



**Washington State Auditor  
Brian Sonntag**

Legislative Building  
PO Box 40021  
Olympia, Washington 98504-0021

(360) 902-0370  
FAX (360) 753-0646  
TDD Relay 1-800-833-6388  
<http://www.sao.wa.gov>

**INDEPENDENT AUDITOR'S REPORT**

June 30, 2004

The Honorable Chairperson and Members of the Board of Commissioners  
Kitsap County  
Port Orchard, Washington

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kitsap County, Washington, as of and for the year ended December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our financial audit in accordance with governmental auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Kitsap County, Washington, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Kitsap County's basic financial statements. The accompanying financial information listed as combining financial statements and supplemental information on pages 71 through 94 and 157 through 162 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining financial statements and supplemental information have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The information identified in the table of contents as the Introductory and Statistical sections, pages 95 through 154 and 163 through 166, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the County. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Kitsap County's financial performance provides an overview of the County's financial activities for the fiscal year ended on December 31, 2003. Please read it as part of the accompanying transmittal letter and the accompanying basic financial statements.

### **Financial Highlights**

- The General Fund, on a current financial resources basis, reported expenditures in excess of revenues and other financing sources and uses by \$7.1 million.
- General Fund's actual resources available for appropriation in 2003 (revenue inflows and fund balance) was higher than the final budget by \$0.43 million while actual appropriations (outflows) were \$4.55 million less than budget.
- The General Fund reported excess revenue over expenditures of \$4.04 million however, the fund balance increased by \$7.13 million primarily due to the County's attempt to lower its workforce and keep the fund balance at about 9% of the annual budget.
- County Roads appropriation exceeded the actual resources by \$1.15 million, and the actual spending was less than the appropriation by \$5.28 million. The fund balance increased by \$0.44 million over the previous year.
- On the government-wide basis for governmental activities, the County had excess expenses over the program revenue of \$81.73 million, which was \$1.49 million less than the prior year.
- The County's total net assets excluding component units, on the government-wide basis, totaled \$479.07 million as of December 31, 2003.
- On February 1, 2003, the County sold \$10.25 million in general obligations bonds at a true interest cost of 2.0 percent. The tax-exempt bonds, which will mature incrementally over the next 25 years, will be used to finance the construction of the Public Works Annex Building and purchase of various open land for park development. Another general obligation bond was sold for \$17.81 million at a true cost of 2.0% to be repaid over 25 years. It will be used to fund the construction and furnishing of County's Administrative Building.
- Kitsap County's total long-term debt at December 31, 2003 was \$152.51 million, an increase of \$20.18 million over last year.

### **Using the Financial Section of this Report**

This Comprehensive Annual Financial Report consists of four sections:

- Introductory Section
- Financial Section
- Statistical Section
- Single Audit Section

The Financial Section of this report has four components: the management's discussion and analysis (this section), the basic financial statements, required supplementary information and the Financial Services Manager's Statements of Accountability.

For twenty years preceding 2002, the primary focus of the local government financial statements had been summarized fund type information on a current financial resources basis. This approach has been modified and the County's financial statements now present two kinds of statements, each with a different snapshot of the County's finances. The new focus is on both the County as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the County's overall financial status. The fund financial statements, which have been provided in the past, focus on the individual parts of the County government, reporting the County's operations in more detail than the government-wide statement. Both perspectives (government-wide and fund) allow the users to address relevant questions to broaden the basis of comparison (year to year or government to government) and enhance the County's accountability.

### **Reporting the County as a Whole (Government-wide Statement)**

The government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The government-wide statements consist of a series of financial statements:

- The Statement of Net Assets
- The Statement of Activities

These two statements report the County's net assets and changes in them. You can consider the County's net assets as the difference between assets and liabilities – as one way to measure the County's financial health, or financial position. Over the years, increases or decreases in the County's net assets are one indication of whether its financial health is improving or deteriorating. The reader will need to consider the non-financial factors, such as changes in the County's property tax base, the condition of the County's roads, the condition of the other County's assets to assess the overall health of the County.

In the Statement of Net Assets and the Statement of Activities, we divided the County into two kinds of activities:

**Governmental Activities** - Most of the County's basic services are considered governmental activities, including the auditor, assessor, commissioners, county roads, sheriff, parks and recreation, general county administration, community development, and economic development. Property taxes, other local taxes and state and federal grants finance most of these activities.

**Business type Activities** – The County's Sewage Service and Solid Waste Transfer Station Program are reported here as the County charges a fee to customers to help it cover all the costs of the services provided.

## Reporting the County's Most Significant Funds (Fund Financial Statements)

The traditional users of government financial statements will find the fund financial statement presentation more familiar. The fund financial statements provide detailed information about the most significant funds, not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County Commissioners established other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's use of three kinds of funds, governmental, proprietary, and fiduciary funds, is a different accounting approach.

**Governmental Funds** – Most of the County's basic services are reported in governmental funds, which focus on how cash and other financial assets that can readily be converted to cash flow in and out of those funds and the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the readers determine whether there are financial resources available to finance the County's basic services in the near future. Because this information does not encompass the additional long-term focus of the government-wide statements, we describe the relationship (or differences) between governmental activities (reported in the statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

**Proprietary Funds-** Services for which the County charges customers a fee are generally reported as proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information.

The County's Enterprise fund (one type of proprietary fund) is the same as its business-type activities, but the fund financial statements provide more detail and additional information, such as cash flow. The County reports the following four operations in enterprise funds: Sanitary Sewer, Solid Waste, Surface Water Utility, and Village Green's Golf Course.

The County uses an Internal Service fund (the other kind of proprietary fund) to report activities that provide supplies and services for the County's other programs and activities. The Equipment Rental & Revolving fund, Information Services fund, Purchasing fund, Self-Insurance fund, Telecommunications fund, and Worker's Compensation funds are the funds the County reported in Internal Service fund.

**Fiduciary Funds** – The County is the trustee, or fiduciary, for its employees' deferred compensation plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County's fiduciary activities are reported in a separate statement of fiduciary net assets. The County excludes these activities from the County's government-wide financial statements because the County cannot use these assets to finance its operations.

## Financial Analysis of the County (as a whole)

Summary of Statement of Net Assets (Million)  
For the Fiscal Year Ended as of December 31, 2003

	Governmental Activities		Business-type Activities		Total Primary Government	
	2002	2003	2002	2003	2002	2003
<b>Assets:</b>						
Current assets	129.19	124.05	69.09	71.64	198.28	195.69
Capital assets	355.91	392.29	66.63	65.89	422.54	458.18
<b>Total assets</b>	<b>485.10</b>	<b>516.34</b>	<b>135.72</b>	<b>137.53</b>	<b>620.82</b>	<b>653.87</b>
<b>Liabilities</b>						
Other liabilities	25.33	20.05	2.34	2.23	27.67	22.28
Long-term liabilities	88.74	110.52	43.60	41.99	132.34	152.51
<b>Total liabilities</b>	<b>114.07</b>	<b>130.57</b>	<b>45.94</b>	<b>44.22</b>	<b>160.01</b>	<b>174.79</b>

### Net assets

Investment in capital	286.29	292.95	23.79	24.25	310.08	317.20
Restricted	3.17	3.23	0.62	0.62	3.79	3.85
Unrestricted	81.57	89.59	65.37	68.44	146.94	158.03
<b>Total net asset</b>	<b>\$ 371.03</b>	<b>\$ 385.77</b>	<b>\$ 89.78</b>	<b>\$ 93.31</b>	<b>\$ 460.81</b>	<b>\$ 479.08</b>

The County's combined net assets (which is the County's bottom line), increased to \$479.08 million from \$460.81 million because of the increase in net assets in Governmental, and Business-type Activities. Net assets of the County's governmental funds was \$385.77 million. The County's unrestricted net assets; the part of net assets that can be used to finance day-to-day operations was \$158.03 million.

The following is an explanation of the changes between fiscal years as shown above: Long-term debt increased by \$20.17 due to new bonded debt for the Administration Building project, and retirements of some old debt.

The net assets of business-type activities increased by \$3.53 million to \$93.31 million. The County can use these net assets to finance the continuing operations of its sewer, recycling, and surface water programs.

### CHANGES IN NET ASSETS

For the Fiscal Year Ended as of December 31, 2003

For fiscal year ended December 31, 2003, the revenues from governmental funds totaled \$161.23 million. The property tax revenues, the County's largest revenue source was \$46.19 million while the operating grants and contributions mounted to \$57.49 million.

The expenses for governmental activities totaled \$158.07 million that includes \$18.89 million in depreciation.

Public safety continues to be the County's highest priority and commitment. The County opened its expanded jail facilities, equipped the patrol cars with computers, and hired more deputies. The County accrued \$31.21 million on public safety activities in 2003.

### Kitsap County's Changes in Net Assets (in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2002	2003	2002	2003	2002	2003
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 13.84	\$ 15.96	\$ 22.06	\$ 27.95	\$ 35.90	\$ 43.91
Operating grants	59.18	57.49	-	-	59.18	57.49
Capital grants	-		1.38	0.01	1.38	0.01
General revenues						
Property taxes	44.66	46.19	-	-	44.66	46.19
Sales taxes	20.92	28.35	-	-	20.92	28.35
Other taxes	9.43	4.56	-	-	9.43	4.56
Fines & forfeits	2.47	2.89	-	-	2.47	2.89
Investment earning	5.55	2.37	2.49	1.53	8.04	3.90
Other income	2.03	3.42	1.18	2.42	3.21	5.84
<b>Total revenues</b>	<b>158.08</b>	<b>161.23</b>	<b>27.11</b>	<b>31.91</b>	<b>185.19</b>	<b>193.14</b>
<b>Expenses</b>						
General government	24.59	21.93	-	-	24.59	21.93
Judicial services	10.55	12.24	-	-	10.55	12.24
Public safety	31.55	31.21	-	-	31.55	31.21
Physical environment	0.02	1.30	-	-	0.02	1.30
Transportation	36.76	34.16	-	-	36.76	34.16
Health & human services	37.39	38.46	-	-	37.39	38.46
Economic environment	8.99	8.15	-	-	8.99	8.15
Culture & recreation	4.86	6.06	-	-	4.86	6.06
Interest on L. T. debt	4.02	4.56	-	-	4.02	4.56
Utilities	-	-	21.45	27.62	21.45	27.62
Others	-	-	0.04	0.01	0.04	0.01
<b>Total expense</b>	<b>158.73</b>	<b>158.07</b>	<b>21.49</b>	<b>27.63</b>	<b>180.22</b>	<b>185.70</b>
Inc.in net assets before transfer	(0.65)	3.16	5.62	4.28	4.97	7.44
Transfers	0.71	0.75	(0.36)	(0.75)	0.35	-
<b>Increase in net assets</b>	<b>0.06</b>	<b>3.91</b>	<b>5.26</b>	<b>3.53</b>	<b>5.32</b>	<b>7.44</b>
Net assets - 1/1/03	124.19	371.03	84.20	89.78	208.39	460.81
Prior period adjustments	246.78	10.82	0.32	-	247.10	10.82
<b>Net assets - 12/31/03</b>	<b>\$371.03</b>	<b>\$ 385.76</b>	<b>\$ 89.78</b>	<b>\$ 93.31</b>	<b>\$ 460.81</b>	<b>\$ 479.07</b>

#### FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

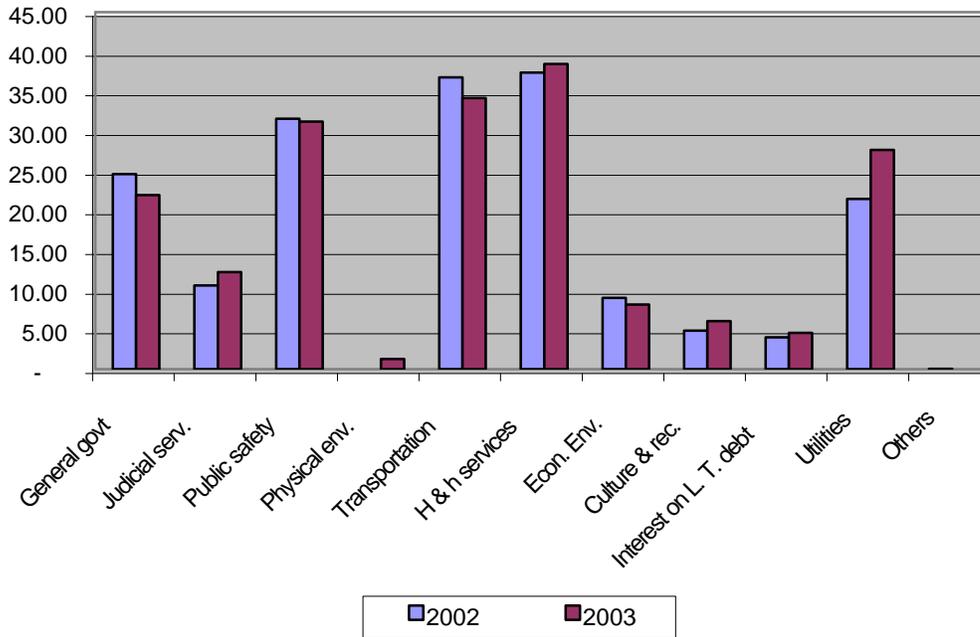
At year-end, the County's general fund reported \$12.96 million in fund balance, which is an increase of \$7.13 million or 122.28% from last year. The primary reason for the increase is the County's reduction in workforce and a slight increase in property tax.

The county road fund reported 24.73 million in revenues which is \$271,122 more than its expenditures and a small increase of \$438,471 to its net assets.

The mental health fund had \$267,612 in excess revenues over expenditures of \$20.53 million, and a moderate change of \$75,112 to its net assets.

The non-major funds reported \$4.6 million decrease to the total governmental funds' net assets last year, which absorbed 65% of general fund's increase.

Governmental activities – expenses.



GENERAL FUND BUDGETARY HIGHLIGHTS:

Actual General Fund revenues exceed original budgeted revenues by \$2,645,138 during fiscal year 2003. This increase is due in part to increased property tax, sales tax, license and permit fees collections.

Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget. The following are the significant supplemental appropriations during the year.

	Original budget	Amended budget	Actual
<b>Revenues</b>			
Taxes	46,963,456	46,963,456	47,553,255
Intergovernmental	7,048,127	8,060,147	6,978,196
Others	15,403,539	15,858,924	17,528,809
<b>Total Revenues</b>	<b>69,415,122</b>	<b>70,882,527</b>	<b>72,060,260</b>
<b>Expenditures</b>			
Expenditures	(71,022,660)	(72,575,108)	(68,023,476)
Other financing sources (uses)	988,538	3,132,189	3,095,304
<b>Total expenditures</b>	<b>(70,034,122)</b>	<b>(69,442,919)</b>	<b>(64,928,172)</b>
<b>Change to fund balance</b>	<b>(619,000)</b>	<b>1,439,608</b>	<b>7,132,088</b>

## Capital Assets

Significant changes occurred in governmental funds' capital assets. At the end of the fiscal year 2003, the County had \$588.79 million invested in a variety of capital assets, as reflected in the following schedule, which represents a net increase of \$39.82 million or 7.25 percent from last year.

## Government Funds

### Change in Capital Assets (millions)

	12/31/2002	Additions	Retirement	12/31/2003
Land	29.11	7.43	0.01	36.53
Infrastructure	386.97	8.82	-	395.79
Building	52.57	23.89	-	76.46
Non-building	6.42	0.41	-	6.83
Machinery & Equipment	37.52	1.78	3.26	36.04
Construction-in-progress	36.38	0.76	-	37.14
Total	\$ 548.97	\$ 43.09	\$ 3.27	588.79
Accumulated depreciation	193.06	18.89	2.62	209.33
Net Asset	\$ 355.91	\$ 24.20	\$ 0.65	\$ 379.46

The following are the major additions to the Capital Assets:

- The new jail addition was opened at a cost of 24.8 million.
- The County purchased several parcel of lands:
  - 7 acres for future Silverdale community center and library for \$3.3 Million.
  - 1,195 acres for open space or future park for \$1.87 million.
  - 7 parcels of land around courthouse for parking and future courthouse expansion for \$0.97 million.
- Various infrastructure projects for \$8.82 million.

## Long-term Debt

At year-end, the County had \$152 million in long-term debt versus \$132 million last year, a net change of \$20 million and 15.15 percent.

## Outstanding Debt, at Year-End

<b>Government activities:</b>	2002	Addition	Deletion	2003
Bond Payable	\$ 83,154,909	\$ 28,055,000	\$ 11,868,520	\$ 99,341,389
Special assessment	220,000	-	50,000	170,000
Comp	3,602,548	228,545	-	3,831,093
Int. serv. Debt	250,017	21,213	97,221	174,009
Leases	297,127	-	59,781	237,346
Notes Payable	-	5,624,000	-	5,624,000
Others	1,177,641	44,890	88,860	1,133,671
Total	88,702,242	33,973,648	12,164,382	110,511,508

## **Enterprise activities:**

Bond Payable	42,610,091	-	1,656,480	40,953,611
Comp	290,198	58,449	-	348,647
Others	465,193	-	32,973	432,220
Total	43,365,482	58,449	1,689,453	41,734,478
Total Debt	\$ 132,067,724	\$ 34,032,097	\$ 13,853,835	\$ 152,245,986

See Note 5 for more detail on Long-term debt.  
The following are the major additions to the long-term debt:

Public Works Annex Building Bond	\$10.25 million
County Administrative Building Bond	\$17.81 million

The Standard and Poor's Corporation and Moody's Investors Service rate the Kitsap County's debt as a triple-A bond rating.

The State limits the amount of general obligation debts the County can issue without the vote of the people to 1.5% of the total assessed value. As of the end of the fiscal year, the County has \$149.05 million remaining in debt capacity (non-voted).

More detail information on capital assets and long-term debt are provided in the notes to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The economy of the County is based mostly on government services. The top ten major employers in Kitsap County are government agencies and government support companies. Kitsap County has the only shipyard on the West Coast capable of overhauling nuclear aircraft carriers.

#### **Contacting the County's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the county's accountability for the money it receives.

If you have questions about this report or need additional financial information, contact Ade Ariwoola, Financial Services Manager  
Kitsap County Auditor's Office  
614 Division Street, MS-31  
Port Orchard, Washington, 98366.

Telephone (360) 337-7132

or visit the County's web site at  
[www.kitsapgov.com](http://www.kitsapgov.com)

## BASIC FINANCIAL STATEMENTS

One of the most important questions asked about the County's finances is "is the County as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of current year's revenues, and expenses are taken into account regardless of when cash is received or paid.

### Government-wide Financial Statements

1. **Statement of Net Assets.** It presents information on all County governmental and business-type assets and liabilities, with the difference reported as "Net Assets." Governmental activities include all of the county's basic services like public safety, general government administration, etc. Business-type activities include programs that are financed mostly through users' fees charged directly to the individual users i.e. sewer services.
2. **Statement of Activities.** It presents information on all County governmental and business-type revenues and expenses, with the difference reported as "Change in Net Assets."

### Fund Financial Statements

3. **Balance Sheet – Governmental Funds.** It presents the balance sheets for major funds and the aggregated amounts for all other governmental funds.
4. **Reconciliation of the Balance Sheets to the Governmental-wide Statement of Net Assets.**
5. **Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds.** It presents information for each major fund and aggregated information for all other governmental funds.
6. **Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statements of Activities.**
7. **Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget (GAAP Basis) and Actual.** It presents budget information, along with actual results, on separate statements for each major fund that has a legally adopted budget. Departmental information is included for the General Fund, in accordance with legally adopted budget.
8. **Statement of Net Assets – Proprietary Funds.** It presents information on all assets and liabilities, with the difference reported as "change in Net Assets" for all enterprise funds and a separate column of information for internal services funds.
9. **Statements of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds.** It presents information for each major fund and a separate column for the internal services funds.
10. **Statement of Cash Flows.** It presents information on the sources and uses of cash for the enterprise funds and internal services funds.
11. **Statement of Fiduciary Net Assets.** It presents information on agency fund assets and liabilities, with the differences reported as "Net Assets."
12. **Statement of Changes in Fiduciary Net Assets.** Presents information on additions to and deductions from the agency funds, with the difference reported as "Change in Net Assets."

### Notes to Financial statements

13. Notes to Financial Statements present additional information to assist the reader to better understand the financial statements and the data presented within them.

# KITSAP COUNTY, WASHINGTON

## Statement of Net Assets December 31, 2003

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and Cash equivalents	\$ 55,162,433	\$ 6,974,751	\$ 62,137,184
Deposits with fiscal agents	115,000	13,532,341	13,647,341
Investments	55,318,153	46,053,801	101,371,954
Receivables(net)			
Property taxes	2,906,794	-	2,906,794
Special assessments	326,043	2,188,256	2,514,299
Accounts	84,633	2,681,757	2,766,390
Notes/Contracts	3,763,520	-	3,763,520
Others	83,848	-	83,848
Internal balances	336,007	(336,007)	-
Due from other governments	4,423,418	251,765	4,675,183
Interfund loan receivable	-	-	-
Prepayments	774,741	-	774,741
Advance to other funds	-	-	-
Inventories	751,133	294,552	1,045,685
Capital assets, net (Note1)			
Land	36,533,891	2,021,221	38,555,112
Infrastructure	223,746,359	-	223,746,359
Buildings	62,425,737	13,172,763	75,598,500
Improvements & Other Buildings	3,410,111	42,821,565	46,231,676
Machinery & Equipment	29,039,966	182,062	29,222,028
Construction In Progress	37,134,809	7,690,202	44,825,011
Total assets	<u>516,336,596</u>	<u>137,529,029</u>	<u>653,865,625</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	5,363,854	1,272,859	6,636,713
Due to other governments	1,498,542	159,933	1,658,475
Other liabilities	7,513,876	800,594	8,314,470
Advance from other fund	-	-	-
Revenues collected in advance	2,827	-	2,827
Deferred revenue	5,670,553	-	5,670,553
Non current Liabilities (Note 2):			
Due within one year	7,796,183	1,803,425	9,599,608
Due in more than one year	102,725,325	40,183,772	142,909,097
Total liabilities	<u>130,571,160</u>	<u>44,220,583</u>	<u>174,791,743</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	292,949,484	24,249,264	317,198,748
Restricted:			
Advances	-	-	-
Debt service	3,230,074	618,170	3,848,244
Unrestricted	89,585,878	68,441,012	158,026,890
Total net assets	<u>\$ 385,765,436</u>	<u>\$ 93,308,446</u>	<u>\$ 479,073,882</u>

The notes to the financial statements are an integral part of this statement.

**KITSAP COUNTY, WASHINGTON**

Statement of Activities  
For the Year Ended December 31, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities							
General Government	\$ 21,925,023	\$ 16,386,591	\$ 7,621,124	\$ -	\$ 2,082,692	\$ -	\$ 2,082,692
Judicial Services	12,243,530	133,269	-	-	(12,110,261)	-	(12,110,261)
Public Safety	31,211,201	333,971	2,507,954	-	(28,369,276)	-	(28,369,276)
Physical Environment	1,314,021	18,226	4,534	-	(1,291,261)	-	(1,291,261)
Transportation	34,159,596	1,193,590	6,452,602	-	(26,513,404)	-	(26,513,404)
Health & Human Services	38,454,598	287,561	37,653,337	-	(513,700)	-	(513,700)
Economic Environment	8,146,344	-	3,146,387	-	(4,999,957)	-	(4,999,957)
Culture & Recreation	6,058,138	495,221	101,472	-	(5,461,445)	-	(5,461,445)
Interest on Long-term Debt	4,556,676	-	-	-	(4,556,676)	-	(4,556,676)
Total Governmental Activities	<u>158,069,127</u>	<u>18,848,429</u>	<u>57,487,410</u>	<u>0</u>	<u>(81,733,288)</u>	<u>0</u>	<u>(81,733,288)</u>
Business-type Activities							
Solid Waste	11,492,811	12,024,577	-	10,000	-	541,766	541,766
Sewer Utility	11,855,910	11,421,527	-	-	-	(434,383)	(434,383)
Surface Water	4,273,839	4,498,698	-	-	-	224,859	224,859
Other enterprises	8,633	2,446	-	-	-	(6,187)	(6,187)
	<u>27,631,193</u>	<u>27,947,248</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>326,055</u>	<u>326,055</u>
Total Primary Government	<u>\$ 185,700,320</u>	<u>\$ 46,795,677</u>	<u>\$ 57,487,410</u>	<u>\$ 10,000</u>	<u>(81,733,288)</u>	<u>326,055</u>	<u>(81,407,233)</u>

General revenues:

Taxes:				
Property taxes, levied for general purposes		46,188,950	-	46,188,950
Property taxes, levied for debt service		36,931	-	36,931
Sales & use taxes		28,346,843	-	28,346,843
Other taxes		4,524,577	-	4,524,577
Investment earnings		2,373,658	1,533,390	3,907,048
Miscellaneous		3,424,730	2,420,255	5,844,985
Special item - gain on sale of capital assets		-	-	-
Transfers		749,587	(749,587)	(0)
Total general revenues, special items, and transfers		<u>85,645,276</u>	<u>3,204,058</u>	<u>88,849,334</u>
Change in net assets		<u>3,911,988</u>	<u>3,530,113</u>	<u>7,442,101</u>
Net assets - beginning		371,032,467	89,778,332	460,810,799
Prior Period Adjustments		10,820,981	-	10,820,981
Net assets - ending		<u>\$ 385,765,436</u>	<u>\$ 93,308,445</u>	<u>\$ 479,073,881</u>

The notes to the financial statements are an integral part of this statement.

## **FUND FINANCIAL STATEMENTS**

Unlike Government-wide Financial Statements that reports on the county as a whole, Fund Financial Statements focus on the individual major funds of the county.

- ❑ Balance Sheet – Governmental Funds
- ❑ Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.
- ❑ Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.
- ❑ Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund.
- ❑ Statement of Net Assets – Proprietary Funds
- ❑ Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.
- ❑ Statement of Cash Flows – Proprietary Funds
- ❑ Statement of Fiduciary Net Assets – Fiduciary Funds
- ❑ Statement of Changes in fiduciary Net Assets – Fiduciary Funds

## **Governmental Funds**

General Fund: 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.

County Roads: A fund used to account for the maintenance and the construction of county roads and bridges.

Real Estate Excise Tax: A fund used to account for the collection of real estate excise taxes to be used for capital projects.

Mental Health: A fund used to account for the funding and operation of the County's mental health program.

2002A Facility Project: A fund used to account for the Special Events Center.

## **Enterprise Funds**

Solid Waste: A fund used to account for the costs of providing solid waste service to the residents of Kitsap County.

Sanitary Sewer: A fund used to account for the costs of providing sewage disposal service to the residents of Kitsap County.

Village Green Golf Course: A fund used to account for the operation of the County owned golf course.

Surface Water: A fund used to account for the investigation, design, and establishment of storm drainage throughout the County.

Balance Sheet  
 Governmental Funds  
 December 31,2003

	Special Revenue Funds			
	General Fund	Road Department	Real Estate Excise Tax	Mental Health
<b>ASSETS</b>				
Cash and Cash equivalents	\$13,999,302	\$ 11,657,591	\$ 6,783,039	\$ 2,113,947
Deposits with fiscal agents	-	-	-	-
Investments	-	3,085,527	3,911,782	-
Receivables(net)				
Property taxes	1,651,139	1,029,842	-	-
Special assessments	-	138,859	-	-
Accounts	84,633	-	-	-
Notes/Contracts	-	-	-	-
Others	-	70,550	-	-
Due from other funds	629,659	272,760	-	26,761
Due from other governments	789,013	696,178	-	-
Interfund loan receivable	-	-	-	-
Prepayments	22,200	-	-	-
Advance to other funds	160,000	-	-	-
<b>Total assets</b>	<b><u>\$17,335,946</u></b>	<b><u>\$ 16,951,307</u></b>	<b><u>\$ 10,694,821</u></b>	<b><u>\$ 2,140,708</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 789,541	\$ 264,036	\$ 6,300	\$ 50,061
Due to other funds	135,637	375,556	-	269
Due to other governments	-	-	-	556,009
Other liabilities	1,827,750	444,114	-	9,719
Advance from other fund	-	-	-	-
Revenues collected in advance	2,827	-	-	-
Deferred revenue	1,615,335	1,168,701	-	-
Long term debt due within one year	-	-	-	-
<b>Total liabilities</b>	<b><u>\$ 4,371,090</u></b>	<b><u>\$ 2,252,407</u></b>	<b><u>\$ 6,300</u></b>	<b><u>\$ 616,058</u></b>
<b>Fund balances</b>				
<b>Reserved:</b>				
Prepayments	\$ 22,200	\$ -	\$ -	\$ -
Advances	160,000	-	-	-
Debt service	-	-	-	-
<b>Unreserved</b>				
General fund	12,782,656	-	-	-
Special revenues	-	14,698,900	10,688,521	1,524,650
Debt services	-	-	-	-
Capital projects funds	-	-	-	-
<b>Total fund balance</b>	<b><u>12,964,856</u></b>	<b><u>14,698,900</u></b>	<b><u>10,688,521</u></b>	<b><u>1,524,650</u></b>
<b>Total liabilities &amp; fund balances</b>	<b><u>\$17,335,946</u></b>	<b><u>\$ 16,951,307</u></b>	<b><u>\$ 10,694,821</u></b>	<b><u>\$ 2,140,708</u></b>

The notes to the financial statements are an integral part of this statement

<u>Capital Projects</u>		
2002A Facility Projects	Other Governmental Funds	Total Governmental Funds
\$ 929	\$ 9,431,312	\$ 43,986,120
-	35,000	35,000
2,900,420	45,420,424	55,318,153
-		
-	225,813	2,906,794
-	187,184	326,043
-	-	84,633
-	3,763,520	3,763,520
-	13,033	83,583
-	308,751	1,237,931
-	2,938,227	4,423,418
-	-	-
-	-	22,200
-	-	160,000
<u>\$ 2,901,349</u>	<u>\$ 62,323,264</u>	<u>\$ 112,347,395</u>
\$ 319,315	\$ 3,684,033	\$ 5,113,286
-	690,271	1,201,733
-	942,533	1,498,542
23,995	217,698	2,523,276
-	160,000	160,000
-	-	2,827
-	2,886,517	5,670,553
-	10,000	10,000
<u>\$ 343,310</u>	<u>\$ 8,591,052</u>	<u>\$ 16,180,217</u>
\$ -	\$ -	\$ 22,200
-	-	160,000
-	3,230,074	3,230,074
-	-	12,782,656
-	19,884,881	46,796,952
-	-	-
2,558,039	30,617,257	33,175,296
<u>2,558,039</u>	<u>53,732,212</u>	<u>96,167,178</u>
<u>\$ 2,901,349</u>	<u>\$ 62,323,264</u>	<u>\$ 112,347,395</u>

## KITSAP COUNTY

### RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

December 31, 2003

Fund balances of governmental funds - page 16 \$ 96,167,178

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets net of depreciation have not been included as financial resources in governmental fund activity(Int. S. is reported below)

Capital assets	588,801,277	
Depreciation	(209,336,835)	
Capital asset net of depreciation		379,464,442

Long term debt and compensated absences that have not been included in the governmental fund activity.

Bond payable	99,511,389	
Compensated absences	3,831,093	
Capital lease	237,346	
Other long-term liabilities	6,757,671	
Long-term debt		(110,337,499)

Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets.

Assets	26,009,627	
Liabilities	(5,538,313)	
Asset less liabilities		20,471,314

Net assets of governmental activities - page 12

\$ 385,765,435

The notes to the financial statements are an integral part of this statement.

**Statement of Revenue, Expenditures, and Changes in Fund Balances**

Governmental Funds

For the Year Ended December 31, 2003

	General Fund	Special Revenue Funds		
		County Roads	Real Estate Excise Tax	Mental Health
<b>REVENUES:</b>				
Property taxes	\$ 24,588,105	\$ 17,430,356	\$ -	\$ 205,579
Retail sales & use taxes	18,442,720	20,536	4,733,368	-
Other taxes	4,522,430	-	-	-
Licenses and permits	3,022,775	84,003	-	-
Intergovernmental	6,978,196	6,428,418	327,000	20,506,544
Charges for services	9,715,107	471,648	-	-
Fines & forfeits	2,583,722	10,000	-	-
Investment earnings	1,417,940	-	-	-
Miscellaneous	789,263	282,541	345,434	81,819
<b>Total revenues</b>	<b>72,060,258</b>	<b>24,727,502</b>	<b>5,405,802</b>	<b>20,793,942</b>
<b>EXPENDITURES:</b>				
Current:				
General government	20,690,227	-	26,277	-
Judicial Services	12,051,603	-	-	-
Public safety	24,096,276	-	-	-
Physical Environment	1,227,189	-	-	-
Transportation	-	18,702,216	-	-
Health & Human Services	-	-	-	20,526,330
Economic Environment	4,938,983	-	-	-
Culture & recreation	4,998,996	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	-	88,859	-	-
Interest and other charges	-	10,741	13,297	-
Capital outlay	20,202	5,654,464	975,439	-
<b>Total expenditures</b>	<b>68,023,476</b>	<b>24,456,280</b>	<b>1,015,013</b>	<b>20,526,330</b>
Excess(deficiency) of revenues over expenditures	<b>4,036,782</b>	<b>271,222</b>	<b>4,390,789</b>	<b>267,612</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	20,892	-	-	-
Transfers in	4,419,869	7,856,800	-	7,500
Transfers out	(1,345,457)	(7,689,551)	(6,663,667)	(200,000)
Other adjustments	-	-	-	-
<b>Total other financing sources &amp; uses</b>	<b>3,095,304</b>	<b>167,249</b>	<b>(6,663,667)</b>	<b>(192,500)</b>
<b>Net change in fund balance</b>	<b>7,132,086</b>	<b>438,471</b>	<b>(2,272,878)</b>	<b>75,112</b>
Fund balances-beginning	5,832,770	14,260,429	12,961,399	1,449,538
Prior period adjustments	-	-	-	-
<b>Fund balances-ending</b>	<b>\$ 12,964,856</b>	<b>\$ 14,698,900</b>	<b>\$ 10,688,521</b>	<b>\$ 1,524,650</b>

The notes to the financial statements are an integral part of this statement

<u>Capital Projects</u>		
<u>2002A</u>	<u>Other</u>	<u>Total</u>
<u>Facility</u>	<u>Governmental</u>	<u>Governmental</u>
<u>Projects</u>	<u>Funds</u>	<u>Funds</u>
\$ -	\$ 3,964,910	\$ 46,188,950
-	5,150,219	28,346,843
-	39,078	4,561,508
-	22,976	3,129,754
125,000	23,122,252	57,487,410
-	2,642,737	12,829,492
-	295,463	2,889,185
101,419	854,299	2,373,658
2,000	1,923,673	3,424,730
<u>228,419</u>	<u>38,015,607</u>	<u>161,231,530</u>
-	392,300	21,108,804
-	124,522	12,176,125
-	5,297,384	29,393,660
-	86,832	1,314,021
-	47,912	18,750,128
-	17,756,845	38,283,175
-	3,178,478	8,117,461
-	470,852	5,469,848
-	-	-
-	11,918,522	12,007,381
-	4,532,638	4,556,676
1,684,593	31,176,136	39,510,834
<u>1,684,593</u>	<u>74,982,421</u>	<u>190,688,113</u>
<u>(1,456,174)</u>	<u>(36,966,814)</u>	<u>(29,456,583)</u>
-	-	-
-	27,591,172	27,591,172
-	-	-
-	-	20,892
-	20,313,318	32,597,487
-	(15,563,678)	(31,462,353)
-	-	-
-	32,340,812	28,747,198
<u>(1,456,174)</u>	<u>(4,626,002)</u>	<u>(709,385)</u>
4,014,213	58,358,214	96,876,563
-	-	-
<u>\$ 2,558,039</u>	<u>\$ 53,732,212</u>	<u>\$ 96,167,178</u>

## KITSAP COUNTY

C-3

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2003

Net change in fund balances-total governmental funds - page 21 \$ (709,385)

Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of activities (B-1) because:

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. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital out-lay	39,510,834
Depreciation	(18,899,229)
Capital adjustments	(406,441)

The issuance of long-term debt(e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items

Receipts from bond sales	(27,591,172)
Payment on principal	12,007,381

Change in net assets of governmental activities - page 13 \$ 3,911,988

# KITSAP COUNTY, WASHINGTON

## Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual

General Fund

For the Year Ended December 31, 2003

With Comparative Actual Amounts for Year Ended December 31, 2002

	2003				2002 Actual
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	
<b>REVENUES:</b>					
Taxes					
Property taxes	\$ 24,667,268	\$ 24,667,268	\$ 24,588,105	\$ (79,163)	\$ 23,040,514
Retail sales & use taxes	18,121,898	18,121,898	18,442,720	320,822	17,421,984
Other taxes	4,174,290	4,174,290	4,522,430	348,140	4,318,229
Licenses and permits	2,018,249	2,218,249	3,022,775	804,526	1,691,314
Intergovernmental	7,048,127	8,060,147	6,978,196	(1,081,951)	6,686,457
Charges for services	8,977,060	9,203,460	9,715,107	511,647	8,996,964
Fines & forfeits	2,273,593	2,273,593	2,583,722	310,129	2,258,947
Investment earnings	1,268,400	1,268,400	1,417,940	149,540	2,173,507
Miscellaneous	866,237	895,222	789,263	(105,959)	869,417
<b>Total revenues</b>	<b>69,415,122</b>	<b>70,882,527</b>	<b>72,060,258</b>	<b>1,177,731</b>	<b>67,457,333</b>
<b>EXPENDITURES:</b>					
Current:					
General government					
Administrative services	484,474	497,114	502,465	(5,351)	531,727
Assessor	2,147,672	2,148,256	2,128,834	19,422	2,237,515
Auditor	2,730,239	3,042,726	2,752,431	290,295	2,873,847
Commissioners	909,050	934,931	907,656	27,275	938,069
Facility maintenance	-	-	-	-	1,470,071
General administration	6,675,412	6,962,971	6,225,595	737,376	7,738,582
Personnel & Human resources	1,171,385	1,194,255	1,167,615	26,640	1,085,526
Prosecuting attorney	6,245,608	6,253,020	6,162,737	90,283	6,140,522
Treasurer	867,457	884,260	842,894	41,366	881,733
<b>Total general government</b>	<b>21,231,297</b>	<b>21,917,533</b>	<b>20,690,227</b>	<b>1,227,306</b>	<b>23,897,592</b>
Judicial Services					
Clerk	5,157,367	5,271,290	5,442,842	(171,552)	5,497,980
District court	2,340,202	2,422,131	2,382,177	39,954	2,315,341
Superior court	2,277,479	2,472,761	2,270,386	202,375	2,479,275
Juvenile	2,077,813	2,106,221	1,956,198	150,023	2,022,398
<b>Total Judicial services</b>	<b>11,852,861</b>	<b>12,272,403</b>	<b>12,051,603</b>	<b>220,800</b>	<b>12,314,994</b>
Public safety					
Sheriff	13,090,966	13,120,232	12,382,131	738,101	12,524,636
Jail	7,562,178	7,668,024	6,860,937	807,087	6,291,077
Juvenile	4,448,082	4,512,013	4,138,170	373,843	4,170,357
Coroner	715,708	720,168	713,658	6,510	759,320
Civil Service	4,825	4,825	1,380	3,445	3,093
<b>Total Public safety</b>	<b>25,821,759</b>	<b>26,025,262</b>	<b>24,096,276</b>	<b>1,928,986</b>	<b>23,748,483</b>
Physical Environment					
Natural Resources Management	1,372,872	1,370,635	1,227,189	143,446	1,732,502
<b>Total Physical Environment</b>	<b>1,372,872</b>	<b>1,370,635</b>	<b>1,227,189</b>	<b>143,446</b>	<b>1,732,502</b>

# KITSAP COUNTY, WASHINGTON

## Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual

### General Fund

For the Year Ended December 31, 2003

With Comparative Actual Amounts for Year Ended December 31, 2002

	2003				2002 Actual
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	
Economic Environment					
Community development	4,836,257	5,295,127	4,938,983	356,144	4,656,837
Total Community development	4,836,257	5,295,127	4,938,983	356,144	4,656,837
Culture & recreation					
Parks	4,723,055	4,782,263	4,519,911	262,352	3,460,181
Cooperative extension	254,478	263,801	247,428	16,373	288,811
Youth Commission	222,781	312,784	231,657	81,127	243,877
Total Culture & recreation	5,200,314	5,358,848	4,998,996	359,852	3,992,869
Debt service					
Principal	20,300	20,300	-	20,300	20,264
Interest and other charges	8,000	8,000	-	8,000	2,148
Total debt service	28,300	28,300	-	28,300	22,412
Capital outlay	679,000	307,000	20,202	286,798	98,548
Total expenditures	71,022,660	72,575,108	68,023,476	4,551,632	70,464,237
Excess(deficiency) of revenues over expenditures	(1,607,538)	(1,692,581)	4,036,782	5,729,363	(3,006,904)
<b>OTHER FINANCING SOURCES (USES):</b>					
Sale of capital assets	-	-	20,892	20,892	
Transfers in	2,335,996	4,477,647	4,419,869	(57,778)	1,120,375
Transfers out	(1,347,458)	(1,345,458)	(1,345,457)	1	(1,633,735)
Total other financing sources & us	988,538	3,132,189	3,095,304	(36,885)	(513,360)
Net change in fund balance	(619,000)	1,439,608	7,132,086	5,692,478	(3,520,264)
Fund balances-beginning	6,589,681	6,576,561	5,832,770	(743,791)	9,353,034
Fund balances-ending	\$ 5,970,681	\$ 8,016,169	\$ 12,964,856	\$ 4,948,687	\$ 5,832,770

The notes to the financial statements are an integral part of this statement.

# KITSAP COUNTY, WASHINGTON

## County Roads

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended December 31, 2003

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 17,306,986	\$ 17,306,986	\$ 17,430,356	\$ 123,370
Retail sales & use taxes	30,000	30,000	20,536	(9,464)
Other taxes	-	-	-	-
Licenses and permits	60,700	60,700	84,003	23,303
Intergovernmental	8,039,735	8,039,735	6,428,418	(1,611,317)
Charges for services	336,750	336,750	471,648	134,898
Fines & forfeits	-	-	10,000	10,000
Investment earnings	-	-	-	-
Miscellaneous	102,000	102,000	282,541	180,541
Total revenues	<u>25,876,171</u>	<u>25,876,171</u>	<u>24,727,502</u>	<u>(1,148,669)</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	21,357,614	21,357,614	18,702,216	2,655,398
Health & Human Services	-	-	-	-
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	86,500	86,500	88,859	(2,359)
Interest and other charges	11,160	11,160	10,741	419
Capital outlay	<u>8,284,500</u>	<u>8,284,500</u>	<u>5,654,464</u>	<u>2,630,036</u>
Total expenditures	<u>29,739,774</u>	<u>29,739,774</u>	<u>24,456,280</u>	<u>5,283,494</u>
Excess(deficiency) of revenues over expenditures	<u>(3,863,603)</u>	<u>(3,863,603)</u>	<u>271,222</u>	<u>4,134,825</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	7,914,000	7,914,000	7,856,800	(57,200)
Transfers out	(7,608,674)	(7,608,674)	(7,689,551)	(80,877)
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>305,326</u>	<u>305,326</u>	<u>167,249</u>	<u>(138,077)</u>
Net change in fund balance	<u>(3,558,277)</u>	<u>(3,558,277)</u>	<u>438,471</u>	<u>3,996,748</u>
Fund balances-beginning	<u>3,954,177</u>	<u>3,954,177</u>	<u>14,260,429</u>	<u>10,306,252</u>
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 395,900</u>	<u>\$ 395,900</u>	<u>\$ 14,698,900</u>	<u>\$ 14,303,000</u>

The notes to the financial statements are an integral part of this statement

# KITSAP COUNTY, WASHINGTON

## Real Estate Excise Tax

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended December 31, 2003

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Retail sales & use taxes	3,600,000	3,600,000	4,733,368	1,133,368
Other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	327,000	327,000
Charges for services	-	-	-	-
Fines & forfeits	-	-	-	-
Investment earnings	530,000	530,000	-	(530,000)
Miscellaneous	-	45,000	345,434	300,434
Total revenues	<u>4,130,000</u>	<u>4,175,000</u>	<u>5,405,802</u>	<u>1,230,802</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	26,277	(26,277)
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	-	-	-	-
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other charges	5,000	5,000	13,297	(8,297)
Capital outlay	-	1,200,000	975,439	224,561
Total expenditures	<u>5,000</u>	<u>1,205,000</u>	<u>1,015,013</u>	<u>189,987</u>
Excess(deficiency) of revenues over expenditures	<u>4,125,000</u>	<u>2,970,000</u>	<u>4,390,789</u>	<u>1,420,789</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(2,466,790)	(6,666,790)	(6,663,667)	3,123
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>(2,466,790)</u>	<u>(6,666,790)</u>	<u>(6,663,667)</u>	<u>3,123</u>
Net change in fund balance	<u>1,658,210</u>	<u>(3,696,790)</u>	<u>(2,272,878)</u>	<u>1,423,912</u>
Fund balances-beginning	13,400,000	13,400,000	12,961,399	(438,601)
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 15,058,210</u>	<u>\$ 9,703,210</u>	<u>\$ 10,688,521</u>	<u>\$ 985,311</u>

The notes to the financial statements are an integral part of this statement

# KITSAP COUNTY, WASHINGTON

## Mental Health

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended December 31, 2003

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES:</b>				
Property taxes	175,000	175,000	\$ 205,579	\$ 30,579
Retail sales & use taxes	-	-	-	-
Other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	24,000,000	24,000,000	20,506,544	(3,493,456)
Charges for services	-	-	-	-
Fines & forfeits	-	-	-	-
Investment earnings	-	-	-	-
Miscellaneous	-	-	81,819	81,819
Total revenues	<u>24,175,000</u>	<u>24,175,000</u>	<u>20,793,942</u>	<u>(3,381,058)</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	24,182,500	24,182,500	20,526,330	3,656,170
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay				
Total expenditures	<u>24,182,500</u>	<u>24,182,500</u>	<u>20,526,330</u>	<u>3,656,170</u>
Excess(deficiency) of revenues over expenditures	<u>(7,500)</u>	<u>(7,500)</u>	<u>267,612</u>	<u>275,112</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	7,500	7,500	7,500	-
Transfers out	-	-	(200,000)	(200,000)
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>7,500</u>	<u>7,500</u>	<u>(192,500)</u>	<u>(200,000)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>75,112</u>	<u>75,112</u>
Fund balances-beginning	-	-	1,449,538	1,449,538
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>-</u>	<u>-</u>	<u>\$ 1,524,650</u>	<u>\$ 1,524,650</u>

The notes to the financial statements are an integral part of this statement

# KITSAP COUNTY, WASHINGTON

## Statement of Net Assets

### Proprietary Funds

December 31, 2003

	Business-type Activities-Enterprise		
	Sanitary Sewer	Solid Waste	Village Green Golf Course
<b>ASSETS</b>			
Current assets:			
Cash and Cash equivalents	\$ 2,836,577	\$ 2,914,130	\$ 177,428
Deposits with fiscal agents	13,532,341	-	-
Investments	24,128,501	15,988,051	-
Receivables(net)			
Special assessments	2,188,256	-	-
Accounts	976,677	1,389,660	-
Due from other funds	49,425	154,052	-
Due from other governments	-	106,765	-
Prepayments	-	-	-
Inventories	294,552	-	-
Total current assets	<u>44,006,329</u>	<u>20,552,658</u>	<u>177,428</u>
Noncurrent assets:			
Capital assets, net (Note1)			
Land	1,123,482	472,444	360,000
Buildings	28,863,797	647,037	37,267
Improvements & Other Buildings	54,731,405	1,617,597	135,182
Machinery & Equipment	3,521,298	76,809	5,470
Construction In Progress	6,342,737	-	-
Less accumulated depreciation	<u>(35,921,832)</u>	<u>(732,653)</u>	<u>(99,390)</u>
Total noncurrent assets	<u>58,660,887</u>	<u>2,081,234</u>	<u>438,529</u>
Total assets	<u>102,667,216</u>	<u>22,633,892</u>	<u>615,957</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	262,987	886,014	-
Due to other funds	186,828	283,635	-
Due to other governments	11,764	33,178	-
Other liabilities	700,092	38,804	-
Total current liabilities	<u>1,161,671</u>	<u>1,241,631</u>	<u>-</u>
Non current Liabilities (Note 2):			
Due within one year	1,803,425	-	-
Due in more than one year	40,058,322	79,118	-
Total noncurrent assets	<u>41,861,747</u>	<u>79,118</u>	<u>-</u>
Total liabilities	<u>43,023,418</u>	<u>1,320,749</u>	<u>-</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	17,022,339	2,081,233	438,529
Restricted:			
Debt service	618,170	-	-
Unrestricted	42,003,289	19,231,908	177,428
Total net assets	<u>\$ 59,643,798</u>	<u>\$ 21,313,141</u>	<u>\$ 615,957</u>

The notes to the financial statements are an integral part of this statement.

Funds		Governmental	
Surface Water Utility	Total	Activities Internal Services Funds	
\$ 1,046,616	\$ 6,974,751	\$ 11,176,313	
-	13,532,341	80,000	
5,937,249	46,053,801	-	
-	2,188,256	-	
315,420	2,681,757	265	
11,052	214,529	422,944	
145,000	251,765	-	
-		752,541	
-	294,552	751,133	
<u>7,455,337</u>	<u>72,191,752</u>	<u>13,183,196</u>	
65,295	2,021,221	-	
-	29,548,101	-	
3,871,011	60,355,195	-	
117,859	3,721,436	24,112,837	
1,347,465	7,690,202	-	
(694,467)	(37,448,342)	(11,286,406)	
<u>4,707,163</u>	<u>65,887,813</u>	<u>12,826,431</u>	
<u>12,162,500</u>	<u>138,079,565</u>	<u>26,009,627</u>	
123,858	1,272,859	250,568	
80,073	550,536	123,135	
114,991	159,933	-	
61,698	800,594	4,990,600	
<u>380,620</u>	<u>2,783,922</u>	<u>5,364,303</u>	
-	1,803,425	-	
<u>46,332</u>	<u>40,183,772</u>	<u>174,010</u>	
<u>46,332</u>	<u>41,987,197</u>	<u>174,010</u>	
<u>426,952</u>	<u>44,771,119</u>	<u>5,538,313</u>	
4,707,163	24,249,264	12,826,431	
-	618,170	-	
<u>7,028,386</u>	<u>68,441,011</u>	<u>7,644,883</u>	
<u>\$ 11,735,549</u>	<u>\$ 93,308,445</u>	<u>\$ 20,471,314</u>	

**Statement of Revenues, Expenses, and Changes in Fund Net Assets**

**Proprietary Funds**

For the Year Ended December 31, 2003

	Business-type Activities - Enterprise		
	Sanitary Sewer	Solid Waste	Village Green Golf course
Operating revenues:			
Charges for services	\$ 11,421,527	\$ 12,024,577	\$ 2,446
Miscellaneous	83,937	267,890	-
Total operating revenues	<u>11,505,464</u>	<u>12,292,467</u>	<u>2,446</u>
Operating expenses:			
Personal services	3,675,585	1,101,330	-
Contractual services	588,424	330,700	-
Utilities	1,016,300	9,163,677	-
Repair and maintenance	99,612	35,556	-
Other supplies and expenses	1,755,636	751,077	974
Insurance claims and expenses	97,598	11,117	-
Depreciation	3,085,539	99,354	7,659
Total operating expenses	<u>10,318,694</u>	<u>11,492,811</u>	<u>8,633</u>
Operating income	<u>1,186,770</u>	<u>799,656</u>	<u>(6,187)</u>
Nonoperating revenue (expenses)			
Interest and investment revenue	863,739	457,501	-
Miscellaneous revenue	1,625,742	345,580	-
Interest expense	(1,537,216)	-	-
Miscellaneous expense	-	-	-
Total nonoperating expenses	<u>952,265</u>	<u>803,081</u>	<u>-</u>
Income (loss) before contributions & transfers	2,139,035	1,602,737	(6,187)
Capital contributions	-	10,000	-
Transfers in	3,775,139	306,000	-
Transfers out	<u>(3,964,752)</u>	<u>(644,046)</u>	<u>-</u>
Change in net assets	1,949,422	1,274,691	(6,187)
Total net assets - beginning	57,694,376	20,038,450	622,144
Prior Period Adjustments	-	-	-
Total net assets - ending	<u>\$ 59,643,798</u>	<u>\$ 21,313,141</u>	<u>\$ 615,957</u>

The notes to the financial statements are an integral part of this statement.

e Funds		Governmental	
Surface		Activities	
Water		Internal	
Utility	Total	Service Funds	
\$ 4,498,698	\$ 27,947,248	\$ 10,208,281	
61,073	412,900	4,140,373	
<u>4,559,771</u>	<u>28,360,148</u>	<u>14,348,654</u>	
1,521,397	6,298,312	4,004,162	
578,163	1,497,287	1,145,331	
127,228	10,307,205	22,496	
40,133	175,301	625,316	
1,809,300	4,316,987	4,412,462	
53,033	161,748	2,146,191	
144,585	3,337,137	1,915,333	
<u>4,273,839</u>	<u>26,093,977</u>	<u>14,271,291</u>	
<u>285,932</u>	<u>2,266,171</u>	<u>77,363</u>	
212,150	1,533,390	-	
36,033	2,007,355	-	
-	(1,537,216)	-	
-	-	(440,683)	
<u>248,183</u>	<u>2,003,529</u>	<u>(440,683)</u>	
534,115	4,269,700	(363,320)	
-	10,000	812,686	
740,150	4,821,289	1,267,952	
<u>(962,078)</u>	<u>(5,570,876)</u>	<u>(1,653,500)</u>	
312,187	3,530,113	63,818	
11,423,361	89,778,331	20,407,496	
-	-	-	
<u>\$ 11,735,548</u>	<u>\$ 93,308,444</u>	<u>\$ 20,471,314</u>	

**Statement of Cash Flows**

**Proprietary Funds**

For the Year Ended December 31, 2003

	Business-type Activities - Enterprise		
	Sanitary Sewer	Solid Waste	Village Greens Golf course
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 12,136,713	\$ 12,069,183	\$ 2,446
Payments to suppliers	(3,529,556)	(10,091,121)	(1,941)
Payments to employees	(3,647,838)	(1,084,318)	-
Net cash provided by operating activities	<u>4,959,319</u>	<u>893,744</u>	<u>505</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating grants received	-	479,700	-
Operating transfer out	(189,613)	(338,046)	-
Net cash provided by noncapital activities	<u>(189,613)</u>	<u>141,654</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital contributions	1,625,742	10,000	-
Purchases of capital assets	(1,720,230)	(403,425)	-
Principal paid on capital debt	(1,656,479)	-	-
Interest paid on capital debt	(1,537,216)	-	-
Net cash from related financing activities	<u>(3,288,183)</u>	<u>(393,425)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sales and maturities of investments	5,155,000	1,280,000	-
Purchase of Investment	(7,554,327)	(2,107,501)	-
Interest and dividends	863,740	457,501	-
Net cash provided by investing activities	<u>(1,535,587)</u>	<u>(370,000)</u>	<u>-</u>
Net (decrease) in cash and cash equivalents	(54,064)	271,973	505
Balances - beginning of the year	2,890,641	2,642,157	176,923
Balances - end of the year	<u>\$ 2,836,577</u>	<u>\$ 2,914,130</u>	<u>\$ 177,428</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ 1,186,770	\$ 799,656	\$ (6,187)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	3,085,539	99,354	7,659
Change in assets and liabilities:			
Receivables, net	642,590	(219,306)	-
DFOF	(14,380)	(3,978)	-
DFOG	3,040	(31,893)	-
Inventories	30,575	-	-
Prepaid	-	-	-
Accounts and other payables	102,943	134,663	(967)
DTOF	(21,822)	81,181	-
DTOG	-	33,178	-
Employee benefits	-	-	-
Accrued expenses	(55,936)	889	-
Deposit with Fiscal Agents	-	-	-
Net cash provided by operating activities	<u>\$ 4,959,319</u>	<u>\$ 893,744</u>	<u>\$ 505</u>

The notes to the financial statements are an integral part of this statement.

Enterprise Funds		Governmental	
Surface Water		Activities	Internal service
Utility	Total	Funds	
\$ 4,554,426	\$ 28,762,768	\$ 13,284,163	
(2,812,521)	(16,435,139)	(9,362,491)	
(1,507,706)	(6,239,862)	(2,310,958)	
<u>234,199</u>	<u>6,087,767</u>	<u>1,610,714</u>	
109,905	589,605	669,645	
(221,928)	(749,587)	33,410	
<u>(112,023)</u>	<u>(159,982)</u>	<u>703,055</u>	
-	1,635,742	(791,761)	
(487,352)	(2,611,007)	(936,214)	
-	(1,656,479)	(54,695)	
-	(1,537,216)	-	
<u>(487,352)</u>	<u>(4,168,960)</u>	<u>(1,782,670)</u>	
3,900,000	10,335,000	-	
(3,281,693)	(12,943,521)	-	
212,150	1,533,391	-	
<u>830,457</u>	<u>(1,075,130)</u>	<u>-</u>	
465,281	683,695	531,099	
581,335	6,291,056	10,645,213	
<u>\$ 1,046,616</u>	<u>\$ 6,974,751</u>	<u>\$ 11,176,312</u>	
<u>\$ 285,932</u>	<u>\$ 2,266,171</u>	<u>\$ 77,363</u>	
144,585	3,337,137	1,915,333	
3,232	426,516	-	
(8,577)	(26,935)	16,015	
50,861	22,008	-	
-	30,575	(187,772)	
-	-	(142,447)	
(282,432)	(45,793)	(582,368)	
40,598	99,957	(13,465)	
-	33,178	-	
-	-	21,212	
-	(55,047)	506,843	
-	-	-	
<u>\$ 234,199</u>	<u>\$ 6,087,767</u>	<u>\$ 1,610,714</u>	

# KITSAP COUNTY, WASHINGTON

## Statement of Fiduciary Net Assets

December 31, 2003

	Employee Deferred Compensation	Agency Funds
<b>ASSETS</b>		
Cash	\$ -	\$ 23,264,271
Deposits with fiscal Agents/Trustees	18,846,618	465,000
Investments	-	216,603,877
Taxes Receivable	-	8,559,191
Other current Receivables	-	-
Due From Other Funds	-	-
Due from other Governmental Units	-	-
Total Assets	<u>18,846,618</u>	<u>\$ 248,892,339</u>
<b>LIABILITIES</b>		
Warrants payable	-	\$ 4,217,371
Accounts Payable	-	-
Sales Tax Payable	-	-
Other Accrued Liabilities	-	-
Due to Other Funds	-	-
Due to Other Governmental Units	-	1,532,658
Custodial Account	-	243,142,311
Total Liabilities	<u>-</u>	<u>\$ 248,892,339</u>
<b>NET ASSETS</b>		
Held In Trust Fo Pension Benefits & Other Purposes	<u>\$ 18,846,618</u>	

The notes to the financial statements are an integral part of this statement.

## KITSAP COUNTY, WASHINGTON

---

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Fiscal Year Ended December 31, 2003

	Employee Deferred <u>Compensation</u>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ -
Plan Members	2,546,167
Total Contributions	<u>2,546,167</u>
Roll-Ins	178,875
Investment Earnings	3,730,797
Total Additions	<u>6,455,839</u>
<b>DEDUCTIONS</b>	
Benefits	(1,933,859)
Others	(354,074)
Total Deductions	<u>(2,287,933)</u>
Change In Net Assets	4,167,906
Net Assets-Beginning Of The Year	14,678,712
Net Assets-End Of The Year	<u>\$ 18,846,618</u>

The notes to the financial statements are an integral part of this statement.

# Kitsap County, Washington

## Notes to Financial Statements

Year Ended December 31, 2003

### Indexing

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES .....	38
A.	Reporting entity .....	38
B.	Government-Wide and Fund Financial Statements .....	38
C.	Measurement Focus, Basis of Accounting, and Financial Statement Presentation .....	39
D.	Assets, liabilities, and net assets or equity. ....	41
	NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS .....	42
NOTE 3.	BUDGETARY INFORMATION .....	42
A.	Scope of Budget .....	42
B.	Budget revision. ....	43
C.	Excess of expenditures over appropriations. ....	43
D.	Deficit Fund Equity .....	44
NOTE 4.	DETAIL NOTE ON ALL FUNDS.....	44
A.	Deposits .....	44
B.	Investments.....	44
C.	Property Taxes .....	45
D.	Receivables and Payables. ....	46
E.	Inter-fund balances and transfers.....	47
F.	Capital assets .....	48
G.	Leases.....	50
NOTE 5.	LONG-TERM DEBT .....	51
A.	General obligation bonds.....	52
B.	Revenue bonds .....	53
C.	Compensated absences.....	53
D.	Other liabilities.....	54
NOTE 6.	EMPLOYEE RETIREMENT SYSTEMS .....	54
NOTE 7.	POST-EMPLOYMENT BENEFITS .....	59
NOTE 8.	DEFERRED COMPENSATION .....	59
NOTE 9.	RISK MANAGEMENT .....	59
NOTE 10.	OTHER INFORMATION.....	61
A.	Contingent Liabilities .....	61
B.	Prior Period Adjustments.....	61

# KITSAP COUNTY, WASHINGTON

Notes to Financial Statements  
Year Ended December 31, 2003

## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the county of Kitsap have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below:

### **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-member 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 36<sup>th</sup> in area among Washington counties. It has 228 miles of salt-water frontage.

Public Facility District was created and the Kitsap county board of commissioners appointed its board members. The county financed the Public Facility District projects through a \$11.395 million bond while the Public Facility District pledged its tax revenues to the County through inter-local government agreement. The debt is reported on the County's books.

### **B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the county considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered susceptible to accrual as revenue of the current period. All other revenue items are considered measurable and available only when the county receives cash.

The county reports the following major governmental funds:

1. The general fund is the county's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
2. County roads fund is used to account for the maintenance and the construction of county roads and bridges.
3. Real Estate Excise Tax is used to account for the collection of real estate excise taxes to be used for capital projects.
4. Mental Health is used to account for the funding and operation of the County's mental health program.
5. 2002A Facility Project is used to account for the Special Events Center.

The county reports the following major proprietary funds:

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

Additionally, the county reports the following fund types:

- Internal service funds provided Information and computer services, Self-Insurance program, Equipment rental and repair services to other departments or agencies of the county, or to other agencies, on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The county has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of the inter-fund activity has been eliminated for the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are use charges for the sewer, the collection fees for the solid waste, use charges for the surface water, and the golf course. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the county's policy to use unrestricted resources first and then restricted resources as needed.

#### 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.

Pension trust fund accounts for the activities of the county employees deferred compensation plan, which accumulates resources for pension benefit payments to the individual contributors.

#### **D. Assets, liabilities, and net assets or equity.**

##### 1. Capital Asset

See Note 4 for more information on capital assets, infrastructure, their threshold, and depreciation.

##### 2. Cash and Cash Equivalents

The 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. It is the county's policy to invest all temporary cash surpluses. At December 31, 2003, the treasurer was holding \$317.99 million in short-term residual investment. The amount reported as cash and cash equivalents include compensating balances maintained with certain banks in lieu of payments for services rendered. The amounts reported as cash and cash equivalents included invested Treasurer's float of \$75,989,132 as of December 31, 2003.

##### 3. Inventories and Prepaid items

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are purchased. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the fund balance is not available for future expenditures. A comparison to market value is not considered necessary.

Inventories in proprietary funds are valued by the weighted average method.

##### 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)	\$ 385,765,436
Balance sheet (page 16)	96,167,178
Net difference	<u>\$ 289,598,258</u>
Net capital asset	\$ 379,464,442
Long-term debt and compensated absences	(110,337,498)
Internal service funds assets & liabilities	20,471,314
Net difference	<u>\$ 289,598,258</u>

**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 \$ 4,621,373 difference on page 22 are as follows:

Statement of rev., expenditures, and changes in fund bal.(page 20)	(709,385)
Statement of government activities(page 13)	3,911,988
Net difference	<u>\$ (4,621,373)</u>
Capital outlay	39,510,834
Depreciation	-18,899,229
Bond receipt	-27,591,172
Adjustment made to capital outlay	-406,441
Principle payment	12,007,381
Net difference	<u>\$ 4,621,373</u>

**NOTE 3. BUDGETARY INFORMATION**

**A. Scope of Budget**

Annual appropriated budgets are adopted for majority of county funds on the modified accrual basis of accounting. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for one fiscal year. They are re-budgeted every year throughout the fiscal periods of the debt or the capital projects.

Other budgets are adopted at the level of the fund, except in the General (Current Expense) Fund, where expenditures may not exceed appropriations at the

department level and the budgets constitute the legal authority for expenditures at that level.

Appropriations for general and special revenue funds lapse at year-end (except for appropriation for capital outlay, which are carried forward from year to year until fully expended or the appropriation has been accomplished or abandoned).

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	\$ 71,751,118	3,609,056	\$ 75,360,174
131	Excise Tax	\$ 4,130,000	45,000	\$ 4,175,000
386	2002A Facility Projects	-	10,945,000	10,945,000
	Non Major funds	5,407,788	2,639,998	8,047,786
			17,239,054	

**C. Excess of expenditures over appropriations.**

For the year ended December 31, 2003, expenditures exceeded appropriations in the following general fund departments:

Department	Amount
Clerk	171,552
Administrative Services	5,351

These over-expenditures were funded by greater than anticipated revenues in the General fund.

**D. Deficit Fund Equity**

The following funds had deficit fund balance at December 31, 2003

Fund Name	Amount of Deficit	Explanation
Kitsap Regional Coordinating Council	4,499	The county is rebuilding the fund balance over a three year period
Self Insurance	14,054	It was due to untimely billing, the county will correct it next year

**NOTE 4. DETAIL NOTE ON ALL FUNDS**

**A. Deposits**

The county's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC)

**B. Investments.**

As required by the state law, all investments of the county's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, general obligations of Washington State municipalities, or certificates of deposit with Washington State banks and savings and loan institutions. All temporary investments are stated at fair market value. Other property and investments are shown on the statement of net assets at cost.

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.

The county's investments are categorized to give an indication of the risk assumed at year-end. The following summary shows the county's investments at year-end categorized by risk. Category 1 includes investments that are either insured or registered, or held by the county or its agent in the county's name. Category 2 includes uninsured and unregistered investments held by the counter-party's trust department or agent in the county's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party, or its trust department or agent, but not in the county's name.

All of county's investments are held by the county's safekeeping agent, BNY Western Trust, and the Bank of New York is the custodian for the Washington state Investment Pool. In addition to the security owned by Kitsap County, the county was holding \$126,700 of US SLGS at JP Morgan on behalf of Port of Brownsville.

The fair value included accrued interest of \$2,099,747.

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

Description	Category 1	Fair Value
U.S. Government & Federal Agencies	306,325,030	307,487,628
Commercial paper	9,996,233	9,992,511
Repurchase agreements	-	-
<b>Total</b>	<b>\$ 316,321,263</b>	<b>\$ 317,480,139</b>
Investments not subject to categorization:		
State Treasurer's Investment Pool		77,531,961
<b>Total Investment</b>		<b>\$ 395,012,100</b>

**C. Property Taxes**

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities.

<b>Property Tax Calendar</b>	
January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. The balance of taxes receivable includes related interest and penalties. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The county may levy up to 1.80 per \$1,000 of assessed valuation for general governmental services. The county's regular levy for the year 2003 was 1.5438 per \$1,000 on an assessed valuation of \$16,494,091,138 for a total regular levy of \$25,464,319.

The county is also authorized to levy \$2.25 per \$1,000 of assessed valuation in unincorporated areas for road construction and maintenance. This levy is subject to the same limitations as the levy for general government services. The county's road levy for the year 2003 was \$1.9244 per \$1,000 on an assessed valuation of \$10,270,009,293 for total road levy of \$19,795,402.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

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.

**D. 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" (inter-governmental 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
General fund	\$ 1,651,138	\$ 84,633	\$ -
County roads	1,029,842	70,551	-
Non major funds	225,814	13,033	
Total governmental	\$ 2,906,794	\$ 168,217	\$ -
Solid waste	-	1,389,661	-
Sewer Revenue bond	-	976,677	2,188,256
Surface/Storm water	-	315,420	
Total	\$ 2,906,794	\$ 2,849,975	\$ 2,188,256

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.

**E. Inter-fund balances and transfers**

1. Advances to/From other funds

Advances From	Advances To			
	HOME	CDBG	Non Major	Total
General Fund	30,000	100,000	30,000	\$ 160,000

2. Due from other funds/Due to other funds

	Gen. Fund	County Roads	Mental Health	Solid Waste	Sewer Utility	Surface Water	Non Major	Internal Service	Total
General Fd	47,725	2,517	\$ -	\$ -	\$ -	0	11,835	73,560	135,637
County Rds	79,796	73,977	-	621	-	206	2,028	218,929	375,556
Mental Health	-	-	-	-	-	-	-	269	269
Non Major	204,619	156,172	26,761	127	-	-	294,888	7,704	690,271
Solid Waste	87,608	4,712	-	153,205	36,793	532	-	786	283,635
Sewer Utility	80,960	19,943	-	-	70	10,315	-	75,540	186,828
Surface Water	17,685	4,042	-	99	12,562	-	-	45,685	80,073
Internal Serv.	111,267	11,396	-	-	-	-	-	473	123,136
Total	629,659	272,760	26,761	154,052	49,425	11,052	308,751	422,944	1,875,405

### 3. Transfer

Transfer Out	Transfer In									Total
	General Fund	County Roads	Mental Health	Surface Water	Solid Waste	Sewer	Self Ins.	Inf. Serv.	Non Major	
General Fund	-	-	7,500	-	-	-	-	-	1,337,958	1,345,458
County Rds	-	7,259,000	-	-	-	-	-	-	430,551	7,689,551
Mental Health									200,000	200,000
RE Excise Tax									6,663,667	6,663,667
Non-Major	4,419,869	597,800	-	-	-	-	-	-	10,546,007	15,563,676
Solid Waste	-	-	-	-	306,000	-	-	-	338,046	644,046
Sewer	-	-	-	-	-	3,775,139	-	-	189,613	3,964,752
Surface water	-	-	-	740,150	-	-	-	-	221,928	962,078
ER&R	-	-	-	-	-	-	-	-	22,652	22,652
Workers Comp	-	-	-	-	-	-	848,994	-	-	848,994
Telecom.	-	-	-	-	-	-	-	418,958	-	418,958
Inform. Serv	-	-	-	-	-	-	-	-	362,896	362,896
	4,419,869	7,856,800	7,500	740,150	306,000	3,775,139	848,994	418,958	20,313,318	38,686,728

#### F. 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 those items 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 estimated useful lives:

Asset Category	Useful Life Years
Buildings	45
Other Improvements	20 - 45
Road System	7 - 25
Bridges	40
Sidewalks	30
Machinery	6 - 12
Sheriff Vehicles	6
Non Sheriff Vehicles	6 - 10
Office Equipment	10
Computer Equipment	4
Trucks and Trailers	7 - 15

The following is the summary of changes in capital assets activity for the year ended December 31, 2003:

	<b>Beginning Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance</b>
<b>Government activities:</b>				
Asset not being depreciated				
Land	\$ 29,108,243	\$ 7,427,220	\$ 1,572	\$ 36,533,891
Land - Infrastructure	56,819,250	1,168,063	-	\$ 57,987,313
Construction in Progress	36,378,182	756,627	-	\$ 37,134,809
Total	122,305,675	9,351,910	1,572	\$ 131,656,013
Asset being depreciated				
Building	52,572,844	23,890,000	-	\$ 76,462,844
Building Improvement	6,417,851	410,871	-	\$ 6,828,722
Infrastructure	330,150,228	7,654,779	-	\$ 337,805,007
Equipment & Machinery	37,522,472	1,784,483	3,258,264	\$ 36,048,691
Total	426,663,395	33,740,133	3,258,264	\$ 457,145,264
Total capital assets	548,969,070	43,092,043	3,259,836	\$ 588,801,277
Less accumulated depreciation				
Building	12,756,653	1,280,454		\$ 14,037,107
Building Improvements	3,105,705	312,906		\$ 3,418,611
Infrastructure	157,686,340	14,359,621		\$ 172,045,961
Equipment & Machinery	19,515,096	2,946,248	2,626,188	\$ 19,835,156
Total	193,063,794	18,899,229	2,626,188	\$ 209,336,835
Government activities capital assets, net	\$ 355,905,276	\$ 24,192,814	\$ 633,648	\$ 379,464,442

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

Function/Program	Amount
<b>Government activities:</b>	
General government	\$ 816,219
Judicial Services	67,405
Public safety	1,817,541
Transportation	15,409,468
Health & Human service	171,423
Economic environment	28,883
Culture & recreation	588,290
Total	\$ 18,899,229

	<b>Beginning Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance</b>
<b>Business-type activities</b>				
Assets not being depreciated				
Land	\$ 2,021,221	\$ -	\$ -	\$ 2,021,221
Construction in Progress	6,404,904	1,369,186	83,888	7,690,202
Total	8,426,125	1,369,186	83,888	9,711,423
Asset being depreciated				
Building	29,499,759	48,342	-	29,548,101
Building Improvement	59,103,903	1,251,291	-	60,355,194
Equipment & Machinery	3,707,879	13,557	-	3,721,436
Total	92,311,541	1,313,190	-	93,624,731
Grand Total	100,737,666	2,682,376	83,888	103,336,154
Less accumulated depreciation				
Building	15,171,909	1,203,429	-	16,375,338
Building Improvement	15,572,428	1,961,202	-	17,533,630
Equipment & Machinery	3,366,868	172,506	-	3,539,374
Total	34,111,205	3,337,137	-	37,448,342
Business-type activities capital assets, net	\$ 66,626,461	\$ (654,761)	\$ 83,888	\$ 65,887,812

## G. Leases

### Operating leases

County does not have any non-cancelable operating leases.

### Capital leases

The county has entered into a lease agreement for financing computer, mailing equipment, and telecommunications equipment.

These lease agreements qualify as capital lease for accounting purposes; therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The minimum capital lease payments reflect the remaining capital obligations on these assets.

The assets acquired through capital leases are as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Assets		
Machine and equipment	\$ 9,478	\$ 405,499
Less: Accumulated depreciation	4,344	254,091
Total	<u>\$ 5,134</u>	<u>\$ 151,408</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2003, were as follows:

	<u>Year Ending December 31</u>	<b>Governmental Business-Type</b>	
		<u>Activities</u>	<u>Activities</u>
2004		60,457	45,375
2005		60,457	-
2006		59,228	-
2007		58,000	-
Total minimum lease payments		238,142	45,375
Less amount representing interest		796	1,664
Present value of minimum lease payments		<u>\$ 237,346</u>	<u>\$ 43,711</u>

**H. Major Construction**

The County is one of the three partners in the Government Center project in down town Bremerton. The County has spent over 4 million dollars on 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, 2003, the debt limits for the County was as follows:

	Without a Vote	With a Vote	
		2.50%	5.00%
Legal Limit	\$ 247,411,367	\$ 412,352,278	\$ 824,704,556
Applicable Outstanding Debt	102,346,017	102,346,017	102,346,017
Margin Available	\$ 145,065,350	\$ 310,006,261	\$ 722,358,539

**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 \$122,225,000. During the year, general obligation bonds totaling \$28,055,000 were issued to refinance the existing debt and the new administrative building.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are generally 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. '93 Refunding	8,735,000	5/1/93	11/1/10	2.45/5.6%	4,140,000
Ltd G.O. '96 Refunding	9,875,000	4/1/96	11/1/12	3.6/5.7%	8,785,000
Ltd G.O. '97 Refunding	5,200,000	4/1/97	6/1/04	4.1/4.9%	310,000
Ltd G.O. '98	6,000,000	5/15/98	6/1/03	3.9/4.32%	-
Ltd G.O. '99	5,100,000	2/15/1999	12/1/2018	4.0/4.9%	4,180,000
Ltd G.O. 1999B	10,680,000	7/15/99	7/01/19	4.25/5.30%	7,975,000
Ltd G.O. Series 2000	20,000,000	8/15/00	7/01/25	4.3/5.5%	18,745,000
Ltd G.O. '2001 Refunding	11,215,000	6/15/01	11/01/20	4.0/5.0%	9,725,000
Ltd G.O. Series 2002A	11,395,000	4/1/02	10/1/26	4.3/5.375%	11,395,000
Ltd G.O. Series 2002B	10,840,000	4/1/02	12/1/26	3.5/4.0%	6,905,000
Ltd G.O. Series 2003	10,250,000	2/01/03	12/1/27	2.0/4.875%	10,010,000
Ltd G.O. Series 2002B	17,805,000	12/15/03	12/1/28	2.0/4.75%	17,805,000
Total	<u>\$ 127,095,000</u>				<u>\$ 99,975,000</u>

The County also issued \$929,033 in special assessment debt to provide funds for the construction of streets in new residential developments. The county will use the levies against the property to repay the bonds. 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 #38	\$ 381,647	6/1/1996	8/1/2008	\$ -
RID #39	547,386	4/1/1998	5/1/2013	170,000
	<u>\$ 929,033</u>			<u>\$ 170,000</u>

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

**General Obligation**

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 6,851,575	\$ 4,666,807	\$ 98,425	\$ 29,228
2005	6,477,692	4,433,016	102,308	24,293
2006	6,563,290	4,163,869	101,710	22,452
2007	4,349,572	3,891,218	110,428	17,398
2008	4,687,760	3,694,220	107,240	15,886
Thereafter	70,411,499	32,970,600	113,501	8,009
Total	\$99,341,388	\$53,819,730	\$633,612	\$117,266

**Revenue Bond**

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2004	\$ -	\$ -	\$ 1,705,000	\$ 1,420,383
2005	-	-	1,770,000	1,307,168
2006	-	-	1,835,000	1,218,753
2007	-	-	3,085,000	1,786,809
2008	-	-	3,210,000	1,672,469
Thereafter	-	-	28,715,000	10,827,823
Total	\$ -	\$ -	\$ 40,320,000	\$ 18,233,403

**Special Assessments**

Year Ending December 31	Governmental Activities	
	Principal	Interest
2004	\$ -	\$ 8,998
2005	-	8,998
2006	-	8,998
2007	-	8,998
2008	-	8,998
Thereafter	170,000	27,653
Total	\$ 170,000	\$ 72,640

**B. Revenue bonds**

The County also issues bonds where the county pledges income derived from the acquired or constructed assets to pay debt service. There was \$40,320,000 outstanding at the end of the fiscal year 2003.

**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 1, 1984 is payable at 50% at retirement or death, and employees 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.

**D. Other liabilities**

It is long-term debt to other governments.

Capital lease payments are as follows:

	Total	Principal	Interest
2004	105,831	103,685	2,146
2005	60,457	60,189	268
2006	59,228	59,182	46
2007	58,000	58,000	-
2008	-	-	-

**Changes in long-term liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Bond payables:					
General obligation bonds	\$ 83,154,909	\$ 28,055,000	\$ 11,868,520	\$ 99,341,389	6,851,575
Special assessment debt	220,000	-	50,000	170,000	-
Total bond payable	83,374,909	28,055,000	11,918,520	99,511,389	6,851,575
Capital leases	297,127	-	59,781	237,346	59,975
Internal services lease	140,932	-	97,221	43,711	43,711
Compensated absences	3,602,548	228,545	-	3,831,093	628,261
Internal services comp.	109,085	21,213	-	130,298	4,913
Notes Payable	-	5,624,000	-	5,624,000	108,889
Other liabilities	1,177,641	44,890	88,860	1,133,671	88,859
Total Governmental activity	88,702,242	33,973,648	12,164,382	110,511,508	7,786,183
<b>Business-type activities</b>					
Bond payable:					
General obligation bonds	730,091	-	96,480	633,611	98,425
Revenue bonds	41,880,000	-	1,560,000	40,320,000	1,705,000
Total bond payable	42,610,091	-	1,656,480	40,953,611	1,803,425
Other liabilities	465,193	-	32,973	432,220	45,380
Compensated absences	290,198	58,449	-	348,647	44,046
Total Business-type activity	43,365,482	58,449	1,689,453	41,734,478	1,892,851
Total	\$ 132,067,724	\$ 34,032,097	\$ 13,853,835	\$ 152,245,986	\$ 9,679,034

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. General fund generally liquidates the claims, judgments, and compensated absences from the governmental activities.

**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 public employee defined benefit and defined contribution 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 by writing to:

Department of Retirement systems,  
Communications Unit,  
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.

### **Public employees' retirement system (PERS) plans 1, 2 and 3**

#### Plan description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plan 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of the legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employee who fails to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in the state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 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. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits.

If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise, an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least 10 years of service; or five years including twelve months that were earned after the age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise, an actuarial reduction will apply. There is no cap on year of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefit Board.

There are 1,167 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2002:

Retirees and Beneficiaries Receiving Benefits	63,756
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	19,152
Active Plan Members Vested	98,994
Active Plan Members Nonvested	55,191
Total	237,093

Funding policy

Each biennium, the state Pension Funding Council adopts Plan 1 employers' contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapter 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2003, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	1.40%	1.40%	1.40%**
Employee	6.00%	1.18%	***

\*The employer rates include the employer administrative expense fee currently set at 0.22%.  
 \*\* Plan 3 defined benefit portion only.  
 \*\*\* Variable from 5.0% minimum to 15.0% maximum based on the rate selected by the PERS member.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2003	\$ 66,159	\$ 527,839	\$ 54,930
2002	\$ 78,196	\$ 589,879	\$ 3,307
2001	\$ 189,341	\$ 1,197,284	\$ -

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

#### Plan description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those joined on or after October 1, 1977 are Plan 2 members. LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age 50. The benefit per year of service calculated as a percent of final average salary is as follows:

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%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of the final average salary. A cost-of-living allowance is granted (indexed to Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of

eligible service. Plan 2 members may retire at the age 50 with 20 years of service, or at the age 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. The Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to Seattle Consumer Price Index), capped at three percent annually.

There are 359 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2002:

Retirees and Beneficiaries Receiving Benefits	8,231
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	398
Active Plan Members Vested	11,222
Active Plan Members Nonvested	3,936
Total	23,787

Funding policy

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with 41.45 RCW. All employers are required to contribute at the level required by the state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance with the requirements of the Pension funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as percentage of current-year covered payroll, as of December 31, 2003, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.22%	3.25%**
Employee	0.00%	5.05%
State	N/a	2.02%

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

\*\* The employer rate for ports and universities is 4.61%

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

	LEOFF Plan 1	LEOFF Plan 2
2003	\$ 605	\$ 200,857
2002	\$ 844	\$ 177,842
2001	\$ 1,126	\$ 204,146

**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 40 participants eligible to receive these benefits. In 2003, expenditures of \$277,893 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:

<u>Investment company</u>	<u>Fair Value</u>
PEBSCO	\$ 11,666,514
Aetna	4,109,584
Hartford	3,011,273
ICMA	59,247
Total	<u>\$ 18,846,618</u>

**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 insure its liability risks including public officials' errors and omissions. The Pool was formed on August 18, 1988, and it currently has 26

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.

**Workers compensation**

The County assumes risk for Workers compensation as allowed by the State statute up to \$250,000 per occurrence. Losses above that amount are covered by excess workers' compensation insurance with statutory limits. 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.

Workers Compensation	Year ended	
	31-Dec-03	31-Dec-02
Unpaid claims, beginning of fiscal year	\$ 1,486,363	\$ 1,138,608
Incurred claims (including IBNRs)	800,000	595,000
Claim payments	(167,247)	(247,245)
Unpaid claims, end of fiscal year	\$ 2,119,116	\$ 1,486,363

General Liability	Year ended	
	31-Dec-03	31-Dec-02
Unpaid claims, beginning of fiscal year	\$ 1,875,843	\$ 1,261,984
Incurred claims (including IBNRs)	716,000	662,000
Claim payments	(22,188)	(48,141)
Unpaid claims, end of fiscal year	\$ 2,569,655	\$ 1,875,843

**General liability**

The County has \$15,000,000 per occurrence liability protection with a \$100,000 deductible with Washington County Risk Pool (WCRP). The County is responsible for the first \$100,000; the Pool acquires reinsurance from unrelated underwriters to cover all losses above \$100,000 per occurrence. The Pool reinsures the risks to the maximum policy limit. The County has never had a claim in excess of the policy limits. This policy also covers auto liability, employment and public officials liability.

**Property insurance**

The county has a \$50,000 per occurrence 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.

**Crime/dishonesty insurance**

The employee crime/dishonesty policy has a \$5,000 deductible and a \$1,000,000 in coverage. This policy is endorsed to include a Position bond, which provides certain elected officials with bond coverage as required by the State statute.

**NOTE 10. OTHER INFORMATION**

**A. 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.

The county participates in a number of federal- and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. (Other than the instances described above,) county management believes that such disallowances, if any, will be immaterial.

**B. Prior Period Adjustments**

The \$10.8 million adjustment to the net assets was due to the infrastructure adjustments.