# Kitsap County, Washington

Notes to Financial Statements
Year Ended December 31, 2001

Indexing

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Year Ended December 31, 2001

## *Note 1. Summary of significant accounting policies*

### A. Reporting entity

Kitsap County is a municipal corporation of Washington State, governed under the commission form of government. The accompanying financial statements present the government and entities for which the government is financially accountable. The Kitsap County voters elected the three-members board on partisan basis to serve overlapping 4-year terms. The board of County commissioners is the legislative body. It also has a quasi-judicial role in dealing with land use matters. The body is also responsible for all administrative duties of running the County, which are not expressly given to any other County position.

The County was incorporated in 1857. It is located between the urban areas of Seattle and Tacoma and the wilderness of the Olympic Mountains. It is bounded by the Hood Canal on the west, Admiralty Inlet on the north, Puget Sound on the east, and Mason and Pierce counties to the south. With population of 232,623 residents, and a landmass of 393 square miles, it is ranked 36th in area among Washington counties. It has 228 miles of salt-water frontage.

### B. Basis of accounting, measurement focus, and financial statement presentation

In June of 1999, Government Accounting Standards board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis for state and local governments. This statement known as "The Reporting Model" statement affects the way the County prepares and presents financial information. States and local governments traditionally have used financial reporting model substantially different from the one used to prepare private sector financial reports.

GASB Statement No. 34 establishes new requirements and a new reporting model for annual financial reports of state and local governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions. The basic financial statements of the County are composed of the following:

- Government-wide Financial Statements
- Fund financial Statements, and
- Notes to the financial statements

Government-wide Financial Statements:

The statements report financial information on the government as a whole using the economic resources measurement focus and the full accrual accounting for all of the government's activities. Under the economic resources measurement focus, all (both current and long-term) economic resources, and obligations of the reporting government are reported in the government-wide financial statements.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. It reports all revenues and cost of providing services each year not just those received or paid in the current year or soon thereafter. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Eliminations have been made in the Statements of Activities so that certain allocated expenses Internal Services Funds) are recorded only once by the function to which they were allocated. Program revenues include charges for services, Special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Program expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) Charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment. (2) Grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and some other items that are not specific to a function or segment are reported as general revenue.

Amounts paid to acquire capital assets are capitalized as assts in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

The statements include two basic statements:

(1) Statements of Net Assets – it is intended to show the financial position of the primary government (government and business-type activities). All capital assets including the infrastructure are reported as assets instead of expenditures, and depreciation is reported as expense – the cost of "using up" capital assets is included in the Statement of Activities. The net assets of government are broken down into three categories: (a) investment in capital assets, net related debt, (b) restricted, and (c) non-restricted.
(2) Statement of Activities. The new Statement of Activities report focuses on the cost of each of the government's functions. Therefore, the expenses of individual functions are compared to the revenues generated directly by the function. The program revenue must be directly associated with the function.

Fund Financial Statements:

In the fund financial statements, financial transactions and accounts of the County are organized on the basis of funds. The operation of each fund is considered to be a separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, revenues and expenditures or expenses. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The fund financial statements present information about major funds individually and non-major funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds of the County represent assets held by the County in a custodial capacity for other individuals or organizations.

Governmental Funds:
The revenues in governmental funds are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. Exchange transactions are recognized as revenues in the period in which they are earned (i.e. the related goods or services are provided)

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered a measure of "available spendable resources." The governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The following are the types of governmental funds:

i. General fund. It is the primary operating fund of the County. It is used to account for all financial transactions and resources except those required to be accounted for in another fund. General fund revenue is derived primarily from property and other local taxes, state, and federal distributions, licenses, permits, charges for services, and interest income. A significant part of the general funds revenues is transferred to other funds principally to finance the operations of the County.

ii. Special Revenue fund. It accounts for revenues derived from specific sources (other than major capital projects) that are restricted by legal and regulatory provisions to finance specific activities of the County.

iii. Capital Projects Fund. It accounts for all financial resources used for the acquisition or construction of major capital projects/facilities not being financed by proprietary or nonexpendable trust funds. It is considered a major fund for government-wide financial reporting purposes.

Proprietary Funds:
Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. Proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the economic resources measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Its operating statements present increases (revenue) and decreases (expenses) in the total net assets.

Amounts paid to acquire capital assets are capitalized as assets in the proprietary fund's financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liability in the proprietary fund's financial statements, rather than as an "other financing sources." Amount paid to reduce long-term indebtedness of proprietary funds are reported as a reduction of the related liability, rather than as expenditure.

The following are some of the proprietary funds:

i. Internal Service Funds. It accounts for the financing of goods or services provided by one department or agency to other department or agencies of the county on a cost reimbursement basis.

ii. Enterprise Fund. It accounts for the financing of goods or services provided by the County to the general public on a fee for service basis.

Kitsap County reports the following major funds:
Governmental Fund:

i. General Fund is classified as a major fund and is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.
ii. County Roads. The fund is used to account for the maintenance and the construction of county roads and bridges.
iii. Real Estate Excise Tax fund is used to account for the collection of real estate excise taxes to be used for capital projects.
iv. Home Entitlement fund is used to account for the use of Federal funds from the housing and urban development (HUD) Department for the HOME Investment Partnership Program. The program was created to expand the supply of decent, safe, sanitary, and affordable housing for low-income citizens.

v. Mental Health fund is used to account for the funding and operation of the County's mental health program.
vi. CDBG fund is used to account for the community development block grants.
vii. Model Toxic Control Act fund is used to account for the financing of landfill closures on Bainbridge Island, Hansville and Norseland Mobile Home Park as required by the State of Washington Model Toxic Control Act.

Enterprise Funds

i. Solid Waste fund is used to account for the costs of providing solid waste service to the residents of Kitsap County.
ii. Sanitary Sewer fund is used to account for the costs of providing sewage disposal service to the residents of Kitsap County.
iii. Village Green Golf Course fund is used to account for the operation of the County owned golf course.
iv. Surface Water fund is used to account for the investigation, design and establishment of storm drainage throughout the County.

Fiduciary Fund Type

Fiduciary funds are used to account for assets held by the County in trustee capacity or as an agent for individuals, private organizations, and other governments.
Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation. Fiduciary funds are not included in the government-wide statements.

## C. Assets, liabilities, and net assets or equity.

1. Capital assets
   See Note 4 for information on capital assets, their threshold, and depreciation.

2. Infrastructure
   The county partially implemented GASB 34, "Basic Financial Statements and Management's Discussion and Analysis for the States and Local Governments". The County expects to implement the retroactive infrastructure requirement in its 2003 financial report.

3. Inventories and Prepaid items
   All inventories are valued at cost using the weighted average method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

   The supplies are not of significant cost or quantity, and are not reflected as inventory. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and financial statements.

4. Restricted Assets
   Certain proceeds of the County's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate funds and their use is limited by applicable bond covenants. They are mainly resources for construction and debt service.

5. Fund Equity
   In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## *Note 2. Reconciliation of government-wide and fund financial statements*

### A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The details of this difference is as follows:

| | | |
|---|---|---|
| Statement of Net assets (page 12) | $ | 124,192,654 |
| Balance sheet (page 16) | | 96,753,456 |
| Net difference | $ | 27,439,198 |

| | | |
|---|---|---|
| Net capital asset | $ | 81,204,031 |
| Long-term debt and compensated absences | | (72,922,405) |
| Internal service funds assets & liabilities | | 19,157,572 |
| Net difference | $ | 27,439,198 |

### B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of the $12,609,853 difference on page 18 are as follows:

| | |
|---|---|
| Statement of revenue, expenditures, and changes in fund balance(C-2) | (2,456,174) |
| Statement of government activities(B-1) | -10,153,679 |
| Net difference | $ (12,609,853) |

| | |
|---|---|
| Capital outlay | 14,864,329 |
| Depreciation | -2,587,724 |
| Bond receipt | -6,756,460 |
| Principle payment | 7,089,708 |
| Net difference | $ 12,609,853 |

## *Note 3. Stewardship, compliance, and accountability*

### A. Budget and budgetary information

Budget Policies and Control. Kitsap County's budget procedures comply with chapter 36.40 of the Revised Code of Washington. Budgets may be administratively revised within all funds except the General fund, as long as total appropriations are not changed. General fund department budgets may be revised administratively as long as the department total appropriation is not changed. In accordance with the law of State of Washington, any unexpended appropriation balances lapse at the close of the fiscal year.

The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with the annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the budgetary comparison schedule for General fund, and Special Revenue funds present actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended.

### B. Budget revision.

Revisions were made to the original budgets of the following funds during the year:

| Fund Number | Fund Description | Original Budget | Budget Change | Final Budget |
|---|---|---|---|---|
| 001 | General Fund | $ 72,722,342 | 776,331 | $ 73,498,673 |
| 181 | Mental Health | 16,288,500 | 3,000,000 | 19,288,500 |
| | Non Major funds | 20,964,516 | 15,752,943 | 36,717,459 |

### C. Excess of expenditures over appropriations.

For the year ended December 31, 2001, expenditures exceeded appropriations in the Parks department by $714.00. These over-expenditures were funded by greater than anticipated revenues in General fund.

## *Note 4. Detail note on all funds*

### A. Deposits and investments.

The Kitsap County's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State Statue (RCW 36.29.020) authorizes the County Treasurer to invest in savings or time accounts in designated qualified public depositories. The Treasurer may also invest in certificates, notes, or bonds of United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of United States. Other items that may be invested in include bankers' acceptances purchased on the secondary market, in federal home loan bank notes and bonds, federal land bank bonds and federal national mortgage association notes, debentures and guaranteed certificate of notes, and State Treasurer's Investment Pool. The County's fund was invested in accordance with the State statue and the County's investment policy.

Investments for the County are reported at fair value. The state Treasurer's Investment Pool operates in accordance with the appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. Earnings from this investment are returned to the General Fund and used in financing the general operation of the County.

At year-end, Kitsap County carrying amount of deposit was $12,721,820. When deposits are made in accordance with the terms of the State of Washington Public Deposit Protection Act, all public depositors are relieved of responsibility of liability for any loss resulting from failure or default of a qualified public depositary. As of the end of the year 2001, the County complies with all the terms of the Act. The County also had $322,181,477 in investment at the end of the year. The investments are categorized into these three credit risk groups:

1) Insured or registered, or securities held by the government or its agent in the government's name.

2) Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the government's name.

3) Uninsured and unregistered, with securities held by the counter-party, or by its trust department or agent, but not in the government's name.

At year end, the County's investment balance were as follows:

| Description | Category 1 | Fair Value |
|---|---|---|
| U.S. Government & Federal Agencies | 287,834,422 | 291,862,805 |
| Commercial paper | - | - |
| Repurchase agreements | - | - |
| Total | $ 287,834,422 | $ 291,862,805 |
| Investments not subject to categorization: | | |
| State Treasurer's Invetment Pool | | 30,318,672 |
| Total Investment | | $ 322,181,477 |

## B. Property Taxes

The property taxes are levied and become a lien on the first day of the levy year. They may be applied in two equal installments. The first half is due on April 30, or else the total amount becomes delinquent on May 1st. The balance is due on October 31st, becoming delinquent November 1st. Delinquent taxes bear interest at the rate of one percent per month until paid and are subject to additional penalties of three percent and another eight percent on the total unpaid delinquent balance on June 1, and December 1st respectively. Foreclosure action is commenced on properties when taxes become threes delinquent. At the end of the year, the uncollectible property taxes are reported on the balance sheet as property Tax Receivable. All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes are levied by County Assessor and collected by the County Treasurer. The County bills and collects its own property taxes, and also bills and collects property taxes for the State of Washington, cities and towns within the county, and other junior taxing districts within the county. The collections for the State of Washington and the junior taxing districts are accumulated in the agency funds.

Assessments are levied against properties located within sewer utility local improvement districts and are recorded as Assessments Receivable and Contributed Capital when assessment rolls are issued. The proceeds are restricted for payment of revenue bond principal and interest.

Special assessments for road improvement districts are recorded as “Assessment Receivable” and “Deferred Revenue” when assessment rolls are issued. Special assessments are recognized as revenue only to the extent those individual installments are considered current assets. The proceeds are restricted for payment of special assessment bond principal and interest.

## C. Receivables and Payables.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “*due to/from other funds*” (i.e., the current portion of inter-fund loans) or “*advances to /from other funds*” (i.e.’ the non-current portion of the inter-fund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities or business-type activities are reported in the government-wide financial statements in “*internal balance*.”

Advances between funds, as reported in the fund financial statements are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not expendable available financial resources.

Federal grants and assistance awards made on the basis of entitlement periods are reported as “due from other government” (inter-government receivables) and revenues in the year in which entitlement occurs. Federal or state reimbursement type grants for the acquisition of fixed assets of proprietary fund types are reported as “due from other government” (inter-governmental receivables) and “contributed capital” in the year during which the related expenditure occurs. All other federal and state reimbursement type grants are reported as “due from other government” (intergovernmental receivables) and revenues in the year in which the related expenditure or expenses are incurred.

Receivables

Receivables as of the year end for the County’s individual major funds and non-major funds, internal services, and fiduciary funds in the aggregate, including the applicable allowances for the uncollectible accounts are as follows:

| | | Receivables | | |
|---|---|---|---|---|
| | | Taxes | Accounts | Assessments |
| 1 | General fund | $ 1,651,144 | $ 46,845 | |
| 101 | County roads | 1,129,497 | 70,551 | 89,432 |
| 166 | HOME | | 2,041 | 1,644,965 |
| | Non major funds | 173529 | 421 | 516222 |
| | Total govermental | $ 2,954,170 | $ 119,858 | $ 2,250,619 |
| 401 | Solid waste | | 209,267 | |
| 402 | Sewer Revenue bond | | 1,144,409 | 3,016,670 |
| 440 | Surface/Storm water | | 321,610 | |
| | Total | $ 2,954,170 | $ 1,795,144 | $ 5,267,289 |

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned.

## D. Interfund balances and transfers

1. Advances to/From other funds

| Advances From | Advances To | | | |
|---|---|---|---|---|
| | HOME | CDBG | Non Major | Total |
| General Fund | 30,000 | 100,000 | 70,000 | $ 200,000 |

2. Balance transfer

   It represents subsidies and contributions provided to operating funds and capital project funds with no corresponding debt or promise to repay. Interfund equity transfers occurring between individual funds during the year ended December 31, 2001 are as follows:

| Balance From | Balance Transfer To | |
|---|---|---|
| | Non Major | Total |
| General Fund | 86,779 | $ 86,779 |

3. Due from other funds/Due to other funds

| Due From | Due To | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | General F. | County Roads | Mental Health | Non Major | Solid Waste | Sewer Utility | Surface Water | Total |
| General F. | $ - | $ 1,901 | $ - | $ 71,792 | $ 105 | $ - | $ - | $ 73,798 |
| County Rds | 306,770 | - | - | 4,716 | 2,104 | 3,324 | 397 | $ 317,311 |
| Non Major | 148,316 | 1,333 | 1,279 | 341,322 | 105 | - | - | $ 492,355 |
| S. Waste | 3,394 | 1,979 | - | 1,409 | - | 1,506 | 2,395 | $ 10,683 |
| Sewer | 8,689 | 29,425 | - | 81,256 | 1,517 | - | 490 | $ 121,377 |
| Surface Water | 60,501 | 9,873 | - | 52,721 | 420 | 5,660 | - | $ 129,175 |
| Village Green | 200,538 | - | - | 67,561 | 420 | - | - | $ 268,519 |
| Total | $ 728,208 | $ 44,511 | $ 1,279 | $ 620,777 | $ 4,671 | $ 10,490 | $ 3,282 | $ 1,413,218 |

4. Operating transfers

| Transfer Out | Transfer In | | | | | |
|---|---|---|---|---|---|---|
| | General Fund | County Roads | Mental Health | Model Toxic | Non Major | Total |
| General Fund | $ - | $ - | $ 7,500 | $ 214,237 | $ 1,345,394 | $ 1,567,131 |
| County Rds | - | - | - | - | 262,690 | 262,690 |
| Real Estate Excise | - | - | - | - | 2,428,155 | 2,428,155 |
| Non Major | 4,450,958 | 1,386,602 | - | - | | 5,837,560 |
| Solid Waste | - | - | - | - | 54,648 | 54,648 |
| Sewer | - | - | - | - | 69,662 | 69,662 |
| Surface Water | - | - | - | | 33,609 | 33,609 |
| Total | $ 4,450,958 | $ 1,386,602 | $ 7,500 | $ 214,237 | $ 4,194,158 | $ 10,253,455 |

## E. Capital assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as assets with an initial individual cost of more than $5,000.00 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of Kitsap County is depreciated using the straight-line method over the following useful lives:

| Assets | Years |
|---|---|
| Building | 45 |
| Building Improvements | 20 - 50 |
| Machinery and equipment | 3 - 10 |

The following is the summary of changes in capital assets activity for the year ended December 31, 2001:

| | ***Beginning Balance*** | ***Increase*** | ***Decrease*** | ***Ending Balance*** |
|---|---|---|---|---|
| ***Government activities:*** | | | | |
| Asset not being depreciated | | | | |
| Land | $ 23,533,135 | $ 3,676,710 | $ - | $ 27,209,845 |
| Construction in Progress | 1,541,035 | 4,302,269 | - | 5,843,304 |
| Total | $ 25,074,170 | $ 7,978,979 | $ - | $ 33,053,149 |
| Asset being depreciated | | | | |
| Building | $ 51,529,619 | $ 83,200 | $ - | $ 51,612,819 |
| Building Improvement | 5,715,583 | 276,839 | 1,000 | 5,991,422 |
| Equipment & Machinery | 33,277,650 | 3,196,686 | 400,216 | 36,074,120 |
| Total | $ 90,522,852 | $ 3,556,725 | $ 401,216 | $ 93,678,361 |
| Grand total | $ 115,597,022 | $ 11,535,704 | $ 401,216 | $ 126,731,510 |

| | ***Beginning Balance*** | ***Increase*** | ***Decrease*** | ***Ending Balance*** |
|---|---|---|---|---|
| ***Business-type activities*** | | | | |
| Assets not being depreciated | | | | |
| Land | $ 1,483,482 | $ - | $ - | $ 1,483,482 |
| Construction in Progress | 15,685,201 | - | 2,531,354 | 13,153,847 |
| Total | $ 17,168,683 | $ - | $ 2,531,354 | $ 14,637,329 |
| Asset being depreciated | | | | |
| Building | $ 29,496,375 | $ 3,384 | $ - | $ 29,499,759 |
| Building Improvement | 45,117,873 | 4,156,450 | - | 49,274,323 |
| Equipment & Machinery | 6,297,852 | - | 2,658,516 | 3,639,336 |
| Total | $ 80,912,100 | $ 4,159,834 | $ 2,658,516 | $ 82,413,418 |
| Grand Total | $ 98,080,783 | $ 4,159,834 | $ 5,189,870 | $ 97,050,747 |

The following is the summary of changes in the in accumulated depreciation account for the year ended December 31, 2001:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| ***Government activities:*** | | | | |
| Building | $ 10,488,040 | $ 1,140,507 | $ - | $11,628,547 |
| Building Improvement | 2,533,082 | 281,069 | 671 | 2,813,480 |
| Equipment & Machinery | 18,408,320 | 2,130,636 | 363,337 | 20,175,619 |
| Total | $ 31,429,442 | $ 3,552,212 | $ 364,008 | $34,617,646 |

| | | | | |
|---|---|---|---|---|
| ***Busines-type activities:*** | | | | |
| Building | $ 12,677,627 | $ 1,203,181 | $ - | $13,880,808 |
| Building Improvement | 13,120,369 | 715,150 | - | 13,835,519 |
| Equipment & Machinery | 5,668,641 | 732 | 2,398,060 | 3,271,313 |
| Total | $ 31,466,637 | $ 1,919,063 | $ 2,398,060 | $30,987,640 |

Depreciation expense was charged to functions/programs of the primary government as follows:

| Function/Program | Amount |
|---|---|
| ***Government activities:*** | |
| General government | $ 1,086,728 |
| Judicial Services | 114,592 |
| Public safety | 780,507 |
| Physical environment | |
| Transportation | 116,290 |
| Health & Human service | |
| Economic environment | 66,728 |
| Culture & recreation | 383,108 |
| Mental health | 39,771 |
| Total | $ 2,587,724 |

## F. Leases

Operating leases

County leases building and office facilities and other equipment under noncancelable operating leases. The future payments for these leases are as follows:

| Years | Total | Principal | Interest |
|---|---|---|---|
| 2002 | 161,760 | 150,883 | 10,877 |
| 2003 | 161,760 | 155,974 | 5,786 |
| 2004 | 100,626 | 99,358 | 1,268 |
| 2005 | 60,457 | 60,189 | 268 |
| 2006 | 59,228 | 59,182 | 46 |
| 2007 | 58,000 | 58,000 | - |
| Total | 601,832 | 583,586 | 18,246 |

**G. Major Construction**

The County is adding 300 beds to its current 200 beds in its Jail facility. The County has spent over 6 million dollars on the project, and sold an 11.2 million dollars in bond for the project.

## *Note 5. Long-term debt*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds Payable is reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

State law provides that debt cannot be incurred in excess of the following percentages of the value of the taxable property of the county:
1.5% - Without a vote of the people
2.5% - With a vote of the people
5.0% - With a vote of the people, provided the indebtedness in excess of 2.5% is for utilities, parks, or open space development.

As of December 31, 2001, the debt limits for the County was as follows:

| | Without a Vote | With a Vote | |
|---|---|---|---|
| | | 2.50% | 5.00% |
| Legal Limit | $ 210,033,988 | $ 350,056,647 | $ 700,113,294 |
| Applicable Outstanding Debt | 66,839,344 | 66,839,344 | 66,839,344 |
| Margin Available | $ 143,194,644 | $ 283,217,303 | $ 633,273,950 |

### A. General obligation bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was $102,775,000. During the year, general obligation bonds totaling $11,215,000 were issued to finance the expansion of the County Jail.

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

| Issued Name | Amount Authorized | Date Issued | Maturity Date | Interest Rate(s) | Amount Outstanding |
|---|---|---|---|---|---|
| Ltd G.O. '90B | $ 4,100,000 | 8/1/90 | 8/1/2010 | 5.8/7.0% | $ 210,000 |
| Ltd G.O. '91A | 7,175,000 | 11/1/91 | 11/1/11 | 4.6/6.75% | 340,000 |
| Ltd G.O. '92A | 11,910,000 | 11/1/92 | 11/1/12 | 4.5/10.0% | 580,000 |
| Ltd G.O. '93 Refunding | 8,735,000 | 5/1/93 | 11/1/10 | 2.45/5.6% | 5,470,000 |
| Ltd G.O. '96B | 14,000,000 | 7/1/96 | 7/1/01 | 4.0/5.0% | 0 |
| Ltd G.O. '96 Refunding | 9,875,000 | 4/1/96 | 11/1/12 | 3.6/5.7% | 9,450,000 |
| Ltd G.O. '97 Refunding | 5,200,000 | 4/1/97 | 6/1/04 | 4.1/4.9% | 1,570,000 |
| Ltd G.O. '98 | 6,000,000 | 5/15/98 | 6/1/03 | 3.9/4.32% | 5,505,000 |
| Ltd G.O. '99 | 5100000 | 2/15/1999 | 12/1/2018 | 4.0/4.9% | 4,570,000 |
| Ltd G.O. 1999B | 10,680,000 | 7/15/99 | 7/01/19 | 4.25/5.30% | 9,390,000 |
| Ltd G.O. Series 2000 | 20,000,000 | 8/15/00 | 7/01/25 | 4.3/5.5% | 19,640,000 |
| Ltd G.O. '2001 Refunding | 11,215,000 | 6/15/01 | 11/01/20 | 4.0/5.0% | 11,160,000 |
| Total | $ 113,990,000 | | | | $ 67,885,000 |

The County also issued $2,326,693 in special assessment debt to provide funds for the construction of streets in new residential developments. These bonds will be repaid from amounts levied against the property. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the County must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received.

| Issued Name | Amount Authorized | Date Issued | Maturity Date | Amount Outstanding |
|---|---|---|---|---|
| RID #22, 25, 31 | $ 1,039,712 | 8/1/1992 | 9/1/2002 | $ - |
| RID #35, 36, 37 | 359,948 | 3/1/1995 | 10/1/2007 | - |
| RID #38 | 381,647 | 6/1/1996 | 8/1/2008 | 55,000 |
| RID #39 | 547,386 | 4/1/1998 | 5/1/2013 | 285,000 |
| | $ 2,328,693 | | | $ 340,000 |

Annual debt service requirements to maturity for county's long-term debt obligations are as follows:

| Years Ending December 31, | General Obligation | Revenue | Special Assessments | Total |
|---|---|---|---|---|
| 2002 | $ 7,813,910 | $ 3,096,368 | $ - | $ 10,910,278 |
| 2003 | 12,622,273 | 3,085,118 | - | 15,707,390 |
| 2004 | 6,838,068 | 3,154,633 | - | 9,992,700 |
| 2005 | 6,176,275 | 3,135,668 | 18,175 | 9,330,118 |
| 2006 | 5,995,491 | 3,112,253 | 62,070 | 9,169,813 |
| Thereafter | 60,882,811 | 28,398,483 | 296,748 | 89,578,041 |
| Total | $ 100,328,827 | $ 43,982,520 | $ 376,993 | $ 144,688,339 |

### B. Revenue bonds

The County also issues bonds where the county pledge income derived from the acquired or constructed assets to pay debt service. There was $43,888,000 outstanding at the end of the fiscal year 2001.

### C. Compensated absences

It is the policy of the County to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave earned after January 1, 1984. Sick leave earned before January 1st, 1984 is payable at 50% at retirement or death, and employee may accumulate up to a maximum of 150 days.

All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. An employee may accumulate up to 360 hours (45days). All outstanding vacation leave is payable upon resignation, retirement, or death.

## Changes in long-term liabilities

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| **Governmental activities:** | | | | |
| Bond payables: | | | | |
| General obligation bonds | $ 67,027,405 | $ 11,215,000 | $ 11,170,000 | $ 67,072,405 |
| Special assessment debt | 495,000 | | 155,000 | 340,000 |
| Total bond payable | 67,522,405 | 11,215,000 | 11,325,000 | 67,412,405 |
| Capital leases | 569,273 | 136,000 | 121,000 | 584,273 |
| Internal services lease | | 226,852 | | 226,852 |
| Compensated absences | 3,478,825 | 438,000 | | 3,916,825 |
| Internal services comp. | | 112,397 | | 114,803 |
| Other liabilities | 407,902 | 643,000 | 42,000 | 1,008,902 |
| Total Governmental activity | 71,978,405 | 12,771,249 | 11,488,000 | 73,264,060 |
| **Business-type activities** | | | | |
| Bond payable: | | | | |
| General obligation bonds | 892,955 | | 80,000 | 812,955 |
| Revenue bonds | 31,750,000 | 13,583,000 | 1,753,573 | 43,579,427 |
| Total bond payable | 32,642,955 | 13,583,000 | 1,833,573 | 44,392,382 |
| Advance | | 529,406 | | 529,406 |
| Compensated absences | | 283,493 | | 283,493 |
| Total Busines-type activity | 32,642,955 | 14,395,899 | 1,833,573 | 45,205,281 |
| Total | $ 104,621,360 | $ 27,167,148 | $ 13,321,573 | $ 118,469,341 |

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. For the governmental activities, claims, judgments, and compensated absences are generally liquidated by the general fund.

Capital lease payments are as follows:

| | Total | Principal | Interest |
|---|---|---|---|
| 2002 | $ 161,760 | $ 150,883 | $ 10,877 |
| 2003 | 161,760 | 155,974 | 5,786 |
| 2004 | $ 100,626 | $ 99,358 | $ 1,268 |

## *Note 6. Employee retirement systems*

Substantially all County full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems under cost-sharing multiple-employer defined benefit public employee retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained from the following address:

Department of Retirement systems,
Administrative Services Division,
P.O. Box 48380,
Olympia, WA 98504-8380.

The following disclosures are made following GASB Statement 27, Accounting for Pensions by State and Local Government Employers.

### A. Public employees' retirement system (PERS) plans I and II

<u>Plan description</u>

PERS is a cost sharing multiple employer defined benefit pension plan. Membership in the plan includes elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of the legislative committees; college and university employees not in national higher education retirement programs; judges of district and municipal courts; non-certificated employees of school districts; and employees of local government. PERS system includes two plans. Participants, who joined the system by September 30, 1977, are Plan 1 members. Those joining thereafter are enrolled in Plan 2. Retirement benefits are financed from employee and employer contributions and investment earnings. Retirement benefits in both Plan 1 and Plan 2 are vested after completion of five years of eligible service.

Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. If qualified, after reaching age 66 a cost-of-living allowance is granted based on years of service credit and is capped at three percent annually.

Plan 2 members may retire at age 65 with five years of service, or at age 55 with 20 years of service, with an allowance of 2 percent per year of service of the average final compensation. Plan 2 retirements before 65 are actuarially reduced. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at three percent annually.

There are 1,177 participating employers in PERS. Membership in PERS consisted of the following at December 31, 2000:

| | |
|---|---|
| Retirees and Beneficiaries Receiving Benefits | 61,088 |
| Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 17,314 |
| Active Plan Members Vested | 98,018 |
| Active Plan Members Nonvested | 54,243 |
| Total | 230,663 |

Funding policy

Each biennium, the state Pension Funding Council adopts Plan 1 employers' contribution rates needed to fully amortize the total costs of the plan. Employee contribution rates for Plan 1 are established by statue at six percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 are set by the director of the Department of Retirement Systems based on recommendations by the Office of the State Actuary to continue to fully fund the plan. All employers are required to contribute at the level established by the state law. The methods used to determine the contribution rates are established under state statue in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2001, were:

| | PERS Plan 1 | PERS Plan 2 |
|---|---|---|
| Employer | 1.77%* | 1.77%* |
| Employee | 6.00% | 0.88% |

*The employer rates include the employer administrative expense fee currently set at 0.23%.

Both the County and the employees made the required contributions. The County's required contributions for the years ended December 31 were:

| | PERS Plan 1 | PERS Plan 2 |
|---|---|---|
| 2001 | $ 189,341 | $ 1,197,284 |
| 2000 | $ 265,998 | $ 1,484,944 |
| 1999 | $ 411,655 | $ 1,914,595 |

## B. Law enforcement officers' and fire fighters' retirement system (LEOFF) plans 1 and 2

Plan description

LEOFF is a cost sharing multiple employer defined benefit pension plan. Membership in the plan includes all fulltime, fully compensated, local law enforcement officers, and fire fighters. LEOFF is comprised solely of non-state employees. The LEOFF system includes two plans. Participants who joined the system by September 30, 1977 are Plan 1 members. Those joining thereafter are enrolled in Plan 2. Retirement benefits are financed from employee and employer contributions, investment earnings, and state contributions. Retirement benefits in both Plan 1 and Plan 2 are vested after completion of five years of eligible service.

Plan 1 members are eligible to retire with five years of service at age 50. The benefit per year of service is as follows, with a cost-of-living allowance granted, capped at 3 percent annually:

| Term of Service | Percent of Final Average |
|---|---|
| 20 or more years | 2.00% |
| 10 but less than 20 years | 1.50% |
| 5 but less than 10 years | 1.00% |

Plan 2 members are eligible to retire at age 50 with 20 years of service, or at age 53 with five years of service. Retirement benefits before age 55 are actuarially reduced by 3 percent for each year that the benefit commences before age 53. The benefit is 2 percent of average salary per year of service. The average salary is based on the highest consecutive 60 months. There is no cap on years of service credit and a cost-of living allowance is granted, capped at three percent annually.

There are 362 participating employers in LEOFF. Membership in LEOFF consisted of the following at December 31, 2000:

| | |
|---|---|
| Retirees and Beneficiaries Receiving Benefits | 7,923 |
| Terminated Plan Members Entitled To But Not Yet Receiving Benefits | 279 |
| Active Plan Members Vested | 10,680 |
| Active Plan Members Nonvested | 3,952 |
| Total | 22,834 |

Funding policy

Plan 1 employer and employee contribution rates are established by statue at 6 percent. State contribution rates for Plan 1 are set by the Pension Funding Council to fully amortize the total costs of the plan. Employer, employee, and the state contribution rates for Plan 2 are set by the director of the Department of Retirement systems based on recommendations by the Office of the State Actuary to continue to fully fund the plan. All employers are required to contribute at the level required by the state law. The methods used to determine the contribution rates are established under state statue in accordance with chapter 41.26 and 41.45 RCW.

The required contribution rates expressed as percentage of current year covered payroll, as of December 31, 2000, were:

| | LEOFF Plan 1 | LEOFF Plan 2 |
|---|---|---|
| Employer | 0.23%* | 2.93%* |
| Employee | 0.00% | 4.50% |
| State | N/a | 1.80% |

The employer rates include the employer administrative expense fee currently set at 0.23%.

Both the County and the employees made the required contributions. The County's required contributions for the years ended December 31 were:

| | LEOFF Plan 1 | LEOFF Plan 2 |
|---|---|---|
| 2001 | $ 1,126 | $ 204,146 |
| 2000 | $ 13,991 | $ 200,270 |
| 1999 | $ 30,621 | $ 197,469 |

## *Note 7. Post-employment benefits*

In addition to the retirement described in Note 6 above, the County provides certain medical insurance benefits for retired public safety employees. Substantially the entire County's LEOFF 1 employees may become eligible for these benefits if they reach normal retirement age while working for County. There are 39 participants eligible to receive these benefits. In 2001, expenditures of $255,165 were recognized for post-employment health benefit. The program is funded "pay as you go."

## *Note 8. Deferred compensation*

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the County (without being restricted to the provisions of the benefits under the plan). It is subject only to the claims of the County's general creditors. Participants' rights under the plan are equal to those of general creditors of the County in an amount equal to the fair value of the deferred account for each participant.

It is the opinion of the County legal counsel that the County has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The County believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The investment carrying value of the plans are as follows:

| **Investment company** | | **Fair Value** |
|---|---|---|
| PEBSCO | $ | 12,993,729 |
| Aetna | | 3432652 |
| Hartford | | 457169 |
| Total | $ | 16,883,550 |

## *Note 9. Risk management*

The county is exposed to various risks of loss related to torts, theft, damage to, and destruction of assets, errors, or omissions, injuries to employees, and natural disasters. RCW 48.62 authorizes the governing body of any governmental entities to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The County uses Washington Counties Risk Pool to manage most of its risks, the Pool was formed on August 18, 1988, and it currently has 25 participating counties. The members are required to remain in the program for a minimum of five years and must give a one-year notice before terminating membership. A member county is still responsible for contributions to the pool for unresolved, unreported, and in-process claims for the period that it was a signatory to the inter-local agreement.

## A. Workers compensation

The County assumes total risk for Workers compensation as allowed by the State statue. Each department of the County is charged based on actuarial studies of the loss history. As of December 31, 2001, the County's estimated total undiscounted outstanding liability for the workers' compensation program is approximately $1,448,000. It is funded at less than 60% confidence level. The County is planning to bring the confidence level to a 70% confidence level over the next three years.

Eberle Vivian, Self-insurance Administrator, is an independent adjusting firm that processes the Kitsap county workers' compensation claims.

## B. General liability

The County has a $100,000 deductible per occurrence protection with Washington County Risk Pool (WCRP). The County is responsible for the first $100,000; the Pool is responsible for anything over $100,000 up to $250,000. The Pool also insures itself for risks over $250,000 per occurrence through unrelated underwriter. The County did not have any claim in excess of the coverage in the last three years.

## C. Property insurance

The county has a $50,000 deductible and insured for up to $50 million per occurrence through an independent insurance carrier. The earthquake has a deductible of 2% of the total damage per occurrence with a $100,000 minimum and $1,000,000 maximum deductible

## D. Crime/dishonesty insurance

The crime/dishonesty policy has a $5,000 deductible and a $1,000,000 coverage. The Position bond, which protects certain elected official as required by the State statue, has a $2,500 deductible with a limit of $1,397,000

## E. Other Insurance

The County took out special policies for the "Jail expansion" construction project. The Jail project liability has $5,000 deductible, $1,000,000 per occurrence and an aggregate limit of $2,000,000.

The Builder's risk policy has a $25,000 deductible and a $20 million per occurrence and aggregate limit.

## *Note 10. Other Information*

### A. Segment information

The county issued revenue bonds to finance its sewer fund, which operates the County's sewage treatment plant, sewage pumping stations, and collection systems. The investors in the revenue bonds rely solely on the revenue generated by the project activities for repayments. Summary financial information of the Sanitary Sewer and other enterprise funds are presented below:

**CONDENSED STATEMENT OF NET ASSETS**

| | Sanitary Sewer | Solid Waste | Village Greens Golf Course | Surface Water Utility |
|---|---|---|---|---|
| Assets | | | | |
| Current Assets | $ 40,493,038 | $ 16,407,120 | $ 253,309 | $ 8,296,346 |
| Long-Term Assets | 61,340,882 | 1,400,963 | 474,780 | 2,846,482 |
| Total Assets | 101,833,920 | 17,808,083 | 728,089 | 11,142,827 |
| Liabilities | | | | |
| Current Liabilities | 1,068,591 | 308,099 | 68,819 | 762,335 |
| Long-Term Liabiities | 45,107,167 | 0 | 0 | 0 |
| Total Liabilities | 46,175,757 | 308,099 | 68,819 | 762,335 |
| Net Asset | | | | |
| Invested in Capital Assets | 16,639,881 | 1,400,963 | 474,780 | 2,846,482 |
| Reserved: | | | | |
| Debt Service | 618,170 | | | |
| Unreserved | 38,400,109 | 16,099,021 | 184,490 | 7,534,010 |
| Total net assets | $ 55,658,160 | $ 17,499,984 | $ 659,270 | $ 10,380,492 |

**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

| | Sanitary Sewer | Solid Waste | Village Greens Golf Course | Surface Water Utility |
|---|---|---|---|---|
| Operating Revenue | $ 10,124,135 | $ 2,578,020 | $ - | $ 4,417,234 |
| Operating Expenses: | | | | |
| Other Operating Expenses | 6,061,999 | 6,703,100 | 16,711 | 3,803,041 |
| Depreciation | 2,474,122 | 57,306 | 9,724 | $126,765 |
| Total Operating Expenses | 8,536,121 | 6,760,406 | 26,435 | 3,929,806 |
| Operating Income (Loss) | 1,588,014 | -4,182,386 | -26,435 | 487,428 |
| Nonoperating Revenues (Expenses) | -359,475 | 3,383,469 | 0 | 452,627 |
| Income Before Operating Transfer | 1,228,539 | -798,917 | -26,435 | 940,055 |
| Operating Transfers | -69,662 | -54,648 | 0 | -33,609 |
| Change in net assets | 1,158,877 | -853,565 | -26,435 | 906,446 |
| Beginning net asset | 54,499,283 | 18,353,551 | 685,703 | 9,474,047 |
| Ending net asset | $ 55,658,160 | $ 17,499,986 | $ 659,268 | $ 10,380,493 |

**CONDENSED STATEMENT OF CASH FLOWS**

| | Sanitary Sewer | Solid Waste | Village Greens Golf Course | Surface Wate Utility |
|---|---|---|---|---|
| Cash flows from operating activities: | $ 3,401,525 | $ (4,123,202) | $ 52,108 | $ 994,012 |
| Cash flows from noncapital financing activities: | 327,668 | 641,036 | - | 8,195 |
| Cash flows from capital and related financing activities: | (4,439,339) | (32,364) | - | (627,628) |
| Cash flows from investing activities: | 1,764,759 | 4,595,000 | - | (445,300) |
| Net increase (decrease) in cash | 1,054,613 | 1,080,470 | 52,108 | (70,721) |
| Cash & cash equivalents at January 1 | 961,737 | 1,000,263 | 201,200 | 586,098 |
| Cash & cash equivalents at December 31 | $2,016,350 | $2,080,733 | $253,308 | $515,377 |

## B. Contingent Liabilities

The county is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County's legal advisor the resolution of these matters will not have material adverse effect on the financial condition of the County.