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**INDEPENDENT AUDITOR'S REPORT**

August 18, 2005

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kitsap County, Washington, as of and for the year ended December 31, 2004, 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 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 respective financial position of the governmental activities, the business-type, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kitsap County, Washington, as of December 31, 2004, 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 2 through 11 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 60 through 183 and 184 through 192 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 has 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 II through V and S-1 through S-19, 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*

As management of Kitsap County, we offer readers of the Kitsap County's financial statements this narrative overview and analysis of the financial activities of Kitsap County for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages II-1 thru II-4 of this report. All amounts, unless otherwise indicated, are expressed in millions of dollars.

### **Financial Highlights**

- The assets of Kitsap County exceeded its liabilities at the close of the most recent fiscal year by \$487.90 (net assets). Of this amount, \$112.21 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$8.83. The majority of the increase is attributable to the county's decision to forgive the assessment debt of the McCormick Woods Land Company, error correction of Internal Services Funds depreciation that were recorded twice in the prior year, and recognition of long-term receivable on the prior transaction between the County and Public Facility District.
- As of the close of the current fiscal year, the Kitsap County governmental funds reported combined ending fund balances of \$99.02, a increase of \$2.85 over the prior year. Approximately \$87.15 of this amount is available for spending at the government discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$13.83, or 19 percent of the total general fund expenditures.
- The Kitsap County's total general obligation debt increased by \$10.86 (11 percent) during the current fiscal year. The key factor in this increase was the issuance of \$21.20 bonds to refund the 1993 and 1997 bonds, and fund the construction of the new Administration Building.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Kitsap County's basic financial statements. The Kitsap County basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Kitsap county finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Kitsap County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Kitsap County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon

as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Kitsap County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Kitsap County include general government, public safety, highways and streets, economic development, and culture and recreation. The business-type activities of Kitsap County include solid waste, sewer, surface water, and golf operations.

The government-wide financial statements can be found on pages 11 - 13 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Kitsap County, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Kitsap County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

Kitsap County maintains eighty eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, county roads fund, real estate excise tax fund, mental health, and 2004 capital projects, all of which are considered to be major funds. Data from the other eighty three governmental funds are combined into a single, aggregated presentation. Individual fund

data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Kitsap County adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 14 – 26 of this report.

***Proprietary funds.*** Kitsap County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Kitsap County uses enterprise funds to account for its Sanitary Sewer operations, Solid Waste activities, Surface Water Utility, and Golf Course activities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Kitsap County various functions. Kitsap County uses internal service funds to account for its management information systems, self-insurance activities, purchasing activities, and fleet of equipments. Because all these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Solid Waste, and Sewer funds, which are considered major funds of Kitsap County. Conversely, all the internal service funds are combined into single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 27 – 29 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support Kitsap County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 30 – 31 of this report.

***Notes to the financial statements.*** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 – 58 of this report.

***Other information.*** In addition to the basic financial statements and the accompanying notes, this report also presents certain *required supplementary information* concerning the Kitsap County progress in funding its obligations to provide pension benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 56 – 153 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of Kitsap County, assets exceeded liabilities by \$487.90 at the close of the most recent fiscal year. The County’s fiscal condition remains stable and relatively the same as last year despite the corrections and debt forgiveness as described in detail in the rest of the financial statements.

The largest portion of Kitsap County’s net assets (67 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets to provide services to citizens; consequently, these assets are not available for future spending. Although Kitsap County’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### ***Kitsap County’s Net Assets***

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2004	2003	2004	2003	2004
<b>Assets:</b>						
Current assets	124.05	133.46	71.64	68.47	195.69	201.93
Capital assets	392.29	397.80	65.89	75.62	458.18	473.42
<b>Total assets</b>	<b>516.34</b>	<b>531.26</b>	<b>137.53</b>	<b>144.09</b>	<b>653.87</b>	<b>675.35</b>
<b>Liabilities</b>						
Other liabilities	27.84	24.43	4.04	4.43	31.88	28.86
Long-term liabilities	102.73	113.00	40.18	45.59	142.91	158.59
<b>Total liabilities</b>	<b>130.57</b>	<b>137.43</b>	<b>44.22</b>	<b>50.02</b>	<b>174.79</b>	<b>187.45</b>
<b>Net assets</b>						
Investment in capital	292.95	298.90	24.25	30.09	317.20	328.99
Restricted	3.23	27.64	0.62	19.05	3.85	46.69
Unrestricted	89.59	67.29	68.44	44.93	158.03	112.22
<b>Total net asset</b>	<b>\$ 385.77</b>	<b>\$ 393.83</b>	<b>\$ 93.31</b>	<b>\$ 94.07</b>	<b>\$ 479.08</b>	<b>\$ 487.90</b>

An additional portion of the Kitsap County’s net assets (10 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$112.22) may be used to meet the government’s ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Kitsap County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true last fiscal year.

The government's net assets increased by \$8.83 during the current fiscal year. The increase is due to error correction, the decision of the board to forgive an assessment receivable, and recognition of a long-term receivable on the prior transaction.

The government's restricted net asset grew by 1113% (from \$3.85m to \$46.69m) and the unrestricted decreased by 29% (from \$158.03m to \$112.22m). This has decreased the ability of the government to meet its future needs with unrestricted funds.

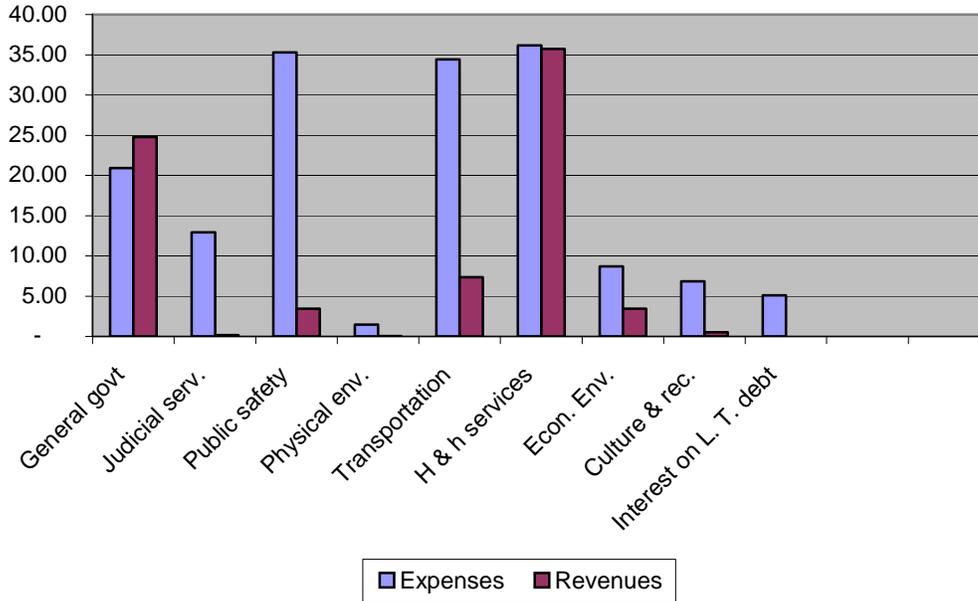
**Governmental activities.** Governmental activities increased the County's net assets by \$8.06 million. The key elements of this net change are as follows:

Revenues:	Governmental Activities		Business-type Activities		Total Primary government	
	2003	2004	2003	2004	2003	2004
Program revenues						
Charges for services	\$ 15.96	\$ 18.50	\$ 27.95	\$ 30.05	\$ 43.91	\$ 48.55
Operating grants	57.49	55.09			57.49	55.09
Capital grants	-	0.85	0.01	0.23	0.01	1.08
Fines & forfeits	2.89				2.89	-
General revenues						
Property taxes	46.19	45.33			46.19	45.33
Sales taxes	28.35	34.59			28.35	34.59
Other taxes	4.56	4.51			4.56	4.51
Investment earning	2.37	3.04	1.53	1.23	3.90	4.27
Other income	3.42	2.49	2.42	0.37	5.84	2.86
<b>Total revenues</b>	<b>161.23</b>	<b>164.40</b>	<b>31.91</b>	<b>31.88</b>	<b>193.14</b>	<b>196.28</b>
Expenses						
General government	21.93	20.92	-		21.93	20.92
Judicial services	12.24	12.94	-		12.24	12.94
Public safety	31.21	35.25	-		31.21	35.25
Physical environment	1.30	1.46	-		1.30	1.46
Transportation	34.16	34.43	-		34.16	34.43
Health & human services	38.46	36.17	-		38.46	36.17
Economic environment	8.15	8.71	-		8.15	8.71
Culture & recreation	6.06	6.85	-		6.06	6.85
Interest on LT debt	4.56	5.08	-		4.56	5.08
Utilities	-	-	27.62	28.42	27.62	28.42
Others	-	-	0.01	0.01	0.01	0.01
<b>Total expenses</b>	<b>158.07</b>	<b>161.81</b>	<b>27.63</b>	<b>28.43</b>	<b>185.70</b>	<b>190.24</b>
Inc in net assets before transfers	3.16	2.59	4.28	3.45	7.44	6.04
Special items - gain (loss)	-	(3.35)	-	-	-	(3.35)
Transfers	0.75	0.70	(0.75)	(0.70)	-	-
<b>Increase in net assets</b>	<b>3.91</b>	<b>(0.06)</b>	<b>3.53</b>	<b>2.75</b>	<b>7.44</b>	<b>2.69</b>
Beginning Net assets	371.03	385.77	89.78	93.31	460.81	479.08
Prior period adjustments	10.82	8.12		-1.98	10.82	6.14
<b>Ending Net assets</b>	<b>\$385.76</b>	<b>\$393.83</b>	<b>\$ 93.31</b>	<b>\$94.08</b>	<b>\$ 479.07</b>	<b>\$ 487.91</b>

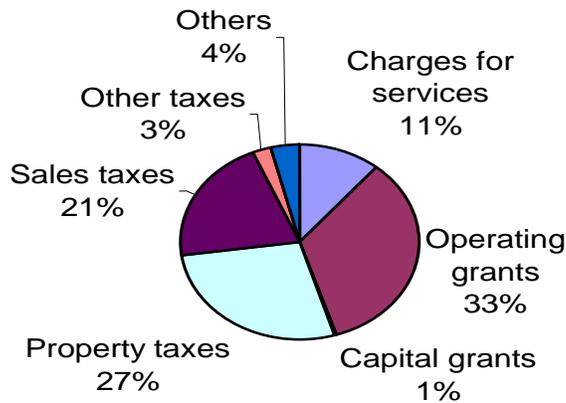
- o Property taxes decreased by \$0.86 (2 percent) during the year. Most of this decrease is the product of County's decision to lower the tax burden on its citizens by reducing the tax levy to 23.64 in 2004 from 25.49 in 2003.

- Operating grants for government activities decreased by \$2.40

***Expenses and Program Revenues - Governmental Activities***



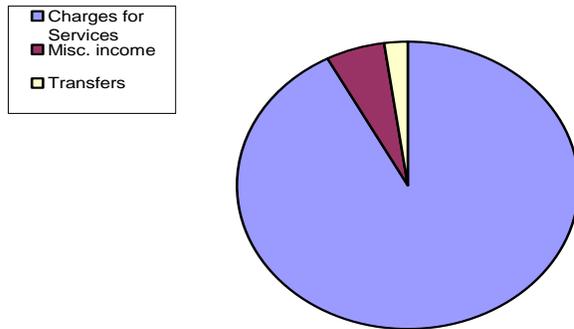
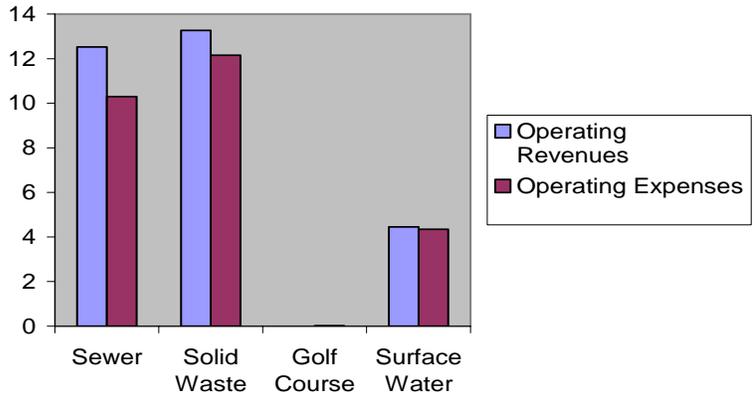
***Revenues by Source – Governmental Activities***



***Business-type activities.*** The business-type activities increased the County’s net assets by \$0.77, accounting for major part of the total growth in the government’s net assets. Key elements of this increase are as follows:

- Charges for services for business-type activities increased by 8 percent. The Sewer fund and Solid Waste account for the significant portion of this increase, which resulted from the increase in the number of service connections, and the tipping fees.

**Expenses and Program Revenues – Business-type Activities**



**Financial Analysis of the Government’s Funds**

As noted earlier, Kitsap County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Kitsap County’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Kitsap County’s financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Kitsap County’s governmental funds reported combining ending fund balances of \$99.02, a increase of \$2.85 in comparison with the prior year. A major part of this total amount is from the General fund which is unreserved fund balance

The general fund is the chief operating fund of the Kitsap County. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$13.83, while the total fund balance reached \$25.71. As a measure of the general fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 18.57 percent of

the total general fund expenditures, while total fund balance represents 34.5 percent of that same amount.

The fund balance of Kitsap County’s general fund increased by \$12.75 during the current fiscal year. Key factors in this growth are as follows:

- A prior period adjustment of \$11.4 million for recognizing an outstanding long-term receivable balance from a component unit.
- An increase in the local sales tax revenue.
- An increase in charges for services revenue.

The debt service funds have a total fund balance of \$3.26, all of which is reserved for the payment of debt service.

**Proprietary funds.** The Kitsap County’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Restricted net assets of the Sewer fund at the end of the year amounted to \$19.05, and unrestricted net assets of sewer was \$17.51, Solid Waste amounted to 20.77, while the Surface Water was 6.46 and Village Green Golf Course was \$0.18

**General Fund budgetary Highlights**

GENERAL FUND BUDGETARY HIGHLIGHTS:

Actual General Fund revenues exceed original budgeted revenues by \$3.13 during fiscal year 2004. This increase is due in part to increased 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	\$ 48.56	\$ 48.30	\$ 50.25
Intergovernmental	6.84	7.34	7.03
Others	16.11	16.39	17.88
<b>Total Revenues</b>	<b>71.51</b>	<b>72.03</b>	<b>75.16</b>
<b>Expenditures</b>			
Expenditures	(71.52)	(76.65)	(74.51)
Other financing sources (uses)	0.47	0.65	0.70
<b>Total expenditures</b>	<b>(71.05)</b>	<b>(76.00)</b>	<b>(73.81)</b>
<b>Change to fund balance</b>	<b>\$ 0.46</b>	<b>\$ (3.97)</b>	<b>\$ 1.35</b>

**Capital Assets**

At the end of the fiscal year 2004, the Kitsap County investment in capital assets for its

governmental activities is \$624.69 million as reflected in the following schedule, which represents a net increase of \$35.89 million or 6.1 percent from last year.

Governmental activities  
Change in Capital Assets (millions)

	12/31/2003	Additions	Retirement	12/31/2004
Land	36.53	5.65	-	42.18
Infrastructure	395.80	14.15	-	409.95
Building	76.46	20.29	0.28	96.47
Non-building	6.83	7.35	0.02	14.16
Machinery & Equipment	36.05	2.02	1.61	36.46
Construction-in-progress	37.13	19.90	31.56	25.47
Total	\$ 588.80	\$ 69.36	\$ 33.47	624.69
Accumulated depreciation	209.34	19.26	1.70	226.90
Capital Assets, Net	\$ 379.46	\$ 50.10	\$ 31.77	\$ 397.79

The following are the major additions to the Capital Assets:

- Various infrastructure projects were completed during the year at a cost of \$ 14.15
- A new public works building was placed in service at a cost of \$ 7.40
- The 911 / Emergency Management center was completed at a cost of \$ 7.20
- A renovation of the old jail was completed at a cost of \$ 4.76
- The county purchased several parcels of land :
  - 1,063 acres for open space or future parks for \$ 4.58
  - 6 parcels around the courthouse for parking sites for \$0.78
- Park, ballfield and fairground improvements at a cost of \$4.28
- Improvements to the pavillion, and special events center \$ 2.25
- The county purchased 2 pickups, 6 police cars, 1 jeep, 2 mowers, 1 crack sealer, 1 sweeper and 2 traffic message trailers for the equipment rental for \$0.66
- CenCom completed 911 system improvements for \$0.33
- The general fund upgraded firewall and network servers at a cost of \$0.24
- Information services computer equipment cost \$0.11

Business-type activities. The County spent over \$8 million on its Kingston's wastewater treatment facility with a low interest loan form Department of Ecology. The County has taken \$8 million out of the maximum amount of \$13million from DOE.

Long-term Debt

At year-end, the County had \$168.45 million in long-term debt versus \$152.25 million last year, a net change of \$16.20 million and 10.64 percent.

Outstanding Debt, at Year-End

<b>Government activities:</b>	2003	Addition	Deletion	2004
Bond Payable	\$ 99.34	\$ 20.67	\$ 9.71	\$ 110.30
Special assessment	0.17	-	0.04	0.13
Comp	3.83	0.01	-	3.84
Int. serv. Debt	0.17	-	0.04	0.13
Leases	0.24	-	0.06	0.18
Notes Payable	5.63	-	0.05	5.58
Others	1.13	-	0.09	1.04
Total	110.51	20.68	9.99	121.20
<b>Enterprise activities:</b>				
Bond Payable	40.95	0.54	3.34	38.15
Comp	0.35	0.01	-	0.36
Others	0.43	8.36	0.04	8.75
Total	41.73	8.91	3.38	47.26
Total Debt	\$ 152.24	\$ 29.59	\$ 13.37	\$ 168.45

See Note 5 for more detail on Long-term debt.

The following are the major additions to the long-term debt:

2004 projects and refunding	\$21.19million
Department of Ecology	\$8.36 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 \$143.5 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 (Notes 4 & 5).

## **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)

# KITSAP COUNTY, WASHINGTON

## Statement of Net Assets

December 31, 2004

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Unit PFD</b>
<b>ASSETS</b>				
Cash and Cash equivalents	\$ 54,271,212	\$ 4,694,323	\$ 58,965,535	\$ 141,249
Deposits with fiscal agents	21,111	-	21,111	-
Investments	21,172,518	39,604,160	60,776,678	116,274
Receivables(net)				
Property taxes	2,435,368	-	2,435,368	-
Special assessments	231,327	31,929	263,256	-
Accounts	196,698	2,141,803	2,338,501	-
Others	8,517	-	8,517	-
Internal balances	344,243	(344,243)	(0)	-
Due from other governments	4,567,885	3,039,679	7,607,564	-
Prepayments	707,846	-	707,846	-
Inventories	766,440	258,587	1,025,027	
Restricted assets:				
Cash and cash equivalents	1,116,452	628,813	1,745,265	-
Deposits with fiscal agents	147,778	13,532,341	13,680,119	-
Investments	26,380,742	4,887,024	31,267,766	-
Notes/Contracts Receivable	9,697,667	-	9,697,667	-
Long-term Receivable from Comp. Unit	11,395,000	-	11,395,000	-
Capital assets, net (Note1)				
Land	42,185,625	2,021,221	44,206,846	-
Infrastructure	223,828,782	-	223,828,782	-
Buildings	80,957,649	12,126,691	93,084,340	-
Improvements & Other Buildings	10,373,816	41,013,048	51,386,864	-
Machinery & Equipment	14,982,048	116,944	15,098,992	-
Construction In Progress	25,471,952	20,342,442	45,814,394	-
<b>Total assets</b>	<b>531,260,676</b>	<b>144,094,761</b>	<b>675,355,437</b>	<b>257,523</b>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	6,149,079	1,665,044	7,814,123	-
Due to other governments	963,012	163,638	1,126,650	-
Other liabilities	6,183,870	645,380	6,829,250	-
Unearned revenue	2,942,731	-	2,942,731	-
Non current Liabilities (Note 2):				
Due within one year	8,198,388	1,961,734	10,160,122	-
Due in more than one year	112,997,699	45,585,899	158,583,598	11,395,000
<b>Total liabilities</b>	<b>137,434,779</b>	<b>50,021,695</b>	<b>187,456,474</b>	<b>11,395,000</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	298,895,153	30,097,361	328,992,514	-
Restricted:				
Capital Projects	24,386,451	-	24,386,451	-
Debt service	3,258,521	19,048,178	22,306,699	-
Unrestricted	67,285,772	44,927,527	112,213,299	(11,137,477)
<b>Total net assets</b>	<b>\$ 393,825,897</b>	<b>\$ 94,073,066</b>	<b>\$ 487,898,963</b>	<b>\$ (11,137,477)</b>

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, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Public Facility District
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities								
General Government	\$ 20,924,520	\$ 16,373,946	\$ 7,428,237	\$ -	\$ 2,877,663	\$ -	\$ 2,877,663	\$ -
Judicial Services	12,936,687	140,593	-	-	(12,796,094)	-	(12,796,094)	-
Public Safety	35,252,523	385,258	3,056,720	-	(31,810,545)	-	(31,810,545)	-
Physical Environment	1,464,376	31,734	6,821	-	(1,425,821)	-	(1,425,821)	-
Transportation	34,428,215	849,582	5,662,059	847,294	(27,069,280)	-	(27,069,280)	-
Health & Human Services	36,165,509	280,142	35,446,521	-	(438,846)	-	(438,846)	-
Economic Environment	8,712,564	-	3,423,601	-	(5,288,963)	-	(5,288,963)	-
Culture & Recreation	6,848,227	434,043	72,087	-	(6,342,097)	-	(6,342,097)	-
Interest on Long-term Debt	5,081,165	-	-	-	(5,081,165)	-	(5,081,165)	-
Total Governmental Activities	<u>161,813,786</u>	<u>18,495,298</u>	<u>55,096,046</u>	<u>847,294</u>	<u>(87,375,148)</u>	<u>0</u>	<u>(87,375,148)</u>	<u>-</u>
Business-type Activities								
Solid Waste	12,152,571	13,195,761	-	-	-	1,043,190	1,043,190	-
Sewer Utility	11,924,137	12,483,123	-	228,000	-	786,986	786,986	-
Surface Water	4,351,010	4,371,791	-	-	-	20,781	20,781	-
Golf	7,588	-	-	-	-	(7,588)	(7,588)	-
Total business-type activities	<u>28,435,306</u>	<u>30,050,675</u>	<u>-</u>	<u>228,000</u>	<u>-</u>	<u>1,843,369</u>	<u>1,843,369</u>	<u>-</u>
Total Primary Government	<u>\$ 190,249,092</u>	<u>\$ 48,545,973</u>	<u>\$ 55,096,046</u>	<u>\$ 1,075,294</u>	<u>(87,375,148)</u>	<u>1,843,369</u>	<u>(85,531,779)</u>	<u>-</u>
Component Units:								
Public Facility District(PFD)	4,499,554	-	-	-	-	-	-	(4,499,554)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					45,333,113	-	45,333,113	-
Property taxes, levied for debt service					-	-	-	-
Sales & use taxes					34,587,618	-	34,587,618	1,039,782
Fines & Forfeits					-	-	-	-
Other taxes					4,511,275	-	4,511,275	-
Investment earnings					3,044,045	1,230,773	4,274,818	37,763
Miscellaneous					2,489,900	373,573	2,863,473	-
Special item - gain(loss) on sale of capital assets					(3,352,324)	-	(3,352,324)	-
Transfers					702,656	(702,656)	-	-
Total general revenues, special items, and transfers					<u>87,316,283</u>	<u>901,690</u>	<u>88,217,973</u>	<u>1,077,545</u>
Change in net assets					(58,865)	2,745,059	2,686,194	(3,422,009)
Net assets - beginning					385,765,436	93,308,445	479,073,881	3,679,532
Prior Period Adjustments					8,119,325	(1,980,439)	6,138,886	(11,395,000)
Net assets - ending					<u>\$ 393,825,896</u>	<u>\$ 94,073,065</u>	<u>\$ 487,898,961</u>	<u>\$ (11,137,477)</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 and the spending of the excise tax.

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

Kitsap County Administrative Building: A fund used to account for the construction of the county's new administrative building.

## **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.

Balance Sheet  
 Governmental Funds  
 December 31,2004

	Special Revenue Funds			
	General Fund	Road Department	Real Estate Excise Tax	Mental Health
<b>ASSETS</b>				
Cash and Cash equivalents	\$ 13,984,277	\$ 14,461,549	\$ 612,052	\$ 1,889,917
Deposits with fiscal agents	-	-	58,889	-
Investments	-	4,089,397	7,091,770	-
Receivables(net)				
Property taxes	1,376,138	921,595	-	-
Special assessments	-	116,372	-	-
Accounts	194,570	-	-	-
Notes/Contracts	-	-	5,475,000	-
Others	-	-	-	-
Long-term Receivable	11,395,000	-	-	-
Due from other funds	1,364,972	44,920	-	1,440
Due from other governments	863,940	834,615	-	71,118
Prepayments	22,200	-	-	-
Advance to other funds	460,000	-	-	-
<b>Total assets</b>	<b>\$ 29,661,097</b>	<b>\$ 20,468,448</b>	<b>\$ 13,237,711</b>	<b>\$ 1,962,475</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 1,575,980	\$ 287,838	\$ 1,200	\$ 165,892
Due to other funds	72,732	1,181,254	-	746
Due to other governments	-	-	-	45,520
Other liabilities	922,925	233,921	-	4,328
Advance from other fund	-	-	-	-
Revenues collected in advance	3,781	-	-	-
Deferred revenue	1,377,424	1,037,964	5,475,000	-
<b>Total liabilities</b>	<b>\$ 3,952,842</b>	<b>\$ 2,740,977</b>	<b>\$ 5,476,200</b>	<b>\$ 216,486</b>
<b>Fund balances</b>				
<b>Reserved:</b>				
Prepayments	\$ 22,200	\$ -	\$ -	\$ -
Advance/Receivable	11,855,000	-	-	-
<b>Unreserved</b>				
General fund	13,831,055	-	-	-
Special revenues	-	17,727,471	7,761,511	1,745,989
Capital projects funds	-	-	-	-
Debt service	-	-	-	-
<b>Total fund balance</b>	<b>25,708,255</b>	<b>17,727,471</b>	<b>7,761,511</b>	<b>1,745,989</b>
<b>Total liabilities &amp; fund balances</b>	<b>\$ 29,661,097</b>	<b>\$ 20,468,448</b>	<b>\$ 13,237,711</b>	<b>\$ 1,962,475</b>

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

# KITSAP COUNTY, WASHINGTON

Balance Sheet  
 Governmental Funds  
 December 31, 2004

	<u>Capital Projects</u> Kitsap County Administrative Building	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash equivalents	\$ 10,843	\$ 11,133,245	\$ 42,091,883
Deposits with fiscal agents	-	30,000	88,889
Investments	16,796,275	19,567,778	47,545,220
Receivables(net)			
Property taxes	-	137,635	2,435,368
Special assessments	-	114,955	231,327
Accounts	-	2,128	196,698
Notes/Contracts	-	4,222,667	9,697,667
Others	-	8,517	8,517
Long-term Receivable	-	-	11,395,000
Due from other funds	-	117,086	1,528,418
Due from other governments	-	2,798,212	4,567,885
Prepayments	-	-	22,200
Advance to other funds	-	-	460,000
<b>Total assets</b>	<u>\$ 16,807,118</u>	<u>\$ 38,132,223</u>	<u>\$ 120,269,072</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 1,509,255	\$ 2,285,845	\$ 5,826,010
Due to other funds	-	284,420	1,539,152
Due to other governments	-	917,492	963,012
Other liabilities	7,380	203,509	1,372,063
Advance from other fund	-	460,000	460,000
Revenues collected in advance	-	5,000	8,781
Deferred revenue	-	3,185,257	11,075,645
<b>Total liabilities</b>	<u>\$ 1,516,635</u>	<u>\$ 7,341,523</u>	<u>\$ 21,244,663</u>
<b>Fund balances</b>			
<b>Reserved:</b>			
Prepayments	\$ -	\$ -	\$ 22,200
Advance/Receivable	-	-	11,855,000
<b>Unreserved</b>			
General fund	-	-	13,831,055
Special revenues	-	18,436,211	45,671,182
Capital projects funds	15,290,483	9,095,968	24,386,451
Debt service	-	3,258,521	3,258,521
<b>Total fund balance</b>	<u>15,290,483</u>	<u>30,790,700</u>	<u>99,024,409</u>
<b>Total liabilities &amp; fund balances</b>	<u>\$ 16,807,118</u>	<u>\$ 38,132,223</u>	<u>\$ 120,269,072</u>

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

## KITSAP COUNTY

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

December 31, 2004

Fund balances of governmental funds - page 17 \$ 99,024,407

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.

Capital assets	624,694,732	
Depreciation	(226,894,860)	
Capital asset net of depreciation		397,799,872

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

Bond payable	110,434,719	
Compensated absences	3,843,607	
Capital lease	176,845	
Other long-term liabilities	6,618,812	
Long-term debt		(121,073,983)

Other long-term assets not available to pay for current-period expenditures and, therefore, are deferred in the funds.

8,141,695

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	15,277,563	
Liabilities	(5,343,657)	
Asset less liabilities		9,933,906

Net assets of governmental activities - page 12

\$ 393,825,897

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, 2004

	General Fund	Special Revenue Funds		
		County Roads	Real Estate Excise Tax	Mental Health
<b>REVENUES:</b>				
Property taxes	\$ 24,978,353	\$ 18,659,886	\$ -	\$ 217,911
Retail sales & use taxes	20,825,037	50,970	5,621,134	-
Other taxes	4,439,046	-	-	-
Licenses and permits	2,936,145	28,638	-	-
Intergovernmental	7,032,310	6,485,022	-	21,471,328
Charges for services	10,042,048	497,340	-	-
Fines & forfeits	2,548,070	-	-	-
Investment earnings	1,596,311	-	341,362	-
Miscellaneous	760,123	202,277	-	120,131
<b>Total revenues</b>	<b>75,157,443</b>	<b>25,924,133</b>	<b>5,962,496</b>	<b>21,809,370</b>
<b>EXPENDITURES:</b>				
Current:				
General government	22,716,065	-	40,378	-
Judicial Services	12,745,157	-	-	-
Public safety	26,624,872	-	-	-
Physical Environment	1,406,745	-	-	-
Transportation	-	18,941,701	-	-
Health & Human Services	-	-	-	21,395,532
Economic Environment	5,269,471	-	-	-
Culture & recreation	5,180,814	-	-	-
Debt service				
Principal	-	88,859	50,000	-
Interest and other charges	6,567	10,213	134,153	-
Capital outlay	515,309	4,452,285	784,195	-
<b>Total expenditures</b>	<b>74,465,000</b>	<b>23,493,058</b>	<b>1,008,726</b>	<b>21,395,532</b>
Excess(deficiency) of revenues over expenditures	<b>692,443</b>	<b>2,431,075</b>	<b>4,953,770</b>	<b>413,838</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	1,070,000	-
Transfers in	1,970,683	1,003,000	-	7,500
Transfers out	(1,314,723)	(405,504)	(8,950,780)	(200,000)
Other adjustments	-	-	-	-
<b>Total other financing sources &amp; uses</b>	<b>655,960</b>	<b>597,496</b>	<b>(7,880,780)</b>	<b>(192,500)</b>
<b>Net change in fund balance</b>	<b>1,348,403</b>	<b>3,028,571</b>	<b>(2,927,010)</b>	<b>221,338</b>
Fund balances-beginning	12,964,850	14,698,900	10,688,521	1,524,651
Prior period adjustments	11,395,000	-	-	-
<b>Fund balances-ending</b>	<b>\$ 25,708,253</b>	<b>\$ 17,727,471</b>	<b>\$ 7,761,511</b>	<b>\$ 1,745,989</b>

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

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

Governmental Funds

	<u>Capital Projects</u> Kitsap County Administrative Building	<u>Other</u> Governmental Funds	<u>Total</u> Governmental Funds
<b>REVENUES:</b>			
Property taxes	\$ -	\$ 1,476,963	\$ 45,333,113
Retail sales & use taxes	-	8,090,477	34,587,618
Other taxes	-	72,229	4,511,275
Licenses and permits	-	18,663	2,983,446
Intergovernmental	-	20,954,680	55,943,340
Charges for services	-	2,064,078	12,603,466
Fines & forfeits	-	360,316	2,908,386
Investment earnings	165,463	940,909	3,044,045
Miscellaneous	-	1,407,369	2,489,900
<b>Total revenues</b>	<u>165,463</u>	<u>35,385,684</u>	<u>164,404,589</u>
<b>EXPENDITURES:</b>			
Current:			
General government	-	391,906	23,148,349
Judicial Services	-	131,069	12,876,226
Public safety	-	6,386,346	33,011,218
Physical Environment	-	57,631	1,464,376
Transportation	-	73,171	19,014,872
Health & Human Services	-	14,599,350	35,994,882
Economic Environment	-	3,419,048	8,688,519
Culture & recreation	-	1,019,717	6,200,531
Debt service			
Principal	-	9,741,388	9,880,247
Interest and other charges	204,270	4,725,962	5,081,165
Capital outlay	<u>10,928,240</u>	<u>23,561,827</u>	<u>40,241,856</u>
<b>Total expenditures</b>	<u>11,132,510</u>	<u>64,107,415</u>	<u>195,602,241</u>
	<u>(10,967,047)</u>	<u>(28,721,731)</u>	<u>(31,197,652)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Refunding bonds issued	3,423,957	-	3,423,957
Capital -related debt issued	12,553,275	4,761,159	17,314,434
Payment to bond refunding escrow age	-	-	-
Sale of capital assets	-	-	1,070,000
Transfers in	-	20,266,769	23,247,952
Transfers out	-	(11,525,449)	(22,396,455)
Other adjustments	-	-	-
<b>Total other financing sources &amp; use</b>	<u>15,977,232</u>	<u>13,502,480</u>	<u>22,659,888</u>
	<u>5,010,185</u>	<u>(15,219,252)</u>	<u>(8,537,764)</u>
Fund balances-beginning	10,280,298	46,009,951	96,167,171
Prior period adjustments	-	-	11,395,000
<b>Fund balances-ending</b>	<u>\$ 15,290,483</u>	<u>\$ 30,790,700</u>	<u>\$ 99,024,407</u>

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

## KITSAP COUNTY

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2004

Net change in fund balances-total governmental funds - page 20 \$ (8,537,764)

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	40,241,856
Depreciation	(19,256,724)

#### Capital Asset Transactions

Loss recognized in Statement of Activities but not in the funds	(3,352,324)
Proceeds from the sale of capital assets not recognized in the Statement of Activity	(1,070,000)

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	(20,738,391)
Bond principal	9,880,247

#### Internal services Activities

Net Transfers	(148,840)
Depreciation already included above	2,078,474
Net profit	844,602

Change in net assets of governmental activities - page 13 \$ (58,864)

# KITSAP COUNTY, WASHINGTON

## General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended December 31, 2004

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 25,329,805	\$ 24,829,805	\$ 24,978,353	\$ 148,548
Retail sales & use taxes	18,867,468	19,107,468	20,825,037	1,717,569
Other taxes	4,363,540	4,363,540	4,439,046	75,506
Licenses and permits	2,048,249	2,048,249	2,936,145	887,896
Intergovernmental	6,844,654	7,342,889	7,032,310	(310,579)
Charges for services	9,222,374	9,492,102	10,042,048	549,946
Fines & forfeits	2,385,633	2,385,633	2,548,070	162,437
Investment earnings	1,539,134	1,539,134	1,596,311	57,177
Miscellaneous	911,928	914,593	760,123	(154,470)
Total revenues	<u>71,512,785</u>	<u>72,023,413</u>	<u>75,157,443</u>	<u>3,134,030</u>
<b>EXPENDITURES:</b>				
Current:				
General government	21,174,551	22,951,906	22,716,065	235,841
Judicial Services	12,062,465	13,183,727	12,745,157	438,570
Public safety	26,435,018	27,405,480	26,624,872	780,608
Physical Environment	1,370,783	1,408,688	1,406,745	1,943
Transportation	-	-	-	-
Health & Human Services	-	-	-	-
Economic Environment	4,643,008	5,400,111	5,269,471	130,640
Culture & recreation	5,154,881	5,252,664	5,180,814	71,850
Interest on long-term debt	-	-	-	-
Debt service				
Principal	20,300	20,300	-	20,300
Interest and other charges	8,000	8,000	6,567	1,433
Capital outlay	650,000	1,014,308	515,309	498,999
Total expenditures	<u>71,519,006</u>	<u>76,645,184</u>	<u>74,465,000</u>	<u>2,180,184</u>
Excess(deficiency) of revenues over expenditures	<u>(6,221)</u>	<u>(4,621,771)</u>	<u>692,443</u>	<u>5,314,214</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	1,853,202	2,043,727	1,970,683	(73,044)
Transfers out	(1,387,136)	(1,394,723)	(1,314,723)	80,000
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>466,066</u>	<u>649,004</u>	<u>655,960</u>	<u>6,956</u>
Net change in fund balance	<u>459,845</u>	<u>(3,972,767)</u>	<u>1,348,403</u>	<u>5,321,170</u>
Fund balances-beginning	6,589,681	6,576,561	12,964,850	6,388,289
Prior period adjustments	-	-	11,395,000	11,395,000
Fund balances-ending	<u>\$ 7,049,526</u>	<u>\$ 2,603,794</u>	<u>\$ 25,708,253</u>	<u>\$ 23,104,459</u>

# KITSAP COUNTY, WASHINGTON

## County Roads

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended December 31, 2004

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 18,537,695	\$ 18,537,695	\$ 18,659,886	\$ 122,191
Retail sales & use taxes	30,000	30,000	50,970	20,970
Other taxes	-	-	-	-
Licenses and permits	60,700	60,700	28,638	(32,062)
Intergovernmental	7,931,219	7,931,219	6,485,022	(1,446,197)
Charges for services	393,756	393,756	497,340	103,584
Fines & forfeits	-	-	-	-
Investment earnings	-	-	-	-
Miscellaneous	102,000	102,000	202,277	100,277
Total revenues	<u>27,055,370</u>	<u>27,055,370</u>	<u>25,924,133</u>	<u>(1,131,237)</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	20,437,976	20,656,476	18,941,701	1,714,775
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	10,001	10,001	10,213	(212)
Capital outlay	6,800,584	6,567,785	4,452,285	2,115,500
Total expenditures	<u>27,335,061</u>	<u>27,320,762</u>	<u>23,493,058</u>	<u>3,827,704</u>
Excess(deficiency) of revenues over expenditures	<u>(279,691)</u>	<u>(265,392)</u>	<u>2,431,075</u>	<u>2,696,467</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	5,375,000	5,375,000	1,003,000	(4,372,000)
Transfers out	(4,581,197)	(4,581,197)	(405,504)	4,175,693
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>793,803</u>	<u>793,803</u>	<u>597,496</u>	<u>(196,307)</u>
Net change in fund balance	<u>514,112</u>	<u>528,411</u>	<u>3,028,571</u>	<u>2,500,160</u>
Fund balances-beginning	3,954,177	3,954,177	14,698,900	10,744,723
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 4,468,289</u>	<u>\$ 4,482,588</u>	<u>\$ 17,727,471</u>	<u>\$ 13,244,883</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, 2004

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes	180,000	180,000	\$ 217,911	\$ 37,911
Retail sales & use taxes	-	-	-	-
Other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	24,000,000	24,000,000	21,471,328	(2,528,672)
Charges for services	-	-	-	-
Fines & forfeits	-	-	-	-
Investment earnings	-	-	-	-
Miscellaneous	-	-	120,131	120,131
Total revenues	<u>24,180,000</u>	<u>24,180,000</u>	<u>21,809,370</u>	<u>(2,370,630)</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	24,187,500	24,187,500	21,395,532	2,791,968
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay				
Total expenditures	<u>24,187,500</u>	<u>24,187,500</u>	<u>21,395,532</u>	<u>2,791,968</u>
Excess(deficiency) of revenues over expenditures	<u>(7,500)</u>	<u>(7,500)</u>	<u>413,838</u>	<u>421,338</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>221,338</u>	<u>221,338</u>
Fund balances-beginning	-	-	1,524,651	1,524,651
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>-</u>	<u>-</u>	<u>\$ 1,745,989</u>	<u>\$ 1,745,989</u>

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

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# KITSAP COUNTY, WASHINGTON

## Real Estate Excise Tax

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Retail sales & use taxes	-	-	5,621,134	5,621,134
Other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	31,113	31,113	-	(31,113)
Charges for services	10,000	10,000	-	(10,000)
Fines & forfeits	5,000	5,000	-	(5,000)
Investment earnings	-	-	341,362	341,362
Miscellaneous	-	-	-	-
Total revenues	<u>46,113</u>	<u>46,113</u>	<u>5,962,496</u>	<u>5,916,383</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	40,378	(40,378)
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	-	-	-	-
Economic Environment	-	-	-	-
Culture & recreation	62,943	62,943	-	62,943
Interest on long-term debt	-	-	-	-
Debt service				
Principal	-	-	50,000	(50,000)
Interest and other charges	-	-	134,153	(134,153)
Capital outlay	-	-	784,195	(784,195)
Total expenditures	<u>62,943</u>	<u>62,943</u>	<u>1,008,726</u>	<u>(945,783)</u>
Excess(deficiency) of revenues over expenditures	<u>(16,830)</u>	<u>(16,830)</u>	<u>4,953,770</u>	<u>4,970,600</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	1,070,000	(1,070,000)
Transfers in	-	-	-	-
Transfers out	-	-	(8,950,780)	(8,950,780)
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>-</u>	<u>-</u>	<u>(7,880,780)</u>	<u>(10,020,780)</u>
Net change in fund balance	<u>(16,830)</u>	<u>(16,830)</u>	<u>(2,927,010)</u>	<u>(5,050,180)</u>
Fund balances-beginning	16,830	16,830	10,688,521	10,671,691
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,761,511</u>	<u>\$ 5,621,511</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, 2004

	Business-type Activities-Enterprise Funds				Governmental Activities Internal Services Funds
	Sanitary Sewer	Solid Waste	Other Non-Major Funds	Total	
<b>ASSETS</b>					
Current assets:					
Cash and Cash equivalents	\$ 1,790,307	\$ 2,444,807	\$ 459,208	\$ 4,694,323	\$ 13,303,821
Deposits with fiscal agents-restricted	13,532,341	-	-	13,532,341	80,000
Investments	15,081,702	18,292,960	6,229,497	39,604,160	-
Receivables (net)					
Special assessments	31,929	-	-	31,929	-
Accounts	939,965	1,027,280	174,558	2,141,803	-
Due from other funds	75,341	1,880	5,082	82,303	441,656
Due from other governments	2,788,394	106,285	145,000	3,039,679	-
Prepayments	-	-	-	-	685,646
Inventories	258,587	-	-	258,587	766,440
Restricted assets:					
Cash and cash equivalents	628,813	-	-	628,813	-
Investments	4,887,024	-	-	4,887,024	-
Total current assets	<u>40,014,404</u>	<u>21,873,213</u>	<u>7,013,346</u>	<u>68,900,962</u>	<u>15,277,563</u>
Noncurrent assets:					
Capital assets, net (Note1)					
Land	1,123,482	472,444	425,295	2,021,221	-
Buildings	29,016,797	658,279	37,267	29,712,343	-
Improvements & Other Buildings	54,806,405	1,606,355	4,192,821	60,605,581	-
Machinery & Equipment	3,521,298	76,809	123,329	3,721,436	23,930,427
Construction In Progress	18,375,618	-	1,966,824	20,342,442	-
Less accumulated depreciation	<u>(38,920,412)</u>	<u>(848,112)</u>	<u>(1,014,153)</u>	<u>(40,782,678)</u>	<u>(12,548,417)</u>
Total noncurrent assets	<u>67,923,188</u>	<u>1,965,774</u>	<u>5,731,383</u>	<u>75,620,344</u>	<u>11,382,010</u>
Total assets	<u>107,937,592</u>	<u>23,838,986</u>	<u>12,744,729</u>	<u>144,521,307</u>	<u>26,659,573</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accrued expenses	715,815	872,319	76,911	1,665,044	323,069
Due to other funds	231,265	116,727	78,555	426,547	86,678
Due to other governments	-	33,437	130,201	163,638	-
Other liabilities	587,303	19,299	38,778	645,380	4,811,807
Total current liabilities	<u>1,534,383</u>	<u>1,041,781</u>	<u>324,445</u>	<u>2,900,609</u>	<u>5,221,554</u>
Non current Liabilities (Note 2):					
Due within one year	1,917,688	24,046	20,000	1,961,734	-
Due in more than one year	45,522,983	34,079	28,837	45,585,899	122,103
Total noncurrent liabilities	<u>47,440,671</u>	<u>58,125</u>	<u>48,837</u>	<u>47,547,633</u>	<u>122,103</u>
Total liabilities	<u>48,975,054</u>	<u>1,099,906</u>	<u>373,282</u>	<u>50,448,242</u>	<u>5,343,657</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	22,400,205	1,965,774	5,731,383	30,097,361	11,382,010
Restricted:					
Debt service	19,048,178	-	-	19,048,178	-
Unrestricted	17,514,155	20,773,306	6,640,064	44,927,526	9,933,906
Total net assets	<u>\$58,962,538</u>	<u>\$ 22,739,080</u>	<u>\$12,371,447</u>	<u>\$94,073,065</u>	<u>\$ 21,315,916</u>

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

# KITSAP COUNTY, WASHINGTON

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

### Proprietary Funds

For the Year Ended December 31, 2004

	Business-type Activities - Enterprise Funds			Total	Governmental Activities Internal Service Funds
	Sanitary Sewer	Solid Waste	Other Non-Major Funds		
Operating revenues:					
Charges for services	\$ 12,483,123	\$ 13,195,761	\$ 4,371,791	\$30,050,675	\$ 10,153,693
Miscellaneous	49,509	77,173	73,796	200,478	4,601,055
Total operating revenues	<u>12,532,632</u>	<u>13,272,934</u>	<u>4,445,587</u>	<u>30,251,153</u>	<u>14,754,748</u>
Operating expenses:					
Personal services	3,826,495	1,193,327	1,681,196	6,701,018	4,159,653
Contractual services	1,761,395	449,760	1,497,168	3,708,323	9,595
Utilities	1,033,697	9,742,077	106,089	10,881,863	21,224
Repair and maintenance	121,190	47,544	62,578	231,312	598,839
Other supplies and expenses	461,520	592,694	736,463	1,790,677	6,560,569
Insurance claims and expenses	100,807	11,710	54,808	167,325	521,174
Depreciation	2,998,580	115,459	220,296	3,334,335	2,078,474
Total operating expenses	<u>10,303,684</u>	<u>12,152,571</u>	<u>4,358,598</u>	<u>26,814,853</u>	<u>13,949,528</u>
Operating income	<u>2,228,948</u>	<u>1,120,363</u>	<u>86,989</u>	<u>3,436,300</u>	<u>805,220</u>
Nonoperating revenue (expenses)					
Interest and investment revenue	659,543	404,910	166,320	1,230,773	-
Miscellaneous revenue	-	173,095	-	173,095	-
Interest expense	(1,620,453)	-	-	(1,620,453)	-
Miscellaneous expense	-	-	-	-	(5,857)
Total nonoperating expenses	<u>(960,910)</u>	<u>578,005</u>	<u>166,320</u>	<u>(216,585)</u>	<u>(5,857)</u>
Income (loss) before contributions & transfers	1,268,038	1,698,368	253,309	3,219,715	799,363
Capital contributions	228,000	-	-	228,000	194,079
Transfers in	-	-	-	-	-
Transfers out	<u>(196,861)</u>	<u>(272,428)</u>	<u>(233,367)</u>	<u>(702,656)</u>	<u>(148,840)</u>
Change in net assets	1,299,177	1,425,940	19,942	2,745,059	844,602
Total net assets - beginning	59,643,798	21,313,141	12,351,505	93,308,444	20,471,314
Prior Period Adjustments	<u>(1,980,439)</u>	-	-	<u>(1,980,439)</u>	-
Total net assets - ending	<u>\$ 58,962,536</u>	<u>\$ 22,739,081</u>	<u>\$ 12,371,447</u>	<u>\$94,073,064</u>	<u>\$ 21,315,916</u>

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

# KITSAP COUNTY, WASHINGTON

## Statement of Cash Flows

### Proprietary Funds

For the Year Ended December 31, 2004

	Business-type Activities - Enterprise Funds				Governmental
	Sanitary Sewer	Solid Waste	Other Non- Major Funds	Total	Internal service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 11,648,442	\$ 13,551,968	\$ 4,592,419	\$ 29,792,829	\$ 14,648,474
Payments to suppliers	(2,174,946)	(10,828,629)	(2,513,281)	(15,516,856)	(8,955,086)
Payments to employees	(3,826,495)	(1,193,327)	(1,681,196)	(6,701,018)	(2,987,413)
Net cash provided by operating activities	<u>5,647,001</u>	<u>1,530,012</u>	<u>397,942</u>	<u>7,574,955</u>	<u>2,705,975</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Operating grants received	5,576,049	173,095	-	5,749,144	-
Transfers	(196,861)	(272,428)	(233,367)	(702,656)	(148,840)
Net cash provided by noncapital activities	<u>5,379,188</u>	<u>(99,333)</u>	<u>(233,367)</u>	<u>5,046,488</u>	<u>(148,840)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Capital contributions	-	-	-	-	56,402
Purchases of capital assets	(12,033,794)	-	(803,481)	(12,837,275)	(442,318)
Principal paid on capital debt	(2,803,425)	-	-	(2,803,425)	(43,710)
Interest paid on capital debt	(1,425,745)	-	-	(1,425,745)	-
Net cash from related financing activities	<u>(16,262,964)</u>	<u>-</u>	<u>(803,481)</u>	<u>(17,066,445)</u>	<u>(429,626)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investment	11,020,000	400,000	4,200,000	15,620,000	-
Purchase of Investment	(6,860,225)	(2,704,913)	(4,492,249)	(14,057,387)	-
Interest and dividends	659,543	404,910	166,320	1,230,773	-
Net cash provided by investing activities	<u>4,819,318</u>	<u>(1,900,003)</u>	<u>(125,929)</u>	<u>2,793,386</u>	<u>-</u>
Net (decrease) in cash and cash equivalents	(417,457)	(469,324)	(764,835)	(1,651,616)	2,127,509
Balances - beginning of the year	2,836,577	2,914,130	1,224,044	6,974,751	11,176,313
Balances - end of the year	<u>\$ 2,419,120</u>	<u>\$ 2,444,807</u>	<u>\$ 459,209</u>	<u>\$ 5,323,135</u>	<u>\$ 13,303,822</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 2,228,948	\$ 1,120,363	\$ 86,989	\$ 3,436,300	\$ 805,220
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	2,998,580	115,459	220,296	3,334,335	2,078,474
Change in assets and liabilities:					
Receivables, net	36,712	362,380	140,862	539,954	67,159
Due from other funds	(920,902)	(83,826)	5,970	(998,758)	(18,712)
Due from other governments	-	480	-	480	-
Inventories	35,965	-	-	35,965	(15,307)
Prepaid	-	-	-	-	-
Accounts and other payables	452,828	(13,695)	(11,671)	427,462	12,585
Due to other funds	939,423	69,090	(1,518)	1,006,995	(36,457)
Due to other governments	(11,764)	259	15,210	3,705	-
Employee benefits	-	-	-	-	(8,194)
Accrued expenses	(112,789)	(40,498)	(58,196)	(211,483)	(178,793)
Net cash provided by operating activities	<u>\$ 5,647,001</u>	<u>\$ 1,530,012</u>	<u>\$ 397,942</u>	<u>\$ 7,574,955</u>	<u>\$ 2,705,975</u>

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

# KITSAP COUNTY, WASHINGTON

## Statement of Fiduciary Net Assets December 31, 2004

	<u>Employee Deferred Compensation</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash	\$ -	\$ 27,353,968
Deposits with fiscal Agents/Trustees	21,281,845	80,000
Investments	-	174,629,127
Taxes Receivable	-	7,186,554
Other current Receivables	-	-
Due From Other Funds	-	-
Due from other Governmental Units	-	-
Total Assets	21,281,845	\$ 209,249,649
<b>LIABILITIES</b>		
Warrants payable	-	\$ 1,536,193
Accounts Payable	-	-
Sales Tax Payable	-	-
Other Accrued Liabilities	-	-
Due to Other Funds	-	-
Due to Other Governmental Units	-	-
Custodial Account	-	207,713,456
Total Liabilities	-	\$ 209,249,649
<b>NET ASSETS</b>		
Held In Trust Fo Pension Benefits & Other Purposes	\$ 21,281,845	

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

## KITSAP COUNTY, WASHINGTON

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Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Fiscal Year Ended December 31, 2004

	Employee Deferred <u>Compensation</u>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ -
Plan Members	2,010,309
Total Contributions	<u>2,010,309</u>
Roll-Ins	55,815
Investment Earnings	1,863,485
Total Additions	<u>3,929,609</u>
<b>DEDUCTIONS</b>	
Benefits	(1,413,066)
Others	(81,317)
Total Deductions	<u>(1,494,382)</u>
Change In Net Assets	2,435,227
Net Assets-Beginning Of The Year	18,846,618
Net Assets-End Of The Year	<u>\$ 21,281,845</u>

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

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2004

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# KITSAP COUNTY, WASHINGTON

Notes to Financial Statements  
Year Ended December 31, 2004

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

The Kitsap County's financial statements 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**

The 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 considered to be 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.

**Discretely presented component units.** Public Facility District (PFD) is governed by the seven member board appointed by the board of county commissioners. It is legally separated. The District is responsible for the construction of the Kitsap County Regional Conference Center and the County's Event Center using the sales tax revenues. PFD was created and the Kitsap county board of commissioners appointed its board members, therefore the County is financially responsible for its operations. The county financed the Public Facility District projects through an \$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. Complete financial statements may be obtained at the Kitsap County Public Facility District, C/O Anne Blair, 16550 Agate Point Road, Bainbridge Island, WA 98110

**Blended component units.** Industrial Development Corporation of Kitsap County was created and approved by the Kitsap county board of commissioners on May 17, 1999 to construct and maintain industrial facilities through out Kitsap County. All the three county commissioners are its board of directors; therefore, the county is financially responsible for the operation of the corporation. IDC sold a \$2 million non-recourse revenue bonds in 2003 which neither the County, nor IDC is responsible to repay under the loan agreement. The issuer (IDC) loaned the proceeds of the bonds to CARA Group, LLC, a Washington limited liability company (the Borrower) pursuant to a loan agreement dated March 1, 2003. The Borrower is obligated to make payments to the trustee in amount sufficient to pay the principal of and premium, if any, and interest on the Bonds, and certain other fees and expenses and to make payments sufficient to pay the purchase price of Bonds tendered or deemed tendered for purchase to the extent that other moneys are not available. The corporation did not have any activity; therefore there is nothing to report.

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

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) 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 is 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 financials 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:

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.

The **county roads fund** is used to account for the maintenance and the construction of county roads and bridges.

The **real estate excise tax fund** is used to account for the collection of real estate excise taxes to be used for capital projects.

The **mental health fund** is used to account for the funding and operation of the County's mental health programs.

The **Kitsap county administrative building fund** is used to account for the construction of the new administrative building.

The county reports the following major proprietary funds:

The **solid waste fund** is used to account for the costs of providing solid waste service to the residents of Kitsap County.

The **sanitary sewer fund** is used to account for the costs of providing sewage disposal service to the residents of Kitsap 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.

The pension and other employee benefit trust fund is used to account for the employee's deferred compensation plan, which accumulates resources for pension benefit payments to the individual contributors.

Agency funds are used to account for the funds held in trust for other entities.

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.

Indirect costs are allocated by either the number of staff, or the square footage of the office occupancy. Insurance costs are allocated by the number of staff covered, and information services costs that are not direct cost are allocated by the number of users.

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.

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

1. Capital Assets

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

2. Cash and Cash Equivalents

It is the county's policy to maximize its investment earning by investing most of the temporary cash surpluses. At December 31, 2004, the treasurer was holding \$ 83.82 million in short-term residual investments of the \$88.07 million surplus cash. This amount is a portion of cash and cash equivalents in various funds.

The interest on these investments is credited to the General fund.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during the year 2004 were approximately \$ 6.55 million.

For purposes of the statement of cash flows, the county considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

3. Investments

The investment for the government is reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws

and regulations. The reported value of the pool is the same as the fair value of the pool shares (See more information in note 4).

4. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Property Taxes Note). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2004, \$ 22,369 of special assessments receivable were delinquent.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered.

5. 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. A comparison to market value is not considered necessary.

Inventories in proprietary funds are valued at cost using the weighted average method.

6. Restricted Assets

Certain proceeds of the County's enterprise fund revenue bonds, capital project funds, and debt service funds as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of position

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.

7. 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.

**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 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."

**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	\$ 72,906,142	5,133,765	\$ 78,039,907
387	Admin Building	\$ 24,800,000	(15,800,000)	\$ 9,000,000
	Non Major funds	\$ 77,911,469	28,207,023	\$ 106,118,492
			\$ 17,540,788	

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

For the year ended December 31, 2004, expenditures exceeded appropriations in the following general fund departments:

Department	Amount
District Court	34,650
GA&O	128,022
Coroner	2,007

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

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

**A. Deposits**

The county's deposits and certificates of deposit are entirely covered by federal depository insurance or by collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. The book value does not differ materially from the bank balance of deposits.

**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 \$1,814,146.

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

Description	Category 1	Fair Value
U.S. Government & Federal Agencies	299,036,210	300,850,356
Total	\$ 299,036,210	\$ 300,850,356
Investments not subject to categorization:		
State Treasurer's Investment Pool		49,752,222
Total Investment		\$ 350,602,578

**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 2004 was 1.35647 per \$1,000 on an assessed valuation of \$17,409,450,856 for a total regular levy of \$23,643,199.

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 2004 was \$1.87292 per \$1,000 on an assessed valuation of \$10,943,328,090 for total road levy of \$20,533,277.

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 capital 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.

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 deferred revenue recognition in connection with resources that have been received, but not earned.

The County has an \$11.4 million long-term receivable due from Public Facility District, one of its component units. The County sold GO bond and gave the proceeds to the PFD and the PFD pledged its Sales tax revenue to pay the county back. The debt is carried on the County’s book and the note is reflected on the PFD books as well.

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

1. Advances to/From other funds

Advances From	Advances To	
	Non Major	Total
General Fund	460,000	\$ 460,000

2. Due from other funds/Due to other funds

Due from other funds

Due to other funds	Gen. Fund	County Roads	Mental Health	Non Major	Solid Waste	Sewer Utility	Ent. Non Major	Internal Service	Total
General Fd	0			72,666				66	72,732
County Rds	889,345	0		6,270	848	-	117	284,674	1,181,254
Mental Health	746								746
Non Major	242,939		1,440	38,150				1,892	284,421
Solid Waste	54,140	5,168			-	57,419			116,727
Sewer Utility	87,593	20,259				-	4,965	118,448	231,265
Ent. Non Major	18,837	4,187			1,032	17,922		36,577	78,555
Internal Serv.	71,372	15,306							86,678
Total	1,364,972	44,920	1,440	117,086	1,880	75,341	5,082	441,657	2,052,378

3. Transfer

**TRANSFERS-FUND FINANCIAL STATEI**

IN OUT	General Fund	County Roads	Mental Health	Non Major	Total
General Fund	-	-	7,500	1,307,223	1,314,723
County Roads	-		-	405,505	405,505
REET	-	1,003,000	-	7,947,779	8,950,779
Mental Health	-	-	-	200,000	200,000
Nonmajor	1,970,683	-	-	9,554,767	11,525,450
Solid Waste	-	-	-	272,428	272,428
Sewer	-	-	-	196,861	196,861
Nonmajor Ent	-	-	-	233,367	233,367
Int. Serv	-	-	-	148,840	148,840
Total	1,970,683	1,003,000	7,500	20,266,770	23,247,953

**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. Capital assets of Kitsap County are depreciated using the straight-line method over the following estimated useful lives:

<b>Asset Category</b>	<b>Useful Life Years</b>
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, 2004:

	<b>Beginning Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance</b>
<b>Government activities:</b>				
Assets not being depreciated				
Land	\$ 36,533,891	\$ 5,651,734	\$ -	\$ 42,185,625
Land - Infrastructure	57,987,313	1,227,138	-	\$ 59,214,451
Construction in Progress	37,134,809	19,896,614	31,559,471	\$ 25,471,952
Total	131,656,013	26,775,486	31,559,471	\$ 126,872,028
Assets being depreciated				
Buildings	76,462,844	20,294,185	280,132	\$ 96,476,897
Building Improvements	6,828,722	7,348,843	20,113	\$ 14,157,452
Infrastructure	337,805,007	12,924,454	-	\$ 350,729,461
Equipment & Machinery	36,048,691	2,024,302	1,614,099	\$ 36,458,894
Total	457,145,264	42,591,784	1,914,344	\$ 497,822,704
Total capital assets	588,801,277	69,367,270	33,473,815	\$ 624,694,732
Less accumulated depreciation				
Buildings	14,037,107	1,762,273	280,132	\$ 15,519,248
Building Improvements	3,418,611	377,366	12,341	\$ 3,783,636
Infrastructure	172,045,961	14,069,169	-	\$ 186,115,130
Equipment & Machinery	19,835,156	3,047,916	1,406,226	\$ 21,476,846
Total	209,336,835	19,256,724	1,698,699	\$ 226,894,860
Government activities capital assets, net	\$ 379,464,442	\$ 50,110,546	\$ 31,775,116	\$ 397,799,872

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

Function/Program	Amount
<b>Government activities:</b>	
General government	\$ 699,247
Judicial Services	60,461
Public safety	2,241,305
Transportation	15,413,343
Health & Human service	170,627
Economic environment	24,045
Culture & recreation	647,696
Total	\$ 19,256,724

	<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	7,690,202	12,787,980	135,740	20,342,442
Total	9,711,423	12,787,980	135,740	22,363,663
Asset being depreciated				
Building	29,548,101	164,242	-	29,712,343
Building Improvement	60,355,194	261,627	11,242	60,605,579
Equipment & Machinery	3,721,436	-	-	3,721,436
Total	93,624,731	425,869	11,242	94,039,358
Grand Total	103,336,154	13,213,849	146,982	116,403,021
Less accumulated depreciation				
Building	16,375,338	1,210,314	-	17,585,652
Building Improvement	17,533,630	2,058,903	-	19,592,533
Equipment & Machinery	3,539,374	65,118	-	3,604,492
Total	37,448,342	3,334,335	-	40,782,677
Business-type activities capital assets, net	\$ 65,887,812	\$ 9,879,514	\$ 146,982	\$ 75,620,344

#### 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, and mailing equipment. See Note 5

#### H. Commitments

The County has spent over \$7 million as of the end of the year out of the \$21 million for the construction of its new administrative building.

**NOTE 5. LONG-TERM DEBT**

In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. 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 funds 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, 2004, the debt limits for the County was as follows:

	Without a Vote	With a Vote	
		2.50%	5.00%
Legal Limit	\$ 261,141,762	\$ 435,236,271	\$ 870,472,542
Applicable Outstanding Debt	117,630,657	117,630,657	117,630,657
Margin Available	\$ 143,511,105	\$ 317,605,614	\$ 752,841,885

**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 \$107,013,728. During the year, general obligation bonds totaling \$21,200,000 were issued to refinance some of the existing debt and finance 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 & Purpose	Amount Authorized	Interest Rate(s)	Amount Outstanding
1996 Refunding	9,875,000	3.6/5.7%	8,245,000
1999 - Open space purchase	5,100,000	4.0/4.9%	3,975,000
1999B - Purchase of 911 equipment	10,680,000	4.25/5.30%	7,225,000
2000 - Addition to the Jail	20,000,000	4.3/5.5%	18,270,000
2001 Refunding	11,215,000	4.0/5.0%	8,655,000
2002A - Special Event & Convention Ce	11,395,000	4.3/5.375%	11,395,000
2002B - 911 Center	10,840,000	3.5/4.0%	4,685,000
2003 - Public Works Annex	10,250,000	2.0/4.875%	9,715,000
2003B - Administrative Building	17,805,000	2.0/4.75%	17,470,000
2004 - Gen. Govt. - Refunding	20,664,719	3.0/5.0%	20,664,719
2004 - Bus.-type - Refunding	535,281	3.0/5.0%	535,281
Total	\$128,360,000		\$ 110,835,000

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
2005	\$ 7,217,692	\$ 4,776,902	\$ 102,308	\$ 8,312
2006	6,963,290	4,861,212	101,710	15,660
2007	4,754,572	4,580,350	110,428	11,591
2008	5,102,760	4,380,062	107,240	7,174
2009	5,281,405	4,164,919	113,595	3,692
2010 - 2014	22,155,000	17,479,405	-	-
2015 - 2019	22,880,000	12,315,369	-	-
2020 - 2024	23,420,000	6,536,579	-	-
2025 - 2029	12,525,000	1,443,745	-	-
Total	\$ 110,299,719	\$ 60,538,543	\$ 535,281	\$ 46,429

As of December 31, 2004 the County had \$135,000 outstanding in special assessment debt to provide funds for the construction of streets in new residential developments. The bonds will be repaid from amounts levied against the property owners benefited by this construction. 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.

**Special Assessments**

Year Ending December 31	Governmental Activities	
	Principal	Interest
2005	\$ -	\$ 7,175
2006	-	7,175
2007	-	7,175
2008	-	7,175
2009	-	7,175
2010 - 2014	135,000	18,393
Total	\$ 135,000	\$ 54,268

**B. Revenue bonds**

The County also issues bonds where the county pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

Issued Name & Purpose	Original Issued Amt.	Interest Rate(s)	Amount Outstanding
Sewer 1995	5,280,000	4.10/5.85%	780,000
Sewer 1996	20,515,000	4.40/5.75%	15,185,000
Sewer 1999	11,010,000	4.00/5.10%	8,575,000
Sewer Refunding 2001	13,075,000	3.50/5.625%	13,075,000
D.O.E. Loan #L99900039	160,000	0.00%	37,221
D.O.E. Loan #L0400026	14,188,000	1.50%	8,364,442
PWTF Loan #PW-01-791-036	2,605,000	0.50%	349,619
Total	\$ 66,833,000		\$ 46,366,282

Annual debt service requirements for revenue bonds are as follows:

**Revenue Bond**

Year Ending December 31	Business-type Activities	
	Principal	Interest
2005	\$ 1,815,380	\$ 1,941,222
2006	2,396,836	2,172,454
2007	15,526,070	1,194,828
2008	2,305,820	1,126,736
2009	2,380,716	1,054,430
2010 - 2014	13,232,342	3,914,336
2015 - 2019	8,667,986	990,372
2020 - 2024	41,132	308
Total	\$ 46,366,282	\$ 12,394,686

**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, and proprietary 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**

Capital Leases

The county has entered into lease agreements as lessee for financing the acquisition of phone system, and mailing system for the county. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Machinery & equipment	\$ 742,478
Less: Accumulated depreciation	(564,924)
Total	<u>\$ 177,554</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2004, were as follows:

Year Ending Dec. 31	Governmental Activities
2005	59,843
2006	59,228
2007	58,000
Total minimum lease payments	<u>177,071</u>
Less: amount representing interest	<u>(226)</u>
PV of minimum lease payments	<u>\$ 176,845</u>

Notes Payable

The County has a Note Payable of \$5.574 million due to the Kitsap County Consolidated Housing Authority from the purchase of part of the Norm Dick's Government Center. The County has since sold a portion of the property to the Kitsap County Health District. The County signed a \$5.475 Million note with the Kitsap County Health District, which will be used to repay the Kitsap County Consolidated Housing Authority.

**E. Changes in long-term liabilities**

Long-term liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Bond payables:					
General obligation bonds	\$ 99,341,389	\$ 20,664,719	\$ 9,706,389	\$ 110,299,719	\$ 7,217,692
Special assessment debt	170,000	-	35,000	135,000	-
Total bond payable	99,511,389	20,664,719	9,741,389	110,434,719	7,217,692
Capital leases	237,346	-	60,501	176,845	59,663
Internal services lease	43,711	-	43,711	-	-
Compensated absences	3,831,093	12,514	-	3,843,607	628,261
Internal services comp.	130,298	-	8,194	122,104	4,913
Notes Payable	5,624,000	-	50,000	5,574,000	199,000
Other liabilities	1,133,671	-	88,860	1,044,811	88,859
Governmental-activities Long-term liabilities	<u>\$ 110,511,508</u>	<u>\$ 20,677,233</u>	<u>\$ 9,992,655</u>	<u>\$ 121,196,086</u>	<u>\$ 8,198,388</u>
<b>Business-type activities</b>					
Bond payable:					
General obligation bonds	\$ 633,611	\$ 535,281	\$ 633,611	\$ 535,281	\$ 102,308
Revenue bonds	40,320,000	-	2,705,000	37,615,000	1,770,000
Total bond payable	40,953,611	535,281	3,338,611	38,150,281	1,872,308
Other liabilities	432,220	8,364,442	45,380	8,751,282	45,380
Compensated absences	348,647	6,924	-	355,571	44,046
Business-type activities Long-term liabilities	<u>\$ 41,734,478</u>	<u>\$ 8,906,647</u>	<u>\$ 3,383,991</u>	<u>\$ 47,257,134</u>	<u>\$ 1,961,734</u>
Total	<u>\$ 152,245,986</u>	<u>\$ 29,583,880</u>	<u>\$ 13,376,646</u>	<u>\$ 168,453,220</u>	<u>\$ 10,160,122</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these 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.

All bond issues comply with arbitrage regulations as verified by an outside consultant Arbitrage Compliance Specialists, Inc. Five-year reports are prepared as required.

**NOTE 6. PENSION PLANS**

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 1,168 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	65,362
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	20,001
Active Plan Members Vested	100,469
Active Plan Members Nonvested	54,081
Total	239,913

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, 2004, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	1.38%	1.38%	1.38%**
Employee	6.00%	1.18%	***

\*The employer rates include the employer administrative expense fee currently set at 0.19%.  
 \*\* 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
2004	\$ 63,952	\$ 569,668	\$ 86,049
2003	\$ 66,159	\$ 527,839	\$ 54,930
2002	\$ 78,196	\$ 589,879	\$ 3,307

**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 368 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	8,370
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	453
Active Plan Members Vested	11,548
Active Plan Members Nonvested	4,003
Total	24,374

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, 2004, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.19%	3.25%**
Employee	0.00%	5.09%
State	N/a	2.03%

\*The employer rates include the employer administrative expense fee currently set at 0.19%.

\*\* The employer rate for ports and universities is 5.28%

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
2004	\$ 608	\$ 223,988
2003	\$ 605	\$ 200,857
2002	\$ 844	\$ 177,842

**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 42 participants eligible to receive these benefits. In 2004, expenditures of \$426,900 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 values of the plans are as follows:

<u>Investment company</u>	<u>Fair Value</u>
PEBSCO	\$ 12,773,502
Aetna	4,593,206
Hartford	3,740,242
ICMA	174,895
Total	<u>\$ 21,281,845</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. The settlements did not exceed the insurance coverage for any of the programs in the last three years.

**Workers compensation**

The County assumes risk for Workers compensation as allowed by the State statute up to \$400,000 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, which are

performed every two years. As of December 31, 2003, the County's estimated total undiscounted outstanding liability for the workers' compensation program is approximately \$2,119,116. It is funded at less than 60% confidence level. The County is planning to bring the confidence level to a 60% confidence level over the next three years.

Eberle Vivian, Self-insurance Administrator, is an independent adjusting firm that processed the Kitsap county workers' compensation claims through the middle of 2004. Starting July 2004, Kitsap County started administering its own workers compensation program.

<b>Workers Compensation</b>	Year ended	
	31-Dec-03	31-Dec-04
Unpaid claims, beginning of fiscal year	\$ 1,486,363	\$ 1,486,363
Incurred claims (including IBNRs)	800,000	800,000
Claim payments	(167,247)	(167,247)
Unpaid claims, end of fiscal year	\$ 2,119,116	\$ 2,119,116

<b>General Liability</b>	Year ended	
	31-Dec-03	31-Dec-04
Unpaid claims, beginning of fiscal year	\$ 1,875,843	\$ 2,569,655
Incurred claims (including IBNRs)	716,000	(68,405)
Claim payments	(22,188)	(53,109)
Unpaid claims, end of fiscal year	\$ 2,569,655	\$ 2,448,141

**General liability**

The County has \$20,000,000 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 \$100,000 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.

As of the December 31, 2004, the County acts as guarantor of several Kitsap County Consolidated Housing Authority's bond issues. There is an outstanding balance of \$29.898 million as of December 31, 2004.

The County has also agreed to provide a similar guaranty for a \$5.4 million bond to KCCHA to acquire and rehabilitate a motel facility into a 32 one-bedroom apartments and commercial space as part of low cost housing program for the elderly.

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 County forgave the collection of \$1.98 million in Sewer special assessment due from McCormick Land Company because of an agreement made in 1996.

The capital asset in the Internal Service fund was double counted in the prior years amounting to \$3.28 million. Public Facility District is classified as component unit and the debt agreement between the Public Facility District and the County for \$11.4 million is recorded as long-term receivable in the General Fund.

#### **C. Subsequent Events**

2005 Refunding Bonds: The County sold an \$18.995 million in limited tax general obligation refunding bond in April 2005 to refund the 1999B Refunding Bonds and the 2000 Limited Tax General Obligation Bonds.

Harborview Condominium: The County has passed a resolution to act as guarantor for \$22.4 million, a portion of the estimated approximately \$50 million, for the cost of constructing downtown Bremerton residential condominiums by the Kitsap County Consolidated Housing Authority (KCCHA).

#### **D. Special Item**

The County spent \$12.35 million to purchase 50% of the government center in Bremerton in 2003. In July 2004, the County sold 80% of its interest to the Health District for \$6.53 million. This transaction results in additional contribution (loss) to the Health District for \$3.35 million.