

Kitsap County Washington

Comprehensive Annual Financial Report

Fiscal Year Ended December 31, 1999
Karen Flynn, County Auditor
Ade' Ariwoola, Financial Services Manager

INTRODUCTORY SECTION



Introductory Section

June 28, 2000

Kitsap County Board of Commissioners
614 Division Street
Port Orchard, WA 98366

The Comprehensive Annual Financial Report of Kitsap County, for the fiscal year ended December 31, 1999, is submitted herewith. This report was prepared by the County Auditor's office to present the financial position of the various funds and account groups of the County and the results of their operations for the year. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with County management. We believe the data as presented is accurate in all material aspects, and that all disclosures necessary to enable the reader to gain the maximum understanding of the County's financial affairs have been included.

This report has been prepared in conformance with the accounting principles and financial reporting standards issued by the National Council on Governmental Accounting and adopted by the Governmental Accounting Standards Board. In accordance with guidelines recommended by the Government Finance Officers' Association, the accompanying report consists of three parts:

INTRODUCTORY SECTION - includes this transmittal letter, a list of principal County officials, and an organization chart of the County and the table of contents.

FINANCIAL SECTION - includes the financial statements and supplemental data of Kitsap County accompanied by our independent auditor's opinion.

STATISTICAL SECTION - includes a number of unaudited data tables depicting the financial history of Kitsap County for the past ten years, information on overlapping governments, demographic and other miscellaneous information.

ECONOMIC CONDITION AND OUTLOOK

The County serves a rapidly growing area located west of Seattle across Puget Sound. While retail businesses are providing some economic diversification, the military continues to be a dominant presence in the County. U.S. Naval installations employ more than 22,000 civilians and over 12,000 military personnel. Other major employers of the County include Johnson Controls World Services, which supplies support services to the Navy; Vitro Corporation, under contract to the Naval Undersea Warfare Engineering Station. The retail companies like Safeway, Costco Wholesale, Wal-Mart, Albertson, and Fred Meyer grocery store chains are increasing their work force. State, local governments and public school districts also play major roles in the employment market of Kitsap County. Despite recent cuts in defense spending, military operations within the County remain stable due, in part, to the strategic importance and unique nature of the facilities. Bremerton has the only shipyard on the West Coast capable of overhauling nuclear aircraft carriers.

We expect growth to continue over the long term. The construction of the second bridge by the Narrow Bridge will have an impact on the Kitsap County's growth. It will open-up the area more with easy access to Tacoma and I-5 corridor. This growth will enhance the County's property tax base, resulting in higher property tax revenues subject to statutory limitations. On the other hand, growth has and will create a demand for more services to the County's urban population.

MAJOR INITIATIVES

The Board of County Commissioners is committed to providing quality service to its citizens and improving the quality of life throughout the county at a reasonable cost.

The County spent over 21 million dollars to maintain and upgrade county roads last year. Over \$38 million dollars is in the budget for 2000 for the construction and maintenance of county roads. The spending on law and justice is continuously increasing at higher proportion compare to the rest of the general fund. For example, Juvenile funding went up to \$5.2 million in the 2000 budget from \$4.0 million in 1999, and the Sheriff's Office funding went up to \$9.95 million in 2000 from \$8.8 million in 1999.

The County completed the Juvenile Center remodeling and both the new building and the remodeled building are functioning properly. The County is currently working on the Jail expansion. The County has relocated the offices that will be affected by the construction so that construction may start.

FINANCIAL INFORMATION

Accounting System

Kitsap County's accounting system is organized and operated on a "fund basis." Each fund is a distinct, self-balancing accounting entity. The system includes the General Fund, Special Revenue, Debt Service, Capital Projects, Enterprise, Internal Service and Agency Funds. These funds are fully described in Note 1 of the financial statements. Additionally, the County maintains a General Fixed Asset Account Group to account for all fixed assets acquired by the County that are not a part of the Enterprise or Internal Service Funds. The County also maintains a General long-term Debt Account Group to record and account for general obligation bonds and other long-term obligations, such as accumulated vacation leave, as well as lease obligations.

The modified accrual basis of accounting is followed by the governmental funds. Under this method of accounting, revenues are recognized when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded as liabilities when incurred.

The accrual basis of accounting is utilized for Proprietary Funds. Under this method of accounting, revenues are recorded when earned and expenses re-recorded as soon as they result in liabilities for benefits received. The County has no Nonexpendable Trust Funds.

Internal Control

The accounting system of Kitsap County is dependent upon a strong foundation of internal accounting control to ensure that financial information generated is both reliable and accurate. The County places a great deal of emphasis on the continuing development and monitoring of its system of internal control. The concept of reasonable assurance requires evaluation and judgement by management in order to determine if the cost of control exceeds the benefits likely to be derived. We believe that the County's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of all financial transactions.

Budgetary Control

The County's budget is prepared on an annual basis by the Department of Administrative Services. The Budget Director and the Board of County Commissioners evaluate the budget proposals of the various County organizations to determine the funding level of the operating and public service programs. After giving due consideration to the input received from citizens, the Board of County Commissioners adopts the budget. The adopted budget then becomes a document, which places before the people of Kitsap County a clear picture of the cost of public services, which will be provided.

The budget is appropriately controlled through an on-line accounting system to assure effective fiscal management and accountability. Further budgetary control is maintained through the use of an encumbrance system. As purchase orders are issued, corresponding amounts of appropriations are set aside by the use of encumbrances for later payment so that expenditures will not exceed authorized budgetary appropriations.

Notes to the Financial Statements

The notes provided in the Financial Section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this financial report. The notes include a Summary of Significant Accounting Policies for the County, and other necessary disclosures of important matters relating to the financial position of the County. The notes express significant insight to the financial statements and should be read in conjunction with the statements.

The Reporting Entity and Services Provided

Kitsap County was incorporated in 1857, and operates under a commissioner form of government. The three Commissioners are elected on a staggered basis for a term of four years. Services provided by the County to citizens include police protection, planning and zoning, public works operations, parks and recreation activities, sewer utilities, community development, street construction and maintenance and general administrative services.

Governmental Fund-Type Revenues

The County's general governmental revenues fall into the following six general classifications:

Taxes	Property, retail sales, admission, real estate excise and other local taxes.
Licenses and Permits	Occupational licenses, building permits and other regulatory fees.
Intergovernmental Revenues	Federal, state and interlocal grants and entitlements, state shared revenues, payments in lieu of taxes and payments from other governments for services provided by the County.
Charges for Services	Various filing fees, court costs, recording fees and fees for other various services.
Fines and Forfeits	Primarily District Court fines and bail forfeitures.
Miscellaneous Revenues	Interest earnings, concession proceeds, franchise fees and rents.

Shown on the next page is a comparison of sources of revenues for 1999 and 1998 for the County's General, Special Revenue, Debt Service and Capital Project Funds combined.

<u>Revenue Category</u>	<u>1999</u>	<u>1998</u>	<u>Change From 1998</u>	
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>Percent</u>
Taxes	\$62,911,741	\$57,438,570	\$5,473,171	9.53%
Licenses and Permits	1,772,019	1,532,305	239,714	15.64%
Intergovernmental Revenue	48,305,504	46,842,958	1,462,546	3.12%
Changes for Services	8,463,361	8,386,199	77,162	0.92%
Fines and Forfeits	1,793,598	1,543,489	250,109	16.20%
Miscellaneous Revenues	21,237,116	6,854,185	14,382,931	209.84%
Total Revenues	<u>\$144,483,339</u>	<u>\$122,597,706</u>	<u>\$21,885,633</u>	<u>17.85%</u>

The increase in total revenues was due to the settlement in the Model Toxic control Act Program. We received over \$14 millions in settlement. That account for the 209.84% increase in revenue under the Miscellaneous Revenues.

Governmental Fund-Type Expenditures

The County's expenditures are classified along functional lines, such as public safety, and by object of expenditure, such as employee salaries. The following are the County's functional categories of expenditures:

General Government	A major class of services provided by the legislative, judicial, and executive branches of government as a whole.
Security of Persons and Property	Public safety functions, such as those provided by the Sheriff's office.
Physical Environment	Functions performed by the County to achieve a satisfactory living environment for its citizens.
Transportation	Expenditures to develop and improve the safe and adequate flow of vehicles and pedestrians, including construction and maintenance of County roads.
Economic Environment	Expenditures to develop and improve the economic condition of the community and its citizens. The functions are administered by the County's Human Resources Department and the Department of Community Development.
Mental and Physical Health	Expenditures to promote the general health and well-being of the County's residents. The County's Human Resources Department administers these functions.
Culture and Recreation	Expenditures to provide County residents with opportunities and facilities for cultural, recreational and educational programs. These costs relate primarily to programs of the Fair and Parks Department.

The following analysis of the County's General, Special Revenue, Debt Service, and Capital Project Funds compares the functional expenditures of these funds.

Function	1999	1998	Change From 1998	
	Amount	Amount	Amount	Percent
Current:				
General Government	\$29,344,597	\$27,827,545	\$1,517,052	5.45%
Security of Persons and Property	21,135,522	18,414,596	2,720,926	14.78%
Physical Environment	74,723	3,223,546	(3,148,823)	-97.68%
Transportation	15,771,428	16,552,511	(781,083)	-4.72%
Economic environment	10,956,872	10,723,563	233,309	2.18%
Mental and Physical Health	24,455,275	24,067,441	387,834	1.61%
Culture and Recreation	3,516,445	3,116,524	399,921	12.83%
Capital Outlay	16,725,358	10,574,866	6,150,492	58.16%
Debt Service	8,281,026	13,881,159	(5,600,133)	-40.34%
Total Expenditures	<u>\$130,261,246</u>	<u>\$128,381,751</u>	<u>\$1,879,495</u>	<u>1.46%</u>

Most of the spending in the Physical Environment category was spent on capital projects and they are reported in the Capital Outlay line accordingly.

Fund Balance

The unreserved fund balance of the General Fund, as of December 31, 1999, is \$7,635,357 an increase of \$1,624,573 from the previous year's unreserved fund balance of \$6,010,784. The current unreserved fund balance is above the County's goal.

The unreserved fund balance serves several purposes for the County. First, it provides working capital for the first four months of the year until the receipt of the first half of property tax payments at the end of April. This fund balance provides the necessary cash cushion to allow the County to carry on normal activities without resorting to borrowing.

Second, the fund balance provides a reserve for unanticipated, unbudgeted emergency expenditures, which could occur during a fiscal period. Third, it provides a source of funds to balance subsequent budgets, if an allocation is required to fund needed programs.

Enterprise Funds

The County operates five Enterprise Funds - Sewer Utility, Solid Waste, Golf Course, Surface Water and the Pavilion. It is the County's goal to operate these funds without General Fund support through the generation of sufficient user fee revenue from customers. The summary financial results for the Enterprise Funds are as follows:

	SEWER UTILITY	SOLID WASTE	GOLF COURSE	EVENT/ EXHIBIT HALL	SURFACE WATER
Operating Revenues	8,630,134	2,262,472	63,914	0	4,523,858
Operating Expenses	7,623,375	1,671,789	33,578	53,807	3,227,258
Net Operating Income	1,006,759	590,683	30,336	(53,807)	1,296,600
Net Income	938,236	909,169	30,336	1,091,037	1,699,405
Total Retained Earnings	12,132,471	16,498,821	521,093	0	8,002,476

The Event/Exhibit Hall has not been used at the level anticipated and has posted negative net income in the last few years. In 1999, the County Board of Commissioners decided to move the operation of the Event/Exhibit Hall to the General Fund.

Debt Administration

The ratio of net direct tax supported bonded debt to assessed valuation and population presents useful indicators of the County's relative debt burden. These ratios for the end of 1999 are as follows:

	Ratio of Debt to Assessed Valuation	Debt Per Capita
Net Direct Tax Supported Bonded Debt - \$48,004,717	.364%	\$208.99

While the County's debt is composed primarily of limited tax general obligation bonds, a large portion is serviced by a real estate excise tax. In addition, a new conservation futures tax, enacted in 1991 for open space projects, supports a portion of the County's debt service. The debt per Capita ratio went up from \$172.73 in 1998 to \$208.99 in 1999.

The County's bond rating on general obligation bonds is A1 by Moody's and A+ by Standard and Poors.

Cash Management

At year-end, the County had invested funds of \$ 219,911,299. The portfolio mixes of the County's investments at year-end were as follows:

Type of Investment	Amount	Percent Of Portfolio
Banker's Acceptances	\$ 10,985,608	4.13%
U.S. Govt. Securities	221,028,912	83.05%
State Pool	<u>34,127,355</u>	<u>12.82%</u>
	<u>\$266,141,875</u>	<u>100.00%</u>

Risk Management

Kitsap County is a member of the Washington Counties Risk Pool which provides liability coverage for member counties of up to \$15 million per incident with a \$50,000 deductible. The County maintains coverage for property claims, excess coverage for workers' compensation, public officials, boiler & machinery, and employees dishonesty bond. The coverage includes a \$25,000 deductible for all property claims.

Kitsap County is self-insured for workers' compensation up to \$225,000 per claim. If a claim were to exceed the self-insurance level, the excess coverage under the County insurance plan would take over the expense.

OTHER INFORMATION

Use of the Comprehensive Annual Financial Report

This report is published to provide detailed information concerning the financial condition of the County to the Board of County Commissioners, citizens, investors, resource providers and other interested persons. It is also intended that this report will serve as a guide in formulating policies and in conducting the County's future day-to-day activities.

A copy of this report will be sent to elected officials, County management personnel, bond rating agencies, libraries and other agencies, such as financial institutions and government agencies which have expressed an interest in Kitsap County's financial affairs.

Independent Audit

Washington State Law requires an annual audit of the County's financial statements by the State Auditor. The State Auditor conducts his examination in accordance with generally accepted auditing standards and provides an independent assessment that helps assure fair presentation of the County's financial position and results of operations and the cash flows of its proprietary fund types. In addition to the opinion on the County's financial statements included in this report, the State Auditor also issues separate reports on internal control and compliance with laws and regulations that meet the requirements of the Single Audit Act of 1984 and related OMB Circular A-128.

Acknowledgements

The completion of the County's Comprehensive Annual Financial Report was a major effort that required cooperation and support from the Treasurer's Office, Public Works and the Assessor's Office. We would like to express our sincere appreciation to all members of those departments who assisted and contributed to its preparation.

The preparation of this report could not have been accomplished without the professional, efficient and dedicated services of the entire staff of the Financial Services Department. We would like to give special acknowledgements to the staff of Financial Services Department, Treasurer's Office, Printing Department, and all the staff of other County Offices and Departments that assisted and contributed to the preparation of this report.

The Board of County Commissioners should be commended for their interest and support in planning and conducting the financial operations of the County in a responsible and progressive manner.

Respectfully submitted,

KAREN FLYNN
Kitsap County Auditor

ADEMOLA A. ARIWOOLA, MBA, CGFM
Financial Services Manager

Certificate of Achievement for Excellence in Financial Reporting

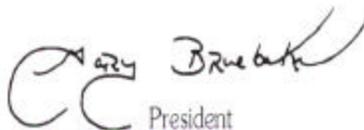
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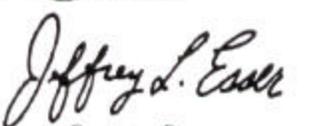
Kitsap County,
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 1998

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.




Cary Brueck
President


Jeffrey L. Esler
Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Kitsap County for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 1999. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of a state and local government financial reports.

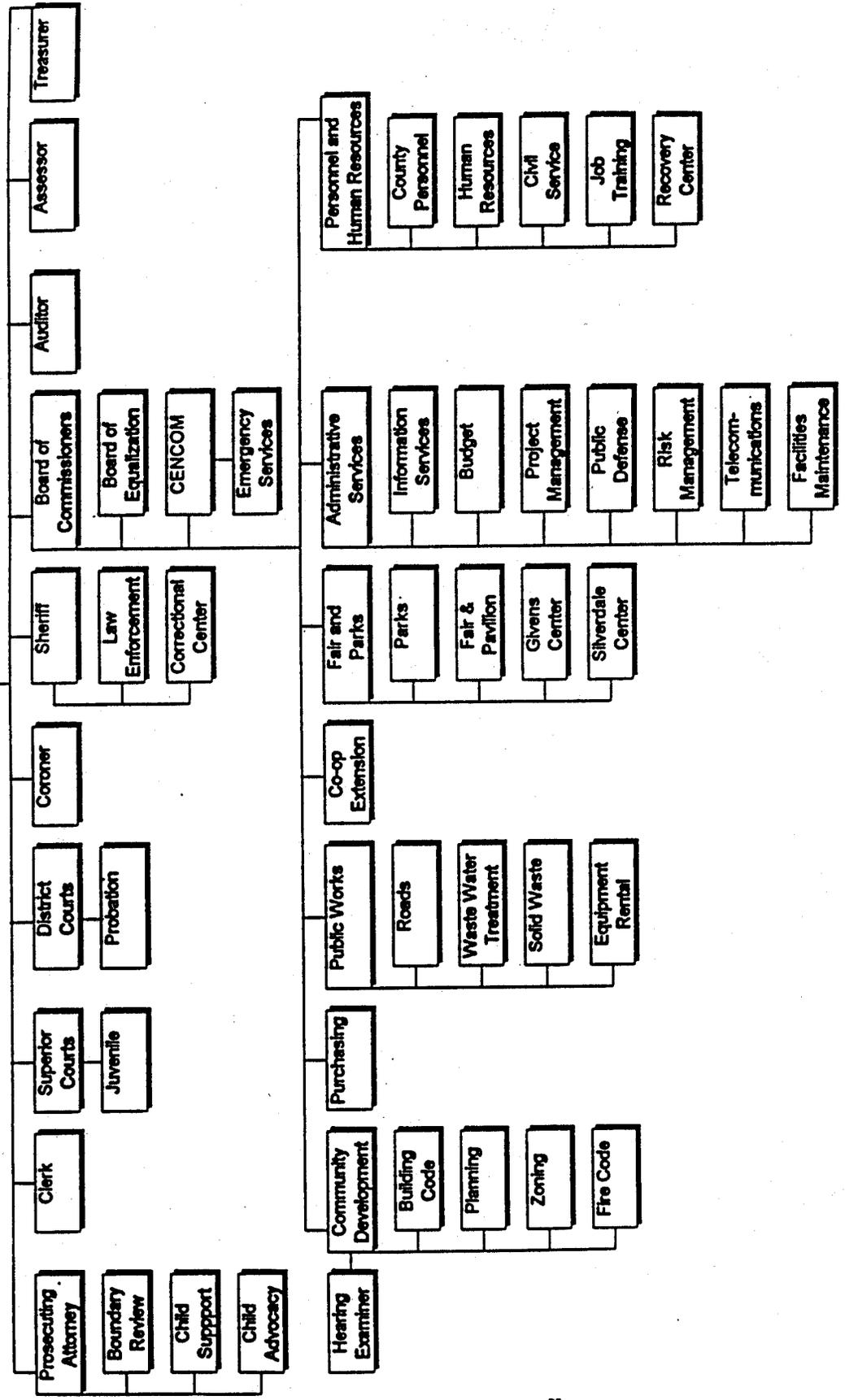
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Kitsap County has received a Certificate of Achievement since 1993. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

KITSAP COUNTY ELECTED OFFICIALS

<u>TITLE</u>	<u>INCUMBENT</u>	<u>END OF TERM</u>
Assessor	Jim Avery	12/31/02
Auditor	Karen Flynn	12/31/02
Clerk	Dean Logan	12/31/02
Commissioner, District #1	Christene "Chris" Endresen	12/31/00
Commissioner, District #2	Charlotte Garrido	12/31/00
Commissioner, District #3	Tim Botkin	12/31/02
Coroner	Greg Sandstrom	12/31/02
District Court Judge, #1	James M. Riehl	12/31/02
District Court Judge, #2	W. Daniel Phillips	12/31/02
District Court Judge, #3	Marilyn Paja	12/31/02
Prosecuting Attorney	Russ Hauge	12/31/02
Sheriff	Steve Boyer	12/31/02
Superior Court Judge, #1	Leonard W. Costello	12/31/00
Superior Court Judge, #2	Leonard W. Kruse	12/31/00
Superior Court Judge, #3	Karen B. Conoley	12/31/00
Superior Court Judge, #4	Terry McCluskey	12/31/00
Superior Court Judge, #5	Jay Roof	12/31/00
Superior Court Judge, #6	William J. Kamps	12/31/00
Superior Court Judge, #7	M. Karlynn Haberly	12/31/00
Treasurer	Sharon Shrader	12/31/02

VOTERS



KITSAP COUNTY ORGANIZATION