2008, total revenues (\$394 million) increased by \$8.2 million, with governmental activities increasing \$8.8 million and business activities decreasing by \$590,000. Governmental activities provided \$355 million in revenues (90%), while business-type activities provided \$39 million. Total interest earnings decreased in 2008 by \$2.2 million from 2007 as the result of lower interest rates and lower cash balances in 2008.

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 72 percent, combined, of total expenses. County total expenses for the year were \$331 million, up from \$307 million in 2007 (a \$24 million increase). Governmental activities accounted for \$314 million (95%) of total County expenses. Business activity expenses increased \$3.7 million from 2007, mainly because of increases in the solid waste recycling program.

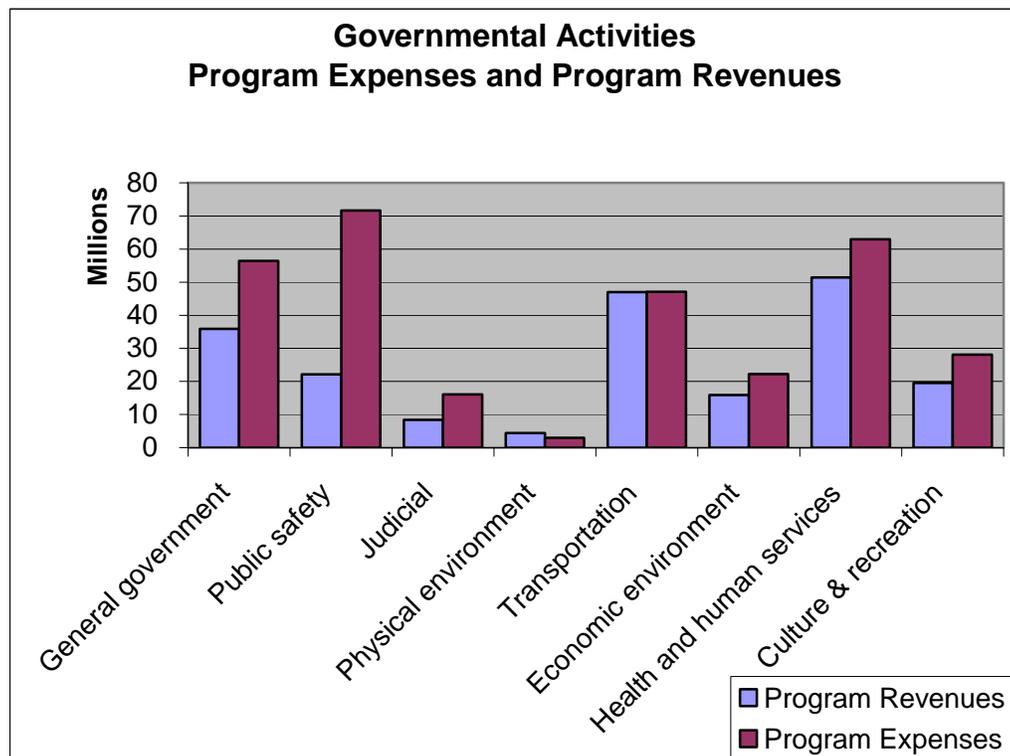
The condensed financial information that follows is derived from the Government-Wide Statement of Activities and reflects how the County's 2008 changes in net assets compare with 2007.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Program Revenues						
Charges for services	\$ 82,330,205	\$ 75,845,341	\$ 13,696,417	\$ 14,305,472	\$ 96,026,622	\$ 90,150,813
Operating grants and contributions	84,641,516	84,871,491	1,064,334	423,362	85,705,850	85,294,853
Capital grants and contributions	40,964,884	29,697,601	23,738,953	24,186,707	64,703,837	53,884,308
<i>General revenues:</i>						
Taxes	137,450,783	139,905,767	0	0	137,450,783	139,905,767
Gain on sale of assets	823	4,240,428	0	0	823	4,240,428
Interest earnings	9,340,375	11,328,836	738,115	912,017	10,078,490	12,240,853
Total revenues	354,728,586	345,889,464	39,237,819	39,827,558	393,966,405	385,717,022
Program Expenses:						
General government	56,402,079	54,379,093	0	0	56,402,079	54,379,093
Public safety	71,584,643	68,801,479	0	0	71,584,643	68,801,479
Judicial	16,064,813	15,148,819	0	0	16,064,813	15,148,819
Physical environment	2,980,212	2,770,587	0	0	2,980,212	2,770,587
Transportation	47,040,649	42,264,449	0	0	47,040,649	42,264,449
Economic environment	22,226,879	23,746,274	0	0	22,226,879	23,746,274
Health and human services	62,961,810	57,096,639	0	0	62,961,810	57,096,639
Culture & recreation	28,122,802	22,277,256	0	0	28,122,802	22,277,256
Solid Waste	0	0	5,995,861	3,141,376	5,995,861	3,141,376
Water	0	0	5,445,506	4,566,721	5,445,506	4,566,721
Sewer	0	0	5,819,062	5,811,798	5,819,062	5,811,798
Interest on long term debt	6,560,168	6,667,752	0	0	6,560,168	6,667,752
Total expenses	313,944,055	293,152,348	17,260,429	13,519,895	331,204,484	306,672,243
Excess (deficiency) of revenues over (under) expenses	40,784,531	52,737,116	21,977,390	26,307,663	62,761,921	79,044,779
Transfers	98,990	98,990	(98,990)	(98,990)	0	0
Change in Net Assets	40,883,521	52,836,106	21,878,400	26,208,673	62,761,921	79,044,779
Net assets as of January 1	1,038,939,097	976,936,589	189,981,186	159,242,978	1,228,920,283	1,136,179,567
Prior period adjustments	(1,220,917)	9,166,402	0	4,529,535	(1,220,917)	13,695,937
Net Assets as of December 31	\$ 1,078,601,701	\$ 1,038,939,097	\$ 211,859,586	\$ 189,981,186	\$ 1,290,461,287	\$ 1,228,920,283

Governmental activities - Governmental activity revenue increased \$8.8 million over 2007, while expenses increased by \$21 million. Capital grants and contributions increased by \$11 million mainly from the donation of land, while charges for services increased by \$6.5 million. The change in charges for services was due mainly to additional park improvement and maintenance reimbursements from the City of Vancouver (\$5 million), increases in deferred revenue for low-interest housing loans and the Clark County Public Facility District Fund (\$4 million, combined) and decreases in building permit services and impact fee collections (\$2.8 million) due to the slow-down in construction activity. All other revenue sources were down compared to 2007, with gain of sale of assets down \$4.2 million from 2007 when a county building was sold.

Governmental activity expenses increased \$21 million with health and human services and culture and recreation expenses seeing the largest increase, \$5.8 million each. Health and human services increases represent mental and public health program increases funded mainly by grants. Culture and recreation expenses increased mainly because of increased expenses for park projects related to the metropolitan parks district. Transportation has a \$4.8 million increase, mainly from losses on road parcel annexations. Public safety programs saw an increase from 2007 with a \$2.8 million increase for law and justice programs. General government expenses were up by \$2 million from 2007. Economic environment saw a decrease of \$1.5 million in expenses resulting from the economic slump in the housing industry.

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



Business-type activities – For the year ending December 31, 2008, excess of revenues over expenses was \$22 million, compared to \$26 million in 2007. While revenues were down slightly from 2007 (\$600,000), total expenses for business-type activities increased by \$3.7 million. The solid waste program had increases in expenses of \$2.9 million for a new recycling program and the storm water program reported an increase in expenses of \$0.9 million. The sewer program saw expenses remain about the same as in 2007. Refer to proprietary fund analysis on page 20-21 for more information.

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. The General Fund, County Roads Fund, and Community Services Grants Fund are the only major governmental funds in 2008.

As of December 31, 2008, the County's governmental funds reported combined ending fund balances of \$156 million, down \$14 million in comparison with the prior year. Most of the decrease was in two of the major funds (General Fund down \$7.1 million and County Roads down \$3 million). Approximately 93 percent (\$145 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.

Total governmental assets decreased by \$2 million after eliminating interfund transactions. The General Fund's assets decreased by \$6 million (after eliminating interfund transactions), with a \$7 million decrease in cash, investments, and deposits and a \$1 million increase in receivables. The County Road Fund had a \$3.4 million decrease in assets, while all other funds, combined, showed a \$7.4 million increase in assets, after the elimination of interfund transfers.

Total governmental liabilities increased by \$13 million after eliminating interfund transactions, with payments due to vendors increasing \$5 million mainly for parks projects. Deferred revenue also increased \$5 million, mostly as a result of increased deferred revenue for low-interest housing loans and a note receivable with the City of Vancouver for a conference center. In addition, the tax anticipation note fund saw an increase of \$2 million for funds accessing the line-of-credit.

Overall governmental fund operating revenues total approximately \$326 million for 2008, which represents an increase of 3 percent, or \$9 million over the year ended December 31, 2007. Revenue increases are primarily due to increases in intergovernmental revenues (mainly road fund grants) up \$7 million. Charges for services are up \$4 million from 2007, mainly in County Roads for reimbursements from the City of Vancouver for metropolitan parks projects (up \$1 million) and Road Fund reimbursements for sewer line services at the water treatment facility (\$3 million). Sales tax revenues increased by \$2 million because of new sales taxes adopted in mid 2007, but a full year of revenue was not recorded until 2008. Most other revenue categories such as excise taxes, permits, interest earnings and miscellaneous revenues saw a decline from 2007 as the result of the slow down in the housing industry and lower interest rates.

Overall governmental fund operating expenditures total \$336 million, up 14 percent or \$40 million from 2007. Most all the program areas saw increases in their current expenditures with the exception of economic environment which was down \$1.3 million as a result of slow housing development market. The other program areas increased mainly because of increases in personnel costs for benefits, cost of living, and merit increases. Capital expenditures increased \$20 million, mainly for roads (\$12.6 million) and parks (\$8 million).

The **General Fund** is the chief operating fund for the County. At the end of 2008, total fund balance for the General Fund equaled \$10.8 million, compared to \$17.9 million at the end of 2007. Unreserved, undesignated fund balance, the amount considered available to spend, totaled \$6.1 million at the end of 2008, a decrease of \$7.7 million from 2007, mainly from operating expenditures exceeding operating revenues. At the end of 2008, \$4.7 million has been designated for compensated absences (\$1.9 million) and for development and building services activities within the special revenue County Building Fund (\$2.8 million).

General Fund revenues before transfers increased slightly from 2007 to 2008 (1 percent, or \$0.6 million) while expenditures increased 9 percent or \$10 million from the previous year. The largest increases in expenditures were in public safety (\$4.7 million); general government (\$2.6 million); and judicial programs (\$1.2 million). Most of the expenditure increases are a result of staffing increases in public safety for Sheriff and Jail. General government expenditure increases are for one-time costs of a settlement agreement (0.9 million), a new diversity program (0.2 million), and in the Prosecuting Attorney's office (\$0.8 million) for a move to a new building for their civil department and increased personnel costs. The judicial program increases of \$1.2 million are mainly increased costs for indigent defense contracts and staffing increases in superior and district courts resulting from a new mental health and therapeutic courts sales tax adopted in 2007.

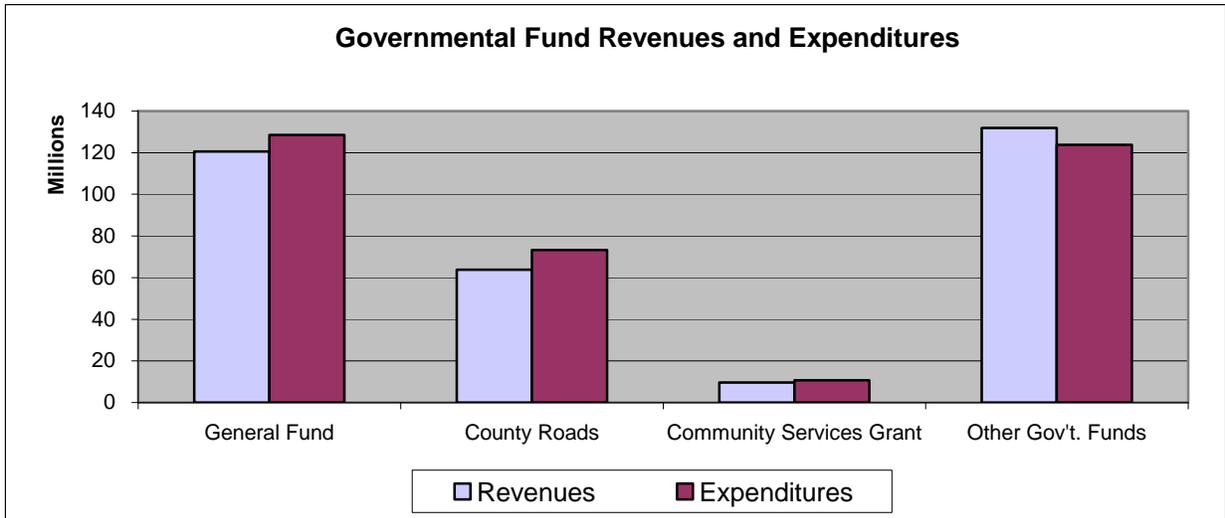
Net transfers between funds increased by \$4 million. The increase is mainly from the transfers in of sales tax monies collected in special revenue funds earmarked for law and justice programs and therapeutic courts.

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 decreased by \$3 million. Operating revenues increased \$9.3 million from 2007 to 2008, mainly because of increased grants for road construction projects and increases for services to the City of Vancouver for parks projects. The County Road Fund was reimbursed \$11 million for these various parks projects in 2008. During the same period, County Road Fund expenditures increased by \$20.6 million as a result of road projects that were delayed during 2007 which were started or completed in 2008 and park project expenditures.

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 2008, the fund balance declined slightly from \$4.5 million in 2007 to \$4.3 million in 2008. Revenues decreased by \$200,000 mainly in revenues from housing loan repayments. There is no change in expenditures (\$10.7 million) from 2007 to 2008.

Governmental Funds Revenue/Expenditure Analysis

The following chart shows the revenue and expenditure amounts for the year ended December 31, 2008 for the three major governmental funds and for all other governmental funds, combined. Revenues don't include interfund transfers, proceeds from debt or 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 \$22 million mainly as a result of additional capital assets in the form of construction of the expanded sewer treatment plant (\$21 million) and new storm water land and facilities (\$2 million). The non-major Solid Waste Fund's net assets decreased by \$3 million as the result of purchasing new curb side recycling carts for customers in 2008. The table that follows reflects the Enterprise Funds Statement of Net Assets for the year ending December 31, 2008.

**Clark County Washington
Enterprise Funds - Statement of Net Assets**

	Major				Non-Major		Total	
	Sanitary Sewer		Clean Water		Solid Waste			
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>		
Total current assets	3,704,274	4,585,331	9,502,014	11,246,376	4,681,598	5,035,878	17,887,886	20,867,585
Total noncurrent assets	155,777,465	140,108,918	86,618,976	82,672,232	663,778	698,055	243,060,219	223,479,205
Total assets	159,481,739	144,694,249	96,120,990	93,918,608	5,345,376	5,733,933	260,948,105	244,346,790
Total current liabilities	3,564,980	6,412,856	1,379,894	1,532,103	3,139,648	546,546	8,084,522	8,491,505
Total noncurrent liabilities	40,828,234	45,752,449	106,063	79,361	69,700	42,289	41,003,997	45,874,099
Total liabilities	44,393,214	52,165,305	1,485,957	1,611,464	3,209,348	588,835	49,088,519	54,365,604
Total net assets	\$ 115,088,525	\$ 92,528,944	\$ 94,635,033	\$ 92,307,144	\$ 2,136,028	\$ 5,145,098	\$ 211,859,586	\$ 189,981,186

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 \$22.5 million from 2007 as a result of capital contributions and operating income. The Sewer Fund reported \$1.2 million in income in 2008 and \$21.3 million in capital contributions for the treatment plant expansion, which is fully funded by two other government entities. The Sewer Fund is towards the end of a \$77 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 storm water pollution control facilities. Total net assets in the Clean Water Fund were \$94.6 million at the end of 2008. Of this amount, 92 percent (\$86.6 million) was invested in capital assets, net of related debt, with the remaining 8 percent (\$8 million) unrestricted and available for spending. Net assets increased by \$2.3 million in 2008 from 2007, due to capital contributions of land and storm water facilities by developers. Total operating revenues for 2008 were \$4.9 million (no change from 2007), while operating expenses were \$5.4 million (an increase of \$879,000 from 2007).

Enterprise Funds Revenue and Expense Analysis

Capital contributions by developers for storm water facilities (\$2.4 million) and intergovernmental capital contributions for upgrades at the sewer treatment plant (\$21 million) were the main factors for net assets in the Sewer and Clean Water funds increasing in 2008. Enterprise funds operating revenues decreased by \$500,000 in 2008. Some factors affecting this were less revenue from the sale of recycled materials in 2008 than in 2007, and in 2007 the Sewer Fund received revenue from another government entity to improve revenue bond coverage. Total operating expenses in enterprise funds increased by \$3.9 million. The purchase of recycling bins and carts amounting to \$2.8 million for a new curb-side recycling program in the Solid Waste Fund and increases in contractual services within the Clean Water Fund 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, 2008, compared to the prior year.

<i>Clark County Washington</i>								
Enterprise Funds - Revenues and Expenses								
	Major				Non-Major		Total	
	Sanitary Sewer		Clean Water		Solid Waste			
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Total operating revenues	\$ 6,899,461	\$ 7,219,758	\$ 4,921,938	\$ 4,888,398	\$ 1,872,969	\$ 2,112,605	\$ 13,694,368	\$ 14,220,761
Total operating expenses	4,720,372	4,595,377	5,445,506	4,566,721	5,995,861	3,141,376	16,161,739	12,303,474
Operating income (loss)	2,179,089	2,624,381	(523,568)	321,677	(4,122,892)	(1,028,771)	(2,467,371)	1,917,287
Total non-operating revenues(expenses)	(939,719)	(1,018,416)	527,715	716,716	1,117,812	505,369	705,808	(3,689,293)
Income (loss) before contributions and transfers	1,239,370	1,605,965	4,147	1,038,393	(3,005,080)	(523,402)	(1,761,563)	2,120,956
Capital contribution	21,320,211	23,607,591	2,418,742	579,116	0	0	23,738,953	24,186,707
Transfers, net	0	0	(95,000)	(95,000)	(3,990)	(3,990)	(98,990)	(98,990)
Change in net assets	22,559,581	25,213,556	2,327,889	1,522,509	(3,009,070)	(527,392)	21,878,400	26,208,673
Net Asset, January 1	92,528,944	67,315,388	92,307,144	86,255,100	5,145,098	5,672,490	189,981,186	163,772,513
Net assets, December 31	\$ 115,088,525	\$ 92,528,944	\$ 94,635,033	\$ 92,307,144	\$ 2,136,028	\$ 5,145,098	\$ 211,859,586	\$ 189,981,186

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 and expenditures both increased by 3% from the original budget.

Budgeted revenues increased \$6.6 million mainly in the intergovernmental category (\$3.7 million) for additional grants, including \$1.1 million state grant for railroad improvements, \$0.7 million for juvenile and child support grant increases, \$0.4 million for homeland security, and \$0.6 million for technology improvements and document preservation. Charges for services increased \$2.5 million, mainly for increased fees for fire and code enforcement services charged to the Planning and Code Fund inadvertently left out of original budget (\$1.5 million) and other increases in filing and work crew fees.

Budgeted expenditures increased in total by \$8 million. The biggest increase is in public safety, mainly for jail inmate medical services (\$1.5 million) and additional law enforcement personnel and additional staff in juvenile as the result of the new sales tax program for juvenile drug court. The general government final budget decreased by \$3.2 million mainly because the contingency budget was reallocated from general government to various other programs for inmate medical costs, merits, cost of living increases, and other payroll related costs. Judicial costs increased with the adoption of a new sales tax that funded therapeutic court programs for additional FTEs. Other expenditures increases were for transportation programs for railroad improvement; for capital outlay for the family law annex (\$550,000); and for computer storage capacity increases (\$500,000).

Net interfund transfers decreased by 49 percent or \$2.2 million. This decrease was a result of a \$10M transfer out for a new jail that was in the original budget but was eliminated in the final budget when it was determined that the transfer was not economically feasible. The \$10 million reduction was offset by a net reduction of transfers in for sales tax revenues of \$2.3 million as the result of a full year of revenues originally budgeted, but actual revenue did not start until later in the year. In addition, an increase of transfer out for regular and one-time subsidies to the County Building special revenue fund for planning and code development services (\$4.3 million).

General Fund Budget to Actual Comparison

Total revenues and expenditures are 98% and 96% of the final budget respectively. The budget anticipated reducing fund balance by \$11.7 million, with the actual reduction being \$7.9 million to end the year with an undesignated fund balance of \$6.1 million.

Tax revenues came in \$5.9 million under budget as a result of the weakening economy, especially real estate activity - led by sales tax (\$3 million), real estate excise taxes (\$1 million), and penalty and interest on delinquent taxes (\$1 million).

Charges for services revenue was also under budget by \$2.5 million, mainly in interfund revenues (\$1 million) and general government fees (\$1 million). General government fees were under budget \$1 million, mainly in recording fees, (\$0.5 million) and information service fees (\$0.5 million). Interfund revenues came in under budget for mailroom services (\$300,000) and long range planning services (\$619,000). Other revenues were \$3 million more than expected, mainly from interest earnings and court fines.

Total expenditures were \$10 million under budget, mainly from under spending salaries and services, partly the result of a hiring freeze in the second half of 2008. These under expenditures were spread across all programs.

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, 2008.

Clark County Washington

**General Fund Budgeted and Actual Revenues and Expenditures
For the Year Ended December 31, 2008**

	Original 2007/2008 <u>Budget</u>	Final 2007/2008 <u>Budget</u>	Change Positive / (Negative)	Actual Biennium- <u>To-Date</u>	Variance Positive / (Negative)	Percentag of Actual to <u>Final Budget</u>
<u>Revenues:</u>						
Taxes	\$ 145,122,696	\$ 145,122,696	\$ 0	\$ 139,177,246	\$ (5,945,450)	96%
Intergovernmental	40,484,014	44,186,494	3,702,480	44,160,056	(26,438)	100%
Charges for services	37,600,401	40,140,411	2,540,010	37,649,310	(2,491,101)	94%
Other revenues	16,267,036	16,651,368	384,332	19,586,349	2,934,981	118%
Total revenues	<u>239,474,147</u>	<u>246,100,969</u>	<u>6,626,822</u>	<u>240,572,961</u>	<u>(5,528,008)</u>	<u>98%</u>
<u>Expenditures</u>						
General government	80,704,946	77,520,349	3,184,597	74,744,559	2,775,790	96%
Public safety	119,952,767	126,027,768	(6,075,001)	122,060,587	3,967,181	97%
Judicial	29,623,357	31,614,413	(1,991,056)	30,577,317	1,037,096	97%
All other expenditures	18,835,118	21,981,138	(3,146,020)	19,520,795	2,460,343	89%
Total expenditures	<u>249,116,188</u>	<u>257,143,668</u>	<u>(8,027,480)</u>	<u>246,903,258</u>	<u>10,240,410</u>	<u>96%</u>
Excess (deficiency) of revenues over expenditures	(9,642,041)	(11,042,699)	(1,400,658)	(6,330,297)	4,712,402	57%
Other financing sources	1,440,584	1,440,584	0	1,148,098	(292,486)	80%
Net Interfund transfers	<u>(4,367,291)</u>	<u>(2,133,721)</u>	<u>2,233,570</u>	<u>(2,721,141)</u>	<u>(587,420)</u>	<u>128%</u>
Net change in fund balance	(12,568,748)	(11,735,836)	832,912	(7,903,340)	3,832,496	67%
Fund Balance - January 1	20,351,387	20,351,387	0	18,254,438	(2,096,949)	90%
Prior Period Adjustment	0	0	0	459,396	459,396	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>	<u>92%</u>
Fund balance -December 31	<u>\$ 7,782,639</u>	<u>\$ 8,615,551</u>	<u>\$ 832,912</u>	<u>\$ 10,810,494</u>	<u>\$ 2,194,943</u>	<u>125%</u>

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, 2008, is \$1.3 billion (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, road and bridge subsystems, storm water facilities, trails, and construction in progress on buildings and systems. Of this amount, 45 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 14 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 \$34.7 million in 2008 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 \$2.4 million. Fleet equipment with an original cost of \$959,625 and a net depreciated value of \$211,207 was disposed of in 2008.
- Park acquisitions and improvements amounting to \$12 million were added in 2008.

- The Sanitary Sewer Fund is in construction phase number four of the expansion of the Salmon Creek Treatment Plant. Project costs in 2008 were \$21 million dollars and included construction work on interceptor and transmission lines, pump station upgrades, and planning and engineering costs. The phase four expansion is coming close to completion and is expected to cost \$77 million.
- Residential and commercial roads and right of way contributed by developers in 2008, at a value of \$9.8 million, were added to County capital assets. In 2008, road annexations valued at \$8.3 million were removed from County capital assets.
- Storm water facilities and land contributed by developers, at a value of \$2.4 million, were added to capital assets in 2008.

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 \$16.6 million for road system preservation and maintenance in 2008, or 94% of the annual budget of \$17.8 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 2008, the County spent only 70% of the annual budget (\$253,812 out of \$364,598) 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 \$325,033 for storm water maintenance in 2008, or 98.5% 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 most recent three condition assessments compare with the condition level established by the County:

**Infrastructure Assets Using the Modified Approach
Condition Assessment as of December 31, 2008**

	<i>Historical Cost</i>	<i>Accum. Depreciation as of 12/31/02</i>	<i>Net Cost</i>	<i>Average Assessment Value</i>			<i>Established Condition Level</i>
				<i>2003</i>	<i>2005</i>	<i>2006</i>	
Road Subsystem	534,068,132	16,553,296	517,514,836	85	87	89	70
Storm water Subsystem	53,251,582	4,260,384	48,991,198	87	86	86	70
Bridges Subsystem	10,434,962	288,802	10,146,160	73	73	76	50
Total	597,754,676	21,102,482	576,652,194				

*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.

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 #6 of the notes to the financial statements.

Debt Administration

At December 31, 2008, Clark County had total bonded debt outstanding of \$154 million (compared to \$162 million at December 31, 2007). Governmental activities had general obligation bonds payable of \$133 million (down \$5.6 million from 2007) which is backed by the full faith and credit of the County. Business-type activities had \$21 million in revenue bonds payable (a decrease of \$2 million from 2007) which are secured solely by specified revenue sources. The decrease in bonded debt outstanding was due to \$5.6 million and \$2.2 million debt service payments in governmental 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 A2 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. During 2008, the County's financial condition experienced a downturn along with many other entities around the country. The duration of this downturn and subsequent recovery depends on the national economic recovery and the effects of various stimulus programs. The County's 2009/2010 biennial budget does not anticipate any significant improvement over the next two years. The 2009/2010 adopted budget is down six percent from the 2007/2008 budget, with expenditure reductions in most General Fund departments. The 2009/2010 Budget also includes eliminating nearly 150 positions throughout the County (including some vacant positions).

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 dramatically through 2008. Currently, building activities are at the lowest level in the past 10 years. Building permits declined 48 percent from the previous year. Home sales are also an indicator of the economic activity in the County. Over the past year, home sales have declined about 4.5 percent as a result of tight mortgage lending markets. Conversely, the demand for

services continued to grow as the County experienced a 2% increase in population during 2008.

The County's main revenue sources include taxes, charges for service and intergovernmental (grant) revenues. Property taxes make-up 23 percent 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. The recent building slowdown in new construction activity did impact 2008 property taxes which showed a slight decline in 2008.

Sales tax revenues are another significant revenue source for the County. Sales tax revenue is impacted by construction activity, which as noted earlier, declined in 2008. 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 courts. Both increases were effective beginning April 2007. Sales tax revenues increased from 2007, (\$2 million) mainly because of the new sales taxes adopted mid-year 2007. After adjusting for the new sales taxes, sales tax revenues were actually down \$1.5 million from 2007.

In addition, real estate excise tax on home sales dropped \$3.7 million (42 percent) from 2007 as the result of declining home sales in 2008.

Other factors impacting the economic condition are: local inflation rate dropped from 4.1 percent at the end of December 2007 to 0.1 percent in 2008, indicative of the global economic slowdown. Clark County's unemployment rate was at 10.1 percent at the end of 2008, compared to 5.5 percent at the end of 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.