



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Washington State Auditor Brian Sonntag

June 30, 2008

Board of Directors/Commissioners
Kitsap County
Port Orchard, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Kitsap County, Washington, as of and for the years ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our 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 opinions.

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 activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Kitsap County, Washington, as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, County Roads, Real Estate Excise Tax and Mental Health funds for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 16, during the year ended December 31, 2007, the County has implemented the Governmental Accounting Standards Board's Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

The management's discussion and analysis on pages 2 through 12 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 County's basic financial statements. The accompanying information listed as Combining and Individual Fund Statements and Schedules on pages 65 through 203 and Supplementary Schedules on pages 212 through 218 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is 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 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,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

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MANAGEMENT'S DISCUSSION & ANALYSIS

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, 2007. 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 section II 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 \$525.15 (net assets). Of this amount, \$127.90 (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 \$13.23, with \$9.38 on the Governmental side and \$3.85 on the Business-Type side. A portion of the increase on the Governmental side was attributed to the continued investment in infrastructure, increasing fixed assets by \$2.88. While most of the increase on the Business-Type side was attributed paying off portions of non-current debt \$2.27.
- As of the close of the current fiscal year, the Kitsap County governmental funds reported combined ending fund balances of \$95.85, an increase of \$.26 over the prior year. Approximately \$84.27 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 \$9.31, or 10.5 percent of the total general fund expenditures.
- The Kitsap County's total general obligation debt decreased by \$5.57 (5.2 percent) during the current fiscal year. This represented 2007 principle payments and no new bonds.

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 13-14 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 ninety-four 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 home entitlement, all of which are considered major funds. Data from the other eighty-nine 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 all its funds. A budgetary comparison statement has been provided for each of the major funds to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 17 – 27 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, and fleet of equipment. 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 and Surface Water Utility, 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 – 32 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 33 – 34 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 35 – 63 of this report.

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 61 – 202 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 \$525.40 at

the close of the most recent fiscal year. The County's fiscal condition remains stable and relatively better than last year.

The largest portion of Kitsap County's net assets (71 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.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2007	2006	2007	2006	2007
Assets:						
Current assets	113.01	117.70	62.72	65.64	175.73	183.34
Capital assets	443.34	446.22	75.02	73.92	518.36	520.14
Total assets	556.35	563.92	137.74	139.56	694.09	703.48
Liabilities						
Other liabilities	26.63	30.04	4.54	4.90	31.17	34.94
Long-term liabilities	119.24	114.02	31.76	29.36	151.00	143.38
Total liabilities	145.87	144.06	36.30	34.26	182.17	178.32
Net assets						
Invested in capital	319.47	327.90	41.41	42.02	360.88	369.92
Restricted	21.20	16.53	14.09	11.80	35.29	28.33
Unrestricted	69.80	75.42	45.94	51.48	115.74	126.90
Total net asset	\$ 410.47	\$ 419.85	\$ 101.44	\$ 105.30	\$ 511.91	\$ 525.15

An additional portion of the Kitsap County's net assets (5.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$126.90) 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 \$13.24 during the current fiscal year. The increase was mostly due to continued investment in fixed assets as well as influx of state federal assistance. Refer to the notes to the financial statements (Note 7) for a more in depth discussion of capital assets.

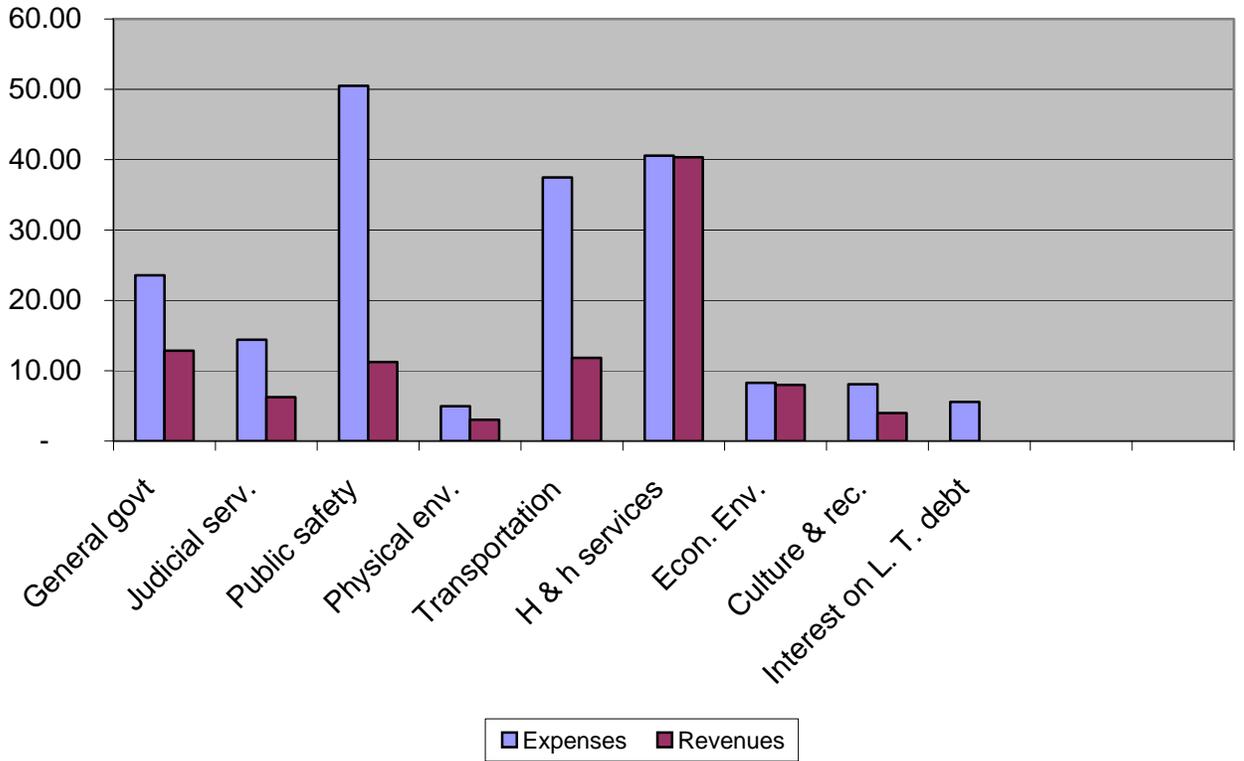
The government's restricted net asset decreased by 20% (from \$35.30 to \$28.33) and the unrestricted increased by 9.6% (from \$115.74 to \$126.90).

Governmental activities. Governmental activities increased the County's net assets by \$9.39. The key elements of this net change are as follows:

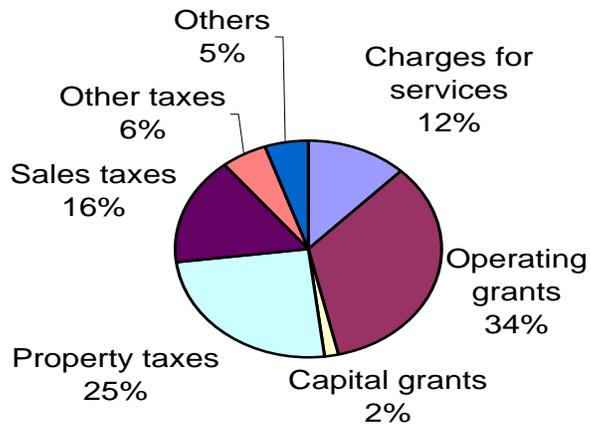
Revenues:	Governmental Activities		Business-type Activities		Total Primary government	
	2006	2007	2006	2007	2006	2007
Program revenues						
Charges for services	\$ 20.84	\$ 24.47	\$ 33.06	\$ 34.44	\$ 53.90	\$ 58.91
Operating grants	59.21	69.46	-	-	59.21	69.46
Capital grants	4.25	3.54	0.56	1.82	4.81	5.36
Fines & forfeits				-	-	-
General revenues						
Property taxes	46.69	50.64		-	46.69	50.64
Sales taxes	31.36	32.26		-	31.36	32.26
Other taxes	14.55	11.44		-	14.55	11.44
Investment earning	5.16	6.45	2.83	3.38	7.99	9.83
Other income	2.86	4.15	0.10	0.13	2.96	4.28
Total revenues	184.92	202.41	36.55	39.77	221.47	242.18
Expenses						
General government	22.85	23.57	-	-	22.85	23.57
Judicial services	13.80	14.39	-	-	13.80	14.39
Public safety	45.59	50.52	-	-	45.59	50.52
Physical environment	2.61	4.96	-	-	2.61	4.96
Transportation	37.96	37.48	-	-	37.96	37.48
Health & human services	34.84	40.58	-	-	34.84	40.58
Economic environment	9.04	8.27	-	-	9.04	8.27
Culture & recreation	9.03	8.07	-	-	9.03	8.07
Interest on LT debt	5.11	5.56	-	-	5.11	5.56
Utilities	-	-	32.78	35.53	32.78	35.53
Others	-	-	0.01	0.01	0.01	0.01
Total expenses	180.83	193.40	32.79	35.54	213.62	228.94
Inc in net assets before transfers	4.09	9.01	3.76	4.23	7.85	13.24
Special items - gain (loss)	-	-	-	-	-	-
Transfers	0.29	0.38	(0.29)	(0.38)	-	-
Increase in net assets	4.38	9.39	3.47	3.85	7.85	13.24
Beginning Net assets	406.09	410.47	98.15	101.44	504.24	511.91
Prior period adjustments	0	0	(0.18)	-	(0.18)	-
Ending Net assets	\$410.47	\$419.86	\$101.44	\$105.29	\$511.91	\$525.15

- Property taxes increased by \$2.52 (5.24 percent) during the year. Most of this increase is tax collection on new homes for roads in the unincorporated area of the county in 2007. In addition, \$1.43 million in diverted property taxes was classified as Other Taxes in 2006. The reclassification of these taxes to Property Taxes is responsible for the other increase of 3% in this account.
- Other Taxes appeared to drop by 21.4%, however 10% of that drop was caused by the reclassification mentioned in the previous bullet. In addition 9.6% of the drop was caused by the decrease in Real Estate Excise Tax, the result of a slowing housing market.
- Operating grants for government activities increased by \$10.25 including \$4.6 in Mental Health Services, \$1 in Employment Training, \$2.98 in Parks and Recreation and \$2.3 related to Physical Environment.

Expenses and Program Revenues - Governmental Activities



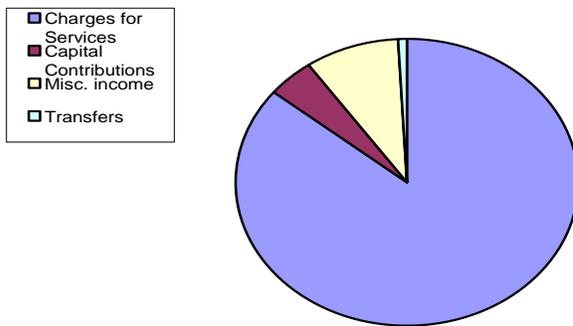
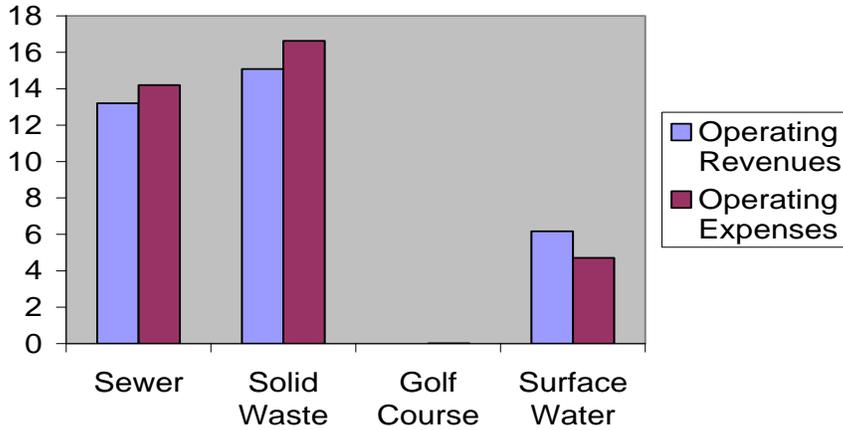
Revenues by Source – Governmental Activities



Business-type activities. The business-type activities increased the County’s net assets by \$3.85, accounting for part of the total growth in the government’s net assets. Key elements of this increase are as follows:

- Decrease in the balance of long-term debt as the County continued to pay down balances while not adding any new debt, dropped long-term liabilities \$2.27.

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 \$95.85, an increase of \$.26 in comparison with the prior year.

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 \$9.31, while the total fund balance increased to \$20.89. 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 10.5 percent of the total general fund expenditures, while total fund balance represents 23.5 percent of that same amount.

The fund balance of Kitsap County's general fund increased by \$.28 during the current fiscal year. The key factor in this increase was the County took steps to limit increases in expenditures while looking for ways to increase revenues.

County road fund balance decreased by \$1.28 due as labor and materials costs continue to exceed incoming revenues.

Real Estate Excise Tax fund balance increased slightly from \$8.93 in 2006 to \$9.15 in 2007 due to continued home sales in the county.

The Mental Health fund balance increased from \$2.21 to \$3.56 due the timing of the receipt of state and federal grant funds.

The debt service funds have a total fund balance of \$1.78, 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 \$11.80, and unrestricted net assets of sewer were \$17.32, Solid Waste amounted to \$25.52, while the Surface Water was \$8.46 and Village Green Golf Course was \$0.18

General Fund budgetary Highlights

GENERAL FUND BUDGETARY HIGHLIGHTS:

Actual General Fund revenues exceeded original budgeted revenues by \$4.14 during fiscal year 2007. This increase is due in part to increased sales tax, intergovernmental revenues and investment earnings.

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. The county received about \$1.32 more in investment earnings than budgeted. In addition, Retail sales and use taxes exceeded the original budget by \$.97. The county also received \$1.94 more in state and federal funding than the original budget.

During the year there was a \$1.14 increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$.77 additional appropriation to Sheriffs Office to enable the hiring of additional officers as well as increasing services.
- \$.36 additional appropriation to the Prosecutor’s Office to help protect the public.

The actual expenditures of the general fund came in well under the final budget total of \$93.40, with a total of \$89.76.

Capital Assets

At the end of the fiscal year 2007, the Kitsap County investment in capital assets for its governmental activities is \$708.59 as reflected in the following schedule, which represents a net increase of \$23.21 or 3.4 percent from last year.

Governmental activities

Change in Capital Assets (millions)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	52.57	50.65	2.02	2.02	54.59	52.67
Infrastructure	432.95	419.03	0	0	432.95	419.03
Building	121.25	119.84	43.03	43.03	164.28	162.87
Building Improv	23.50	21.19	66.03	66.03	89.53	87.22
Machinery & Equipment	51.39	47.86	7.11	7.11	58.5	54.97
Construction in progress	26.93	26.81	8.95	5.20	35.88	32.01
Total	708.59	685.38	127.14	123.39	835.73	808.77
Less Accumulated depreciat	283.3	262.96	53.22	48.39	336.52	311.35
	\$ 425.29	\$ 422.42	\$ 73.92	\$ 75.00	\$ 499.21	\$ 497.42

The following are the major additions to the Capital Assets for Governmental Activities:

- Various infrastructure projects were completed during the year at a cost of \$13.92
- The county purchased 140 acres for open space and future parks for \$1.18
- The county updated the Equipment Rental Fleet purchasing 16 pickups, 30 patrol vehicles, 2 sweeper, 1 sedan, 1 van, 2 striper trucks, 1 forklift, 3 pavement machines, 1 trailers for \$2.80
- Park, ball field and fairground improvements completed at a cost of \$1.91
- Restoration of Sinclair Inlet at a cost of \$2.05
- Central Communications public safety radio system for \$1.30

Business-type activities. Additions by the county in this area were limited to Construction in Progress of several sewer related projects with 2007 expenses totaling \$3.7.

Long-term Debt

At year-end, the County had \$152.36 in long-term debt versus \$159.49 last year, a net decrease of \$7.13 and 4.5 percent.

Outstanding Debt, at Year-End

Government activities:	2006	Addition	Deletion	2007
Bond Payable	\$ 114.34	\$ -	\$ 5.55	\$ 108.79
Special assessment	0.07	-	0.02	0.05
Comp	4.57	4.07	3.82	4.82
Int. serv. Debt	0.15	0.19	0.16	0.18
Leases	0.08	-	0.08	-
Notes Payable	5.27	0.08	0.11	5.24
Net OPEB Obligation	-	0.76		0.76
Others	0.97	-	0.18	0.79
Total	125.45	5.10	9.92	120.63
Enterprise activities:				
Bond Payable	21.05	-	1.67	19.38
Comp	0.43	0.44	0.43	0.44
Others	12.56	-	0.65	11.91
Total	34.04	0.44	2.75	31.73
Total Debt	\$ 159.49	\$ 5.54	\$ 12.67	\$ 152.36

See Note 10 for more detail on Long-term debt.

There were no major additions to long-term debt in 2007.

The Standard and Poor's Corporation and Moody's Investors Service rate the Kitsap County's debt as a double-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 \$313.65 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 (Note 9).

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 Dave Schureman, Financial Services Manager
Kitsap County Auditor's Office
619 Division Street, MS-31
Port Orchard, Washington, 98366.
Telephone (360) 337-7132 or visit the County's web site at www.kitsapgov.com



BASIC FINANCIAL STATEMENTS

KITSAP COUNTY, WASHINGTON

Statement of Net Assets

December 31, 2007

	Governmental Activities	Business-type Activities	Total	Component Unit PFD
ASSETS				
Cash and Cash equivalents	\$ 58,156,926	\$ 6,741,431	\$ 64,898,357	19,763
Deposits with fiscal agents	58,889	-	58,889	-
Investments	29,469,787	45,294,480	74,764,267	2,129,618
Receivables(net)				
Property taxes	2,475,525	-	2,475,525	-
Special assessments	69,467	3,983	73,450	-
Accounts	641,242	1,971,455	2,612,697	-
Others	20,807	-	20,807	-
Internal balances	672,852	(672,852)	0	-
Due from other governments	11,467,207	276,941	11,744,148	-
Prepayments	321,760	-	321,760	-
Inventories	1,270,962	227,805	1,498,767	-
Restricted assets:				
Cash and cash equivalents	1,410,463	1,267,211	2,677,674	-
Deposits with fiscal agents	25,000	-	25,000	-
Investments	11,638,532	10,533,552	22,172,084	-
Notes/Contracts	9,531,925	-	9,531,925	-
Long-term Receivable from Comp. Unit	11,395,000	-	11,395,000	-
Capital assets, net (Note1)				
Land	52,570,502	2,021,221	54,591,723	-
Infrastructure	205,997,291	-	205,997,291	-
Buildings	98,467,410	20,586,536	119,053,946	-
Improvements & Other Buildings	16,993,122	39,992,694	56,985,816	-
Machinery & Equipment	24,335,564	2,373,844	26,709,408	-
Construction In Progress	26,929,494	8,946,707	35,876,201	-
Total assets	<u>563,919,726</u>	<u>139,565,007</u>	<u>703,484,735</u>	<u>2,149,381</u>
LIABILITIES				
Accounts payable and accrued expenses	7,277,753	1,842,703	9,120,456	-
Due to other governments	983,355	193,074	1,176,429	-
Other liabilities	6,879,862	507,499	7,387,361	-
Unearned revenue	8,286,442	-	8,286,442	-
Non current Liabilities (Note 2):				
Due within one year	6,617,344	3,055,703	9,673,047	380,000
Due in more than one year	114,017,782	28,669,487	142,687,269	11,015,000
Total liabilities	<u>144,062,539</u>	<u>34,268,466</u>	<u>178,331,004</u>	<u>11,395,000</u>
NET ASSETS				
Invested in capital assets, net of related debt	327,899,219	42,019,753	369,918,972	-
Restricted:				
Capital Projects	14,753,569	-	14,753,569	-
Debt service	1,777,303	11,800,763	13,578,066	-
Unrestricted	75,427,097	51,476,026	126,903,123	(9,245,619)
Total net assets	<u>\$ 419,857,187</u>	<u>\$ 105,296,542</u>	<u>\$ 525,153,729</u>	<u>\$ (9,245,619)</u>

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

KITSAP COUNTY, WASHINGTON

Statement of Activities

For the Year Ended December 31, 2007

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	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities								
General Government	\$ 23,571,101	\$ 8,734,219	\$ 4,107,404	\$ -	\$ (10,729,478)	\$ -	\$ (10,729,478)	\$ -
Judicial Services	14,387,643	4,617,248	1,623,217	-	(8,147,178)	-	(8,147,178)	-
Public Safety	50,514,529	1,466,086	9,778,340	-	(39,270,103)	-	(39,270,103)	-
Physical Environment	4,956,038	676,326	2,345,708	-	(1,934,004)	-	(1,934,004)	-
Transportation	37,485,072	2,267,996	6,011,433	3,540,027	(25,665,616)	-	(25,665,616)	-
Health & Human Services	40,584,956	380,350	39,966,956	-	(237,650)	-	(237,650)	-
Economic Environment	8,276,055	5,329,367	2,657,307	-	(289,381)	-	(289,381)	-
Culture & Recreation	8,074,950	997,218	2,982,151	-	(4,095,580)	-	(4,095,580)	-
Interest on Long-term Debt	5,563,212	-	-	-	(5,563,212)	-	(5,563,212)	-
Total Governmental Activities	<u>193,413,556</u>	<u>24,468,810</u>	<u>69,472,516</u>	<u>3,540,027</u>	<u>(95,932,203)</u>	<u>0</u>	<u>(95,932,203)</u>	<u>-</u>
Business-type Activities								
Solid Waste	16,626,758	15,083,454	-	-	-	(1,543,304)	(1,543,304)	-
Sewer Utility	14,197,517	13,190,873	-	1,824,062	-	817,418	817,418	-
Surface Water	4,710,670	6,167,339	-	-	-	1,456,669	1,456,669	-
Golf	7,285	-	-	-	-	(7,285)	(7,285)	-
Total business-type activities	<u>35,542,230</u>	<u>34,441,666</u>	<u>-</u>	<u>1,824,062</u>	<u>-</u>	<u>723,498</u>	<u>723,498</u>	<u>-</u>
Total Primary Government	<u>\$ 228,955,786</u>	<u>\$ 58,910,476</u>	<u>\$ 69,472,516</u>	<u>\$ 5,364,089</u>	<u>(95,932,203)</u>	<u>723,498</u>	<u>(95,208,705)</u>	<u>-</u>
Component Units:								
Public Facility District(PFD)	1,131,303	-	907,148	-	-	-	-	(224,155)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					50,637,210	-	50,637,210	-
Property taxes, levied for debt service					-	-	-	-
Sales & use taxes					32,269,799	-	32,269,799	1,256,598
Other taxes					11,439,961	-	11,439,961	-
Investment earnings					6,440,220	3,042,031	9,482,251	55,529
Miscellaneous					4,146,848	471,120	4,617,968	-
Special item - gain(loss) on sale of capital assets					-	-	-	-
Transfers					383,395	(383,395)	-	-
Total general revenues, special items, and transfers					<u>105,317,432</u>	<u>3,129,756</u>	<u>108,447,188</u>	<u>1,312,127</u>
Change in net assets					9,385,229	3,853,254	13,238,483	1,087,972
Net assets - beginning					410,471,960	101,443,289	511,915,249	(10,333,592)
Prior Period Adjustments					-	-	-	-
Net assets - ending					<u>\$ 419,857,187</u>	<u>\$ 105,296,542</u>	<u>\$ 525,153,728</u>	<u>\$ (9,245,619)</u>

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

FUND FINANCIAL STATEMENTS

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

- Balance Sheet – Governmental Funds
- Statement of Revenues Expenditures and Changes in Fund Balances – Governmental Funds.
- Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statements of Activities
- Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund and Major Special Revenues Funds
- 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

The following funds have been identified as Major funds for Kitsap County:

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 account for in another fund.

County Roads – A fund used for the maintenance and the construction of county roads and bridges.

Real Estate Excise Tax – A fund used to account for the collection and spending of excise tax.

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

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.

Surface Water Utility – A fund used to account for the costs of the Surface Water Utility service to residents of Kitsap County.

KITSAP COUNTY, WASHINGTON

Balance Sheet
Governmental Funds
December 31, 2007

	Special Revenue Funds			
	General Fund	Road Department	Real Estate Excise Tax	Mental Health
ASSETS				
Cash and Cash equivalents	\$ 8,702,028	\$ 14,895,897	\$ 859,693	\$ 3,229,880
Deposits with fiscal agents	-	-	58,889	-
Investments	-	6,886,488	8,233,585	514,285
Receivables(net)	-	-	-	-
Property Taxes	1,425,877	956,666	-	-
Special assessments	-	1,622	-	-
Accounts	659,824	-	-	-
Notes/Contracts	11,395,000	-	5,167,500	-
Others	15,746	-	-	-
Due from other funds	1,476,502	430,387	-	-
Due from other governments	924,859	1,806,048	-	2,212,548
Interfund loan receivable	-	-	-	-
Prepayments	22,200	-	-	-
Advance to other funds	160,000	500,000	-	-
Total assets	\$ 24,782,037	\$ 25,477,108	\$ 14,319,666	\$ 5,956,713
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	970,285	779,242	-	2,345,093
Due to other funds	3,748	2,120,352	-	-
Due to other governments	168,323	-	-	40,402
Other liabilities	1,376,048	329,522	-	15,471
Advance from other fund	-	-	-	-
Revenues collected in advance	14,284	-	-	-
Deferred revenue	1,359,447	958,288	5,167,500	-
Long term debt due within one year	-	-	-	-
Total liabilities	3,892,135	4,187,404	5,167,500	2,400,965
Fund balances				
Reserved:				
Prepayments	22,200	-	-	-
Advance/Receivable	11,555,000	-	-	-
Debt service	-	-	-	-
Unreserved:				
General fund	9,312,702	-	-	-
Special revenues	-	21,289,705	9,152,166	3,555,748
Debt services	-	-	-	-
Capital projects funds	-	-	-	-
Total fund balance	20,889,902	21,289,705	9,152,166	3,555,748
Total liabilities & fund balances	\$ 24,782,037	\$ 25,477,108	\$ 14,319,666	\$ 5,956,713

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

Balance Sheet
 Governmental Funds
 December 31, 2007

	Other Governmental Funds	Total Governmental Funds
ASSETS		
Cash and Cash equivalents	\$ 11,930,791	\$ 39,618,288
Deposits with fiscal agents	25,000	83,889
Investments	25,473,961	41,108,319
Receivables(net)	-	-
Property Taxes	92,981	2,475,525
Special assessments	67,844	69,467
Accounts	(18,582)	641,242
Notes/Contracts	4,364,425	20,926,925
Others	5,061	20,807
Due from other funds	1,124,756	3,031,646
Due from other governments	6,523,751	11,467,207
Interfund loan receivable	-	-
Prepayments	-	22,200
Advance from other funds	-	660,000
Total assets	\$ 49,589,989	\$ 120,125,514
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	2,426,048	6,520,668
Due to other funds	1,209,552	3,333,652
Due to other governments	774,630	983,355
Other liabilities	224,144	1,945,185
Advance from other fund	660,000	660,000
Revenues collected in advance	25,000	39,284
Deferred revenues	3,306,915	10,792,150
Long term debt due within one year	-	-
Total liabilities	8,626,289	24,274,294
Fund Balances		
Reserved:		
Prepayments	-	22,200
Advance/receivable	-	11,555,000
Debt service	-	-
Unreserved:		
General fund	-	9,312,702
Special revenues	24,432,829	58,430,448
Debt services	1,777,303	1,777,303
Capital projects funds	14,753,569	14,753,569
Total fund balances	40,963,701	95,851,221
Total liabilities and fund balances	\$ 49,589,989	\$ 120,125,514

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, 2007

Fund balances of governmental funds - page 18		\$ 95,851,221
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	708,591,740	
Depreciation	(283,298,357)	
Capital asset net of depreciation		425,293,383
Long term debt and compensated absences that have not been included in the governmental fund activity.		
Bond payable	108,834,164	
Compensated absences	4,826,018	
Capital lease	-	
Other long-term liabilities	6,794,282	
Long-term debt		(120,454,464)
Other assets not available to pay for current-period expenditures and, therefore, are deferred in the funds.		2,543,633
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	22,598,988	
Liabilities	(5,724,780)	
Uses Other than Operations	(250,792)	
Asset less liabilities		16,623,416
Net assets of governmental activities - page 13		<u><u>\$ 419,857,187</u></u>

Statement of Revenue, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2007

	Special Revenue Funds			
	General Fund	County Roads	Real Estate Excise Tax	Mental Health
REVENUES:				
Property taxes	\$ 26,964,263	\$ 21,566,580	\$ -	\$ 457,449
Retail sales & use taxes	24,471,113	-	-	-
Other taxes	4,199,689	49,500	5,612,390	-
Licenses and permits	3,166,325	102,429	-	-
Intergovernmental	10,174,337	9,524,463	-	25,872,184
Charges for services	11,445,466	482,360	-	-
Fines & forfeits	2,676,289	-	-	-
Investment earnings	3,551,366	442,768	697,862	14,285
Miscellaneous	866,865	88,832	207,500	636,447
Total revenues	87,515,713	32,256,932	6,517,752	26,980,365
EXPENDITURES:				
Current:				
General government	24,707,980	-	24,968	-
Judicial Services	14,225,561	-	-	-
Public safety	35,009,403	-	-	-
Physical Environment	2,509,767	-	-	-
Transportation	-	21,957,374	-	-
Health & Human Services	-	-	-	25,644,446
Economic Environment	5,371,204	-	-	-
Culture & recreation	6,028,929	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	-	78,912	90,633	-
Interest and other charges	-	6,710	217,550	-
Capital outlay	578,942	11,315,128	-	-
Total expenditures	88,431,786	33,358,124	333,151	25,644,446
Excess(deficiency) of revenues over expenditures	<u>(916,073)</u>	<u>(1,101,192)</u>	<u>6,184,601</u>	<u>1,335,919</u>
OTHER FINANCING SOURCES (USES):				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Premiums on bonds	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	2,523,201	2,027,342	-	7,500
Transfers out	(1,325,305)	(2,206,158)	(5,961,781)	-
Other adjustments	-	-	-	-
Total other financing sources & uses	1,197,896	(178,816)	(5,961,781)	7,500
Net change in fund balance	281,823	(1,280,008)	222,820	1,343,419
Fund balances-beginning	20,608,076	22,569,712	8,929,346	2,212,329
Prior period adjustments	-	-	-	-
Fund balances-ending	\$ 20,889,902	\$ 21,289,705	\$ 9,152,166	\$ 3,555,748

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, 2007

	Other Governmental Funds	Total Governmental Funds
REVENUES:		
Property taxes	\$ 1,648,918	\$ 50,637,210
Retail sales & use taxes	7,798,686	32,269,799
Other taxes	1,578,382	11,439,960
Licenses and permits	17,041	3,285,795
Intergovernmental	27,441,557	73,012,542
Charges for services	3,256,942	15,184,768
Fines & forfeits	846,434	3,522,723
Investment earnings	1,733,938	6,440,220
Miscellaneous	2,277,709	4,077,353
Total revenues	<u>46,599,607</u>	<u>199,870,369</u>
EXPENDITURES:		
Current:		
General government	2,107,161	26,840,108
Judicial Services	141,525	14,367,086
Public safety	10,780,151	45,789,554
Physical Environment	2,446,272	4,956,039
Transportation	166,601	22,123,975
Health & Human Services	14,789,123	40,433,569
Economic Environment	2,888,910	8,260,114
Culture & recreation	914,585	6,943,514
Interest on long-term debt	-	-
Debt service	-	-
Principal	5,574,572	5,744,117
Interest and other charges	5,342,892	5,567,152
Capital outlay	7,119,636	19,013,706
Total expenditures	<u>52,271,428</u>	<u>200,038,934</u>
Excess(deficiency) of revenues over expenditures	<u>(5,671,821)</u>	<u>(168,566)</u>
OTHER FINANCING SOURCES (USES):		
Refunding bonds issued	-	-
Capital -related debt issued	-	-
Premiums on bonds	-	-
Sale of capital assets	27	27
Transfers in	13,885,492	18,443,536
Transfers out	(8,521,914)	(18,015,158)
Other adjustments	-	-
Total other financing sources & uses	<u>5,363,606</u>	<u>428,405</u>
Net change in fund balance	<u>(308,214)</u>	<u>259,842</u>
Fund balances-beginning	41,271,915	95,591,378
Prior period adjustments	-	-
Fund balances-ending	<u>\$ 40,963,701</u>	<u>\$ 95,851,220</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, 2007

Net change in fund balances-total governmental funds - page 21 \$ 259,842

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	19,013,706
Depreciation	(22,308,739)

Capital Asset Transactions

Loss recognized in Statement of Activities but not in the funds
Proceeds from the sale of capital assets not recognized in the Statement of Activity

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	-
Other debt issuance costs	3,942
Bond principal	5,744,117
Recording of Net OPEB Obligation	(758,601)

Revenues in statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes receivable	2,475,525
Special Assessments	69,467

Internal services Activities

Net Transfers	(44,984)
Depreciation already included above	3,092,686
Net profit	1,838,264

Change in net assets of governmental activities - page 14 \$ 9,385,229

KITSAP COUNTY, WASHINGTON

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

General Fund

Year Ended December 31, 2007

	2007			
	Original	Final	Actual	Variance
	Budget	Budget		With Final Budget
REVENUES:				
Property taxes	\$ 26,648,109	\$ 26,648,109	\$ 26,964,263	\$ 316,154
Retail sales & use taxes	23,500,000	23,883,344	24,471,113	587,769
Other taxes	4,252,562	4,252,562	4,199,689	(52,873)
Licenses and permits	3,386,462	3,386,462	3,166,325	(220,137)
Intergovernmental	8,268,593	9,511,545	10,174,337	662,792
Charges for services	11,334,373	11,476,373	11,445,466	(30,907)
Fines & forfeits	2,874,015	2,874,015	2,676,289	(197,726)
Investment earnings	2,233,500	2,245,500	3,551,366	1,305,866
Miscellaneous	881,537	949,356	866,865	(82,491)
Total revenues	83,379,151	85,227,266	87,515,712	2,288,446
EXPENDITURES:				
Current:				
General government				
Administrative Services	\$ 950,642	\$ 978,642	\$ 918,516	\$ 60,126
Assessor	2,494,987	2,391,808	2,330,914	60,894
Auditor	3,686,381	3,678,237	3,554,657	123,580
Commissioners	1,297,447	1,405,109	1,367,236	37,873
General Administration	6,559,466	6,271,329	5,735,925	535,404
Personnel & Human resources	1,118,223	1,124,423	1,074,883	49,540
Prosecuting attorney	7,763,389	8,119,407	7,972,874	146,533
Facilities Maintenance	-	966,902	854,931	111,971
Treasurer	904,596	916,596	898,044	18,552
Total general government	24,775,131	25,852,453	24,707,980	1,144,473
Judicial Services				
Clerk	\$ 6,475,435	\$ 6,612,435	\$ 6,159,945	\$ 452,490
District court	2,903,804	2,740,804	2,714,991	25,813
Superior court	2,930,791	2,930,791	2,807,947	122,844
Juvenile	2,556,292	2,576,502	2,542,678	33,824
Total Judicial services	14,866,322	14,860,532	14,225,561	634,971
Public safety				
Sheriff	\$ 17,800,829	\$ 18,565,954	\$ 18,160,310	\$ 405,644
Jail	10,928,417	11,213,570	10,890,207	323,363
Juvenile	5,003,632	5,292,341	5,040,020	252,321
Coroner	925,001	950,301	918,531	31,770
Personnel & Human Resources	4,665	4,665	335	4,330
Total Public Safety	34,662,544	36,026,831	35,009,403	1,017,428
Physical Environment				
Community Development	\$ 2,424,797	\$ 2,988,755	\$ 2,509,767	\$ 478,988
Total Physical Environment	2,424,797	2,988,755	2,509,767	478,988
Economic Environment				
Community Development	\$ 5,581,222	\$ 4,904,135	\$ 5,371,204	\$ (467,069)
Total Economic Environment	5,581,222	4,904,135	5,371,204	(467,069)
Culture & recreation				
Parks	\$ 6,166,134	\$ 5,074,765	\$ 5,149,327	\$ (74,562)
Cooperative Extension	314,698	324,698	310,405	14,293
Personnel & Human Resources	586,110	589,316	569,197	20,119
Total Culture & Recreation	7,066,942	5,988,779	6,028,929	(40,150)
Capital outlay	1,585,732	1,418,433	578,942	839,491
Total expenditures	90,962,690	92,039,918	88,431,785	3,608,133
Excess(deficiency) of revenues over expenditures	(7,583,539)	(6,812,652)	(916,074)	5,896,578
OTHER FINANCING SOURCES (USES):				
Transfers in	2,511,756	2,738,602	2,523,202	(215,400)
Transfers out	(1,292,905)	(1,356,072)	(1,325,305)	30,767
Total other financing sources & uses	1,218,851	1,382,530	1,197,897	(184,633)
Net change in fund balance	(6,364,688)	(5,430,122)	281,823	5,711,945
Fund balances-beginning	20,608,076	20,608,076	20,608,076	-
Fund balances-ending	14,243,388	15,177,954	20,889,902	5,711,945

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

KITSAP COUNTY, WASHINGTON

County Roads Fund 101 & 102

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2007

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 21,410,547	\$ 21,410,547	\$ 21,566,580	\$ 156,033
Retail sales & use taxes	-	-	-	-
Other taxes	50,000	50,000	49,500	(500)
Licenses and permits	100,000	100,000	102,429	2,429
Intergovernmental	12,756,454	12,756,454	9,524,463	(3,231,991)
Charges for services	418,000	418,000	482,360	64,360
Fines & forfeits	-	-	-	-
Investment earnings	20,000	20,000	442,768	422,768
Miscellaneous	1,000	1,000	88,832	87,832
Total revenues	<u>34,756,001</u>	<u>34,756,001</u>	<u>32,256,932</u>	<u>(2,499,069)</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	25,451,818	25,451,818	21,957,374	3,494,444
Health & Human Services	-	-	-	-
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	78,913	78,913	78,912	1
Interest and other charges	6,910	6,910	6,710	200
Capital outlay	16,171,100	16,171,100	11,315,128	4,855,972
Total expenditures	<u>41,708,741</u>	<u>41,708,741</u>	<u>33,358,124</u>	<u>8,350,617</u>
Excess(deficiency) of revenues over expenditures	<u>(6,952,740)</u>	<u>(6,952,740)</u>	<u>(1,101,192)</u>	<u>5,851,548</u>
OTHER FINANCING SOURCES (USES):				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	65,000	65,000	-	65,000
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	5,719,000	5,719,000	2,027,342	(3,691,658)
Transfers out	(1,606,159)	(3,106,159)	(2,206,158)	900,001
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>4,177,841</u>	<u>2,677,841</u>	<u>(178,816)</u>	<u>(2,726,657)</u>
Net change in fund balance	<u>(2,774,899)</u>	<u>(4,274,899)</u>	<u>(1,280,008)</u>	<u>3,124,891</u>
Fund balances-beginning	22,569,712	22,569,712	22,569,712	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 19,794,813</u>	<u>\$ 18,294,813</u>	<u>\$ 21,289,704</u>	<u>\$ 3,124,891</u>

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

KITSAP COUNTY, WASHINGTON

Real Estate Excise Tax Fund 131

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2007

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Retail sales & use taxes	-	-	-	-
Other taxes	6,000,000	6,000,000	5,612,390	(387,610)
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines & forfeits	-	-	-	-
Investment earnings	354,068	354,068	697,862	343,794
Miscellaneous	4,000	4,000	207,500	203,500
Total revenues	<u>6,358,068</u>	<u>6,358,068</u>	<u>6,517,752</u>	<u>159,684</u>
EXPENDITURES:				
Current:				
General government	34,130	34,130	24,968	9,163
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	-	-	-	-
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service	-	-	-	-
Principal	105,000	105,000	90,633	14,367
Interest and other charges	249,068	249,068	217,550	31,518
Capital outlay	900,000	900,000	-	900,000
Total expenditures	<u>1,288,198</u>	<u>1,288,198</u>	<u>333,151</u>	<u>955,047</u>
Excess(deficiency) of revenues over expenditures	<u>5,069,870</u>	<u>5,069,870</u>	<u>6,184,601</u>	<u>1,114,731</u>
OTHER FINANCING SOURCES (USES):				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(5,861,776)	(5,961,776)	(5,961,781)	(5)
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>(5,861,776)</u>	<u>(5,961,776)</u>	<u>(5,961,781)</u>	<u>(5)</u>
Net change in fund balance	<u>(791,906)</u>	<u>(891,906)</u>	<u>222,820</u>	<u>1,114,726</u>
Fund balances-beginning	8,929,346	8,929,346	8,929,346	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 8,137,440</u>	<u>\$ 8,037,440</u>	<u>\$ 9,152,166</u>	<u>\$ 1,114,726</u>

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

KITSAP COUNTY, WASHINGTON

Mental Health Fund 181

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2007

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 240,000	\$ 240,000	\$ 457,449	\$ 217,449
Retail sales & use taxes	-	-	-	-
Other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	26,337,500	26,337,500	25,872,184	(465,316)
Charges for services	-	-	-	-
Fines & forfeits	-	-	-	-
Investment earnings	-	-	14,285	14,285
Miscellaneous	100,000	100,000	636,447	536,447
Total revenues	<u>26,677,500</u>	<u>26,677,500</u>	<u>26,980,365</u>	<u>302,865</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	26,479,523	26,479,523	25,644,446	835,077
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay				
Total expenditures	<u>26,479,523</u>	<u>26,479,523</u>	<u>25,644,446</u>	<u>835,077</u>
Excess(deficiency) of revenues over expenditures	<u>197,977</u>	<u>197,977</u>	<u>1,335,919</u>	<u>1,137,942</u>
OTHER FINANCING SOURCES (USES):				
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)	-	200,000
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>(192,500)</u>	<u>(192,500)</u>	<u>7,500</u>	<u>200,000</u>
Net change in fund balance	<u>5,477</u>	<u>5,477</u>	<u>1,343,419</u>	<u>1,337,942</u>
Fund balances-beginning	2,212,329	2,212,329	2,212,329	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>2,217,806</u>	<u>2,217,806</u>	<u>\$ 3,555,748</u>	<u>\$ 1,337,942</u>

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

Statement of Net Assets

Proprietary Funds
December 31, 2007

	Business-type Activities-Enterprise Funds				Total
	Sanitary Sewer	Solid Waste	Surface Water Utility	Other Non-Major Fund	
ASSETS					
Current assets:					
Cash and Cash equivalents	\$ 2,266,727	\$ 2,654,731	\$ 1,642,545	\$ 177,428	\$ 6,741,431
Deposits with fiscal agents	-	-	-	-	-
Investments	15,060,976	22,915,119	7,318,385	-	45,294,480
Receivables(net)					
Special assessments	3,983	-	-	-	3,983
Accounts	966,964	997,948	6,543	-	1,971,455
Due from other funds	98,288	647,976	78,713	-	824,977
Due from other governments	-	46,736	230,205	-	276,941
Prepayments	-	-	-	-	-
Inventories	227,805	-	-	-	227,805
Restricted assets:					
Cash and cash equivalents	1,267,211	-	-	-	1,267,211
Deposits with fiscal agents	-	-	-	-	-
Investments	10,533,552	-	-	-	10,533,552
Total current assets	<u>30,425,506</u>	<u>27,262,510</u>	<u>9,276,391</u>	<u>177,428</u>	<u>67,141,835</u>
Noncurrent assets:					
Capital assets, net (Note1)					
Land	1,123,482	472,444	65,295	360,000	2,021,221
Buildings	42,330,647	658,279	-	37,267	43,026,193
Improvements & Other Buildings	58,256,169	1,606,355	6,018,829	151,088	66,032,441
Machinery & Equipments	6,900,313	76,808	130,342	5,470	7,112,933
Construction In Progress	7,010,344	33,496	1,902,867	-	8,946,707
Less accumulated depreciation	(50,152,007)	(1,156,965)	(1,779,456)	(130,065)	(53,218,493)
Total noncurrent assets	<u>65,468,948</u>	<u>1,690,417</u>	<u>6,337,877</u>	<u>423,760</u>	<u>73,921,002</u>
Total assets	<u>95,894,454</u>	<u>28,952,927</u>	<u>15,614,268</u>	<u>601,188</u>	<u>141,062,837</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	902,369	880,666	59,668	-	1,842,703
Due to other funds	244,453	735,986	517,390	-	1,497,829
Due to other governments	28,729	32,869	131,476	-	193,074
Other liabilities	440,675	27,982	38,842	-	507,499
Total current liabilities	<u>1,616,226</u>	<u>1,677,503</u>	<u>747,376</u>	<u>-</u>	<u>4,041,105</u>
Non current Liabilities (Note 2):					
Due within one year	2,359,596	-	-	-	2,359,596
Due in more than one year	29,229,153	67,189	69,252	-	29,365,594
Total noncurrent liabilities	<u>31,588,749</u>	<u>67,189</u>	<u>69,252</u>	<u>-</u>	<u>31,725,190</u>
Total liabilities	<u>33,204,975</u>	<u>1,744,692</u>	<u>816,628</u>	<u>-</u>	<u>35,766,295</u>
NET ASSETS					
Invested in capital assets, net of related debt	33,567,699	1,690,417	6,337,877	423,760	42,019,753
Restricted:					
Debt service	11,800,763	-	-	-	11,800,763
Unrestricted	17,321,017	25,517,818	8,459,763	177,428	51,476,026
Total net assets	<u>\$ 62,689,479</u>	<u>\$ 27,208,235</u>	<u>\$ 14,797,640</u>	<u>\$ 601,188</u>	<u>\$ 105,296,542</u>

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

Statement of Net Assets

Proprietary Funds
December 31,2007

	Governmental Activities Internal Services Funds
ASSETS	
Current assets:	
Cash and Cash equivalents	\$ 19,949,101
Deposits with fiscal agents	-
Investments	-
Receivables(net)	
Special assessments	-
Accounts	-
Due from other funds	1,079,365
Due from other governments	-
Prepayments	299,560
Inventories	1,270,962
Restricted assets:	
Cash and cash equivalents	-
Deposits with fiscal agents	-
Investments	-
Total current assets	<u>22,598,988</u>
Noncurrent assets:	
Capital assets, net (Note1)	
Land	-
Buildings	-
Improvements & Other Buildings	-
Machinery & Equipments	27,943,174
Construction In Progress	-
Less accumulated depreciation	<u>(15,802,492)</u>
Total noncurrent assets	<u>12,140,682</u>
Total assets	<u>34,739,670</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	757,085
Due to other funds	103,148
Due to other governments	-
Other liabilities	<u>4,683,885</u>
Total current liabilities	<u>5,544,118</u>
Non current Liabilities (Note 2):	
Due within one year	-
Due in more than one year	<u>180,662</u>
Total noncurrent liabilities	<u>180,662</u>
Total liabilities	<u>5,724,780</u>
NET ASSETS	
Invested in capital assets, net of related debt	12,119,642
Restricted:	
Debt service	-
Unrestricted	<u>16,895,248</u>
Total net assets	<u>\$ 29,014,890</u>

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

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

Proprietary Funds

For the Year Ended December 31, 2007

	Business-type Activities - Enterprise Funds				Total
	Sanitary Sewer	Solid Waste	Surface Water Utility	Other Non-Major Fund	
Operating revenues:					
Charges for services	\$ 9,988,453	\$ 15,083,454	\$ 6,167,339	\$ -	\$ 31,239,246
Revenues used for security	\$ 3,202,420				3,202,420
Miscellaneous	-	127,817	-	-	127,817
Total operating revenues	13,190,873	15,211,271	6,167,339	-	34,569,483
Operating expenses:					
Personal services	4,498,590	1,461,824	1,799,929	-	7,760,343
Contractual services	1,248,345	1,137,055	1,677,308	-	4,062,708
Utilities	1,136,812	11,337,103	95,175	-	12,569,090
Repair and maintenance	39,694	54,466	54,796	-	148,956
Other supplies and expenses	1,675,799	2,524,967	738,903	-	4,939,669
Insurance claims and expenses	87,192	10,332	37,368	-	134,892
Depreciation	4,415,538	101,011	307,191	7,285	4,831,025
Total operating expenses	13,101,970	16,626,758	4,710,670	7,285	34,446,683
Operating income	88,903	(1,415,487)	1,456,669	(7,285)	122,800
Nonoperating revenue (expenses)					
Interest and investment revenue	1,404,378	1,218,595	419,058	-	3,042,031
Miscellaneous revenue	-	258,098	85,205	-	343,303
Interest expense	(1,095,547)	-	-	-	(1,095,547)
Miscellaneous expense	-	-	-	-	-
Total nonoperating expenses	308,831	1,476,693	504,263	-	2,289,787
Income (loss) before contributions & transfers	397,734	61,206	1,960,932	(7,285)	2,412,587
Capital contributions	1,824,062	-	-	-	1,824,062
Transfers in	3,906,738	306,000	-	-	4,212,738
Transfers out	(4,056,112)	(306,000)	(234,021)	-	(4,596,133)
Change in net assets	2,072,422	61,206	1,726,911	(7,285)	3,853,254
Total net assets - beginning	60,617,057	27,147,029	13,070,729	608,473	101,443,288
Prior Period Adjustments	-	-	-	-	-
Total net assets - ending	\$ 62,689,479	\$ 27,208,235	\$ 14,797,640	\$ 601,188	\$ 105,296,542

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

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

Proprietary Funds

For the Year Ended December 31,2007

	Governmental Activities Internal Service Funds
Operating revenues:	
Charges for services	\$ 19,568,977
Miscellaneous	123,276
Total operating revenues	<u>19,692,253</u>
Operating expenses:	
Personal services	4,923,330
Contractual services	1,344,600
Utilities	26,738
Repair and maintenance	803,682
Other supplies and expenses	6,763,765
Insurance claims and expenses	1,115,003
Depreciation	3,092,686
Total operating expenses	<u>18,069,804</u>
Operating income	<u>1,622,449</u>
Nonoperating revenue (expenses)	
Interest and investment revenue	-
Miscellaneous revenue	-
Interest expense	-
Miscellaneous expense	-
Total nonoperating expenses	<u>-</u>
Income (loss) before contributions & transfers	1,622,449
Capital contributions	260,799
Transfers in	-
Transfers out	<u>(44,984)</u>
Change in net assets	1,838,264
Total net assets - beginning	27,176,626
Prior Period Adjustments	-
Total net assets - ending	<u><u>\$ 29,014,890</u></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, 2007

	Business-type Activities - Enterprise Funds				Total
	Sanitary Sewer	Solid Waste	Surface Water Utility	Other Non-Major Fund	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$15,573,322	\$14,896,967	\$ 6,198,232	\$ -	\$ 36,668,521
Payments to suppliers	(5,920,636)	(14,559,404)	(2,556,412)	-	(23,036,452)
Payments to employees	(4,480,189)	(1,467,310)	(1,798,883)	-	(7,746,382)
Net cash provided by operating activities	<u>5,172,497</u>	<u>(1,129,747)</u>	<u>1,842,937</u>	<u>-</u>	<u>5,885,687</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants received	-	473,545	150,000	-	623,545
Transfers	(149,374)	-	(234,021)	-	(383,395)
Net cash provided by noncapital activities	<u>(149,374)</u>	<u>473,545</u>	<u>(84,021)</u>	<u>-</u>	<u>240,150</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	1,824,062	-	-	-	1,824,062
Purchases of capital assets	(3,586,246)	(17,970)	(102,236)	-	(3,706,452)
Principal paid on capital debt	(2,290,768)	-	-	-	(2,290,768)
Interest paid on capital debt	(1,159,242)	-	-	-	(1,159,242)
Net cash from related financing activities	<u>(5,212,194)</u>	<u>(17,970)</u>	<u>(102,236)</u>	<u>-</u>	<u>(5,332,400)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	7,031,345	2,556,900	4,550,000	-	14,138,245
Purchase of Investment	(8,380,751)	(3,318,605)	(5,831,619)	-	(17,530,975)
Interest and dividends	1,396,888	1,218,595	419,058	-	3,034,541
Net cash provided by investing activities	<u>47,482</u>	<u>456,890</u>	<u>(862,561)</u>	<u>-</u>	<u>(358,189)</u>
Net (decrease) in cash and cash equivalents	(141,589)	(217,282)	794,119	-	435,248
Balances - beginning of the year	3,675,527	2,872,013	848,426	177,428	7,573,394
Balances - end of the year	<u>\$ 3,533,938</u>	<u>\$ 2,654,731</u>	<u>\$ 1,642,545</u>	<u>\$ 177,428</u>	<u>\$ 8,008,642</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 88,903	\$ (1,415,487)	1,456,669	\$ (7,285)	\$ 122,800
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	4,415,538	101,011	307,191	7,285	4,831,025
Change in assets and liabilities:					
Receivables, net	109,301	257,051	(21,384)	-	344,968
Due from other funds	2,273,148	(571,355)	52,277	-	1,754,070
Due from other governments	-	-	-	-	-
Inventories	35,095	-	-	-	35,095
Prepaid	-	-	-	-	-
Accounts and other payables	569,450	(73,082)	(162,459)	-	333,909
Due to other funds	(2,273,148)	568,187	192,969	-	(1,511,992)
Due to other governments	25,024	32,869	14,212	-	72,105
Employee benefits	-	-	-	-	-
Accrued expenses	(89,215)	(23,455)	2,416	-	(110,254)
Deposit with Fiscal Agents	18,401	(5,486)	1,046	-	13,961
Net cash provided by operating activities	<u>\$ 5,172,497</u>	<u>-\$ 1,129,747</u>	<u>\$ 1,842,937</u>	<u>\$ -</u>	<u>\$ 5,885,687</u>

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

Statement of Cash Flows**Proprietary Funds**

For the Year Ended December 31,2007

	Governmental Activities
	Internal service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 19,208,874
Payments to suppliers	(10,390,993)
Payments to employees	(4,610,131)
Net cash provided by operating activities	<u>4,207,750</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants received	-
Transfers	(44,984)
Net cash provided by noncapital activities	<u>(44,984)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	260,799
Purchases of capital assets	(3,279,980)
Principal paid on capital debt	-
Interest paid on capital debt	-
Net cash from related financing activities	<u>(3,019,181)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	-
Purchase of Investment	-
Interest and dividends	-
Net cash provided by investing activities	<u>-</u>
Net (decrease) in cash and cash equivalents	1,143,585
Balances - beginning of the year	18,805,516
Balances - end of the year	<u>\$ 19,949,101</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	<u>\$ 1,622,449</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	3,092,686
Change in assets and liabilities:	
Receivables, net	76,741
Due from other funds	(672,354)
Due from other governments	-
Inventories	(196,513)
Prepaid	-
Accounts and other payables	242,094
Due to other funds	2,081
Due to other governments	-
Employee benefits	-
Accrued expenses	17,371
Deposit with Fiscal Agents	23,195
Net cash provided by operating activities	<u>\$ 4,207,750</u>

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

KITSAP COUNTY, WASHINGTON

Statement of Fiduciary Net Assets December 31, 2007

	<u>Employee Deferred Compensation</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$ -	\$ 24,740,608
Deposits with Fiscal Agents	27,751,544	125,000
Investments		182,754,716
Taxes Receivable		7,013,002
Other Current Receivables		-
Due From Other Funds		38,883
Due From Other Governments		195,074
Total Assets	<u>\$27,751,544</u>	<u>\$ 214,867,283</u>
LIABILITIES		
Warrants Payable		\$ 6,502,576
Accounts Payable		
Sales Tax Payable		
Other Accrued Liabilities		
Due to Other Funds		
Due to Other Governments		1,250
Custodial Account		208,363,457
Total Liabilities	<u>\$ -</u>	<u>\$ 214,867,283</u>
NET ASSETS		
Held in trust for pension benefits and other purposes	\$27,751,544	

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

KITSAP COUNTY, WASHINGTON

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Fiscal Year Ended December 31, 2007

	Employee Deferred <u>Compensation</u>
ADDITIONS	
Contributions:	
Employer	\$ -
Plan Members	1,774,969
Total Contributions	<u>1,774,969</u>
Roll-Ins	-
Investment Earnings	2,510,043
Total Additions	<u>4,285,012</u>
DEDUCTIONS	
Benefits	(2,347,061)
Others	-
Total Deductions	<u>(2,347,061)</u>
Change In Net Assets	1,937,951
Net Assets-Beginning Of The Year	25,813,593
Net Assets-End Of The Year	<u>\$ 27,751,544</u>

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2007

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KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Kitsap County is a municipal corporation of Washington State, governed under the commissioner 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 a 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. The Public Facility District (PFD) is governed by the seven member board appointed by the board of county commissioners. It is legally separate. The District is responsible for the construction of the Kitsap County Regional Conference Center and the County's Event Center using sales tax revenues. The 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 issue while the Public Facility District pledged its tax revenues to the County through an inter-local government agreement. The debt is reported on the County's books.

Blended component units. The 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 throughout Kitsap County. All three county commissioners are its board of directors; therefore, the County is financially responsible for the operation of the corporation. IDC sold \$2 million in 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 amounts sufficient to pay the principal 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 activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Inter-fund services provided and used are not eliminated in the process of consolidation. 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 financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund 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. The County considers property taxes as available if they are collected within 60 days after the year end. 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 to be 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 road 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 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.

The **surface water utility** is used to account for costs of providing surface water utilities 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, and Equipment Rental and Repair services to other departments or agencies of the county, or to other agencies, on a cost reimbursement basis.

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 statement because resources of those 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 fiduciary funds for Kitsap County are as follows:

Employee Deferred Compensation 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 a custodial nature for other governmental 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 costs 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. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for the all of Governmental funds of the County 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 project.

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 appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned).

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

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 laws of the 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 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 the 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.

2. Budget revision.

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

Fund Description	Original Budget	Budget Change	Final Budget
General Fund	\$ 92,255,595	1,140,395	\$ 93,395,990
County Road Funds	\$ 43,314,900	1,500,000	\$ 44,814,900
Real Estate Excise Tax	\$ 7,149,974	100,000	\$ 7,249,974
Non Major funds	\$ 26,935,443	8,098,034	\$ 35,033,477
		\$ 10,838,429	

3. Excess of expenditures over appropriations.

For the year ended December 31, 2007 expenditures did not exceed appropriations in any of the general fund departments

E. Assets, Liabilities and Equity.

1. Cash and Cash Equivalents

It is the County's policy to maximize its investment earnings by investing most of the temporary cash surpluses. At December 31, 2007, the treasurer was holding \$ 83.49 million in short-term residual investments of the \$92.83 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. 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.

2. Investments

Investments for the government are 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 5.)

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Property Taxes Note 6.) 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.

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.

4. Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund loans receivable/payable" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." A separate schedule of interfund loans receivable and payable is furnished in Note 14 (See Interfund Balances and Transfers).

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 available for appropriation and are not expendable available financial resources.

5. Inventories and Prepaid Items

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an 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. Capital Assets (See Note 7)

Capital assets include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), and are reported in applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as items with a cost of more than \$5,000 for fixed assets and \$25,000 for infrastructure (amounts 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 costs 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. The total interest expense incurred by the county during the current fiscal year is \$1,095,547. Of this amount, none was included as part of the cost of capital assets under construction in connection sewer projects.

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

Asset Category	Useful Life Years
Buildings	20 - 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 - 6
Trucks and Trailers	7 - 15

8. **Compensated Absences**

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Vacation pay, which may be accumulated up to 45 days, is payable upon resignation, retirement or death

9. **Long-Term Debt (See Note 10)**

10. **Fund Reserves and Designations**

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 STATEMENT

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

The governmental funds balance sheet includes a 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 funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in

the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

NOTE 4. CASH AND DEPOSITS

The County’s cash, deposits and certificates of deposit are entirely covered by federal depository insurance or by collateral held in a 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.

NOTE 5. INVESTMENTS

As authorized by the state statute, investments of the County’s funds are obligations of the U.S. Government, U.S. agency issues, the Washington State Local Government Investment Pool, certificates of deposit or money market deposits 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.

All securities purchased by the County are held by a third-party custody provider in the County’s name. In September, 2006, that custody provider became Union Bank of California.

At year-end, the County held the following investment balances. The credit exposure as a percentage of total investments is listed. Included are floating rate note securities that adjust weekly, monthly or quarterly to rates resembling current market.

Table values expressed in millions of dollars

Investment Type	%	Cost	Fair Value	Maturities in Years			
				Less Than 1	1 - 2	2 - 3	3 - 5
FHLB	16.9%	\$ 61.49	\$ 61.55	\$ 20.11	\$ 6.05	\$ 20.31	\$ 15.08
FFCB	2.9%	10.64	\$ 10.64	\$ 4.99	\$ -	\$ 5.66	\$ -
FHLMC	9.1%	32.93	\$ 32.99	\$ 9.99	\$ 10.26	\$ 2.54	\$ 10.19
FNMA	20.5%	74.40	\$ 74.44	\$ 23.71	\$ 10.08	\$ 25.45	\$ 15.20
Money Mark	43.2%	156.88	\$ 156.88	\$ 156.88	\$ -	\$ -	\$ -
WS ST LGIP	7.4%	26.86	\$ 26.86	\$ 26.86	\$ -	\$ -	\$ -
	100.0%	\$ 363.20	\$ 363.36	\$ 242.54	\$ 26.39	\$ 53.96	\$ 40.47

The fair value included accrued interest of \$ 1,909,264

Interest rate Risk. In accordance with it’s investment policy, the government manages it’s exposure to declines in fair values by limiting the final maturity of its less than five years.

Credit Risk. It is the government's policy to limit its investment types to the top rated by nationally recognized statistical rating organizations, the Washington State Investment Pool and money market accounts either covered by federal depositary insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. The County did not hold any mortgage-backed securities or commercial paper of any type.

Custodial credit risk is the risk that in the event of a failure of the counterparty to an investment transaction the county would not be able to recover the value of the investment or collateral securities. County policy dictates that all investment instruments other than non-negotiable certificates of deposits, bank money market deposits, and funds placed with the Washington LGIP be transacted on a delivery-versus-payment basis. The County does not have Custodial risk as all investments and deposits are either insured or held by a third party custody provider in the County's name.

The Washington State LGIP is an unrated 2a-7 like pool, as defined by GASB 31, and therefore is not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. The balance in the LGIP is not subject to custodial risk since all investments or deposits held by the LGIP are either insured or held by a third party custody provider in the LGIP's name. The county may withdraw its' participation for same or next day settlement.

All cash, certificates of deposits, and money market accounts are entirely covered by federal deposit insurance or the collateralization program administered by the Washington Public Deposit Protection Commission.

NOTE 6. PROPERTY TAXES

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

Property Tax Calendar	
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's regular levy for the year 2007 was 0.9240 per \$1,000 on an assessed valuation of \$28,579,487,595 for a total regular levy of \$26,458,545.

The County's road levy for the year 2007 was \$1.2469 per \$1,000 on an assessed valuation of \$18,308,934,997 for total road levy of \$22,892,476.

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.

NOTE 7. CAPITAL ASSETS

The following is the summary of changes in capital assets activity for the year ended December 31, 2007:

	Beginning Balance	Increase	Decrease	Ending Balance
Government activities:				
Assets not being depreciated				
Land	\$ 50,650,714	\$ 2,080,130	\$ 160,342	\$ 52,570,502
Land - Infrastructure	59,600,983	239,159	-	\$ 59,840,142
Construction in Progress	26,813,601	15,692,239	15,576,346	\$ 26,929,494
Total	137,065,298	18,011,528	15,736,688	\$ 139,340,138
Assets being depreciated				
Buildings	119,844,841	1,409,464	-	\$ 121,254,305
Building Improvements	21,181,093	2,357,199	37,500	\$ 23,500,792
Infrastructure	359,419,752	13,689,641	-	\$ 373,109,393
Equipment & Machinery	47,872,768	5,627,229	2,112,885	\$ 51,387,112
Total	548,318,454	23,083,533	2,150,385	\$ 569,251,602
Total capital assets	685,383,752	41,095,061	17,887,073	\$ 708,591,740
Less accumulated depreciation				
Buildings	20,059,891	2,727,004	-	\$ 22,786,895
Building Improvements	5,497,221	1,047,949	37,500	\$ 6,507,670
Infrastructure	213,538,391	13,413,853		\$ 226,952,244
Equipment & Machinery	23,869,110	5,119,933	1,937,495	\$ 27,051,548
Total	262,964,613	22,308,739	1,974,995	\$ 283,298,357
Government activities capital assets, net	\$ 422,419,139	\$ 18,786,322	\$ 15,912,078	\$ 425,293,383

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

Function/Program	Amount
Government activities:	
General government	\$ 1,661,945
Judicial Services	20,557
Public safety	3,966,375
Transportation	15,361,097
Health & Human service	151,387
Economic environment	15,942
Culture & recreation	1,131,436
Total	\$ 22,308,739

	Beginning Balance	Increase	Decrease	Ending Balance
Business-type activities				
Assets not being depreciated				
Land	\$ 2,021,221	\$ -	\$ -	\$ 2,021,221
Construction in Progress	5,223,106	3,723,600		8,946,706
Total	7,244,327	3,723,600	-	10,967,927
Asset being depreciated				
Building	43,026,193		-	43,026,193
Building Improvements	66,032,439		-	66,032,439
Equipment & Machinery	7,106,331	6,603	-	7,112,934
Total	116,164,963	6,603	-	116,171,566
Grand Total	123,409,290	3,730,203	-	127,139,493
Less accumulated depreciation				
Building	20,536,696	1,902,961	-	22,439,657
Building Improvements	23,882,075	2,157,671	-	26,039,746
Equipment & Machinery	3,968,696	770,393	-	4,739,089
Total	48,387,467	4,831,025	-	53,218,492
Business-type activities capital assets, net	\$ 75,021,823	\$ (1,100,822)	\$ -	\$ 73,921,001

NOTE 8. 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 pursuant to 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 participating 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. Employees who fail 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 members are vested after the completion of 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 benefit 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. Plan 1 retirements from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 2 members are vested after the completion of 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. The benefit is also actuarially reduced to reflect the choice of a survivor option. 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. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution

portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. 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. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years 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 Benefits Board.

Judicial Benefit Multiplier

Beginning January 1, 2007 , judicial members of PERS may choose to participate in the Judicial Benefit Multiplier Program (JBM) . Current justices or judges in PERS Plan 1 and 2 may make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of average financial compensation. Judges in PERS Plan 3 can elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of average compensation.

Members who choose to participate in JBM will accrue service credit at the higher multiplier beginning with the date of their election, pay higher contributions, stop contributing to the Judicial Retirement Account (JRA), and be given the option to increase the multiplier on past judicial service. Members who do not choose to participate will: continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and continue to pay contributions at the regular PERS rate.

Justices and judges who are newly elected or appointed to judicial service and choose to become PERS members on or after January 1, 2007, or who have not previously opted into PERS membership, are required to participate in the JBM Program

Justices and judges who are newly elected or appointed to judicial service will: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier fo all judicial service; not contribute to JRA; and not have the option to increase the multiplier fo past judicial service.

There are 1,188 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	70,201
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	25,610
Active Plan Members Vested	105,215
Active Plan Members Non-vested	49,812
Total	250,838

Funding policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer 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. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. 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. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2007, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	6.13%**	6.13%**	6.13%***
Employee	6.00%****	4.15%****	*****

*The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for the state elected officials is 9.12% for PLAN 1 AND 6.13% FOR Plan 2 and Plan 3 .

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.15% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on the rate selected by the PERS 3 member.

Members participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer - State	8.63%	8.63%	8.63%**
Agency*			
Employer - Local	6.13%	6.13%	6.13%**
Govt.*			
Employee - State	9.76%	7.88%	7.50%***
Agency			
Employee - Local	12.26%	10.38%	7.50%***
Govt.			

*The employer rates include the employer administrative expense fee currently set at 0.16%.

** Plan 3 defined benefit portion only.

*** Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2007	\$ 182,206	\$ 2,504,110	\$ 601,393
2006	\$ 111,284	\$ 1,306,570	\$ 517,894
2005	\$ 77,395	\$ 708,080	\$ 86,049

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. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees, with the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003 being an exception. In addition, effective July 24, 2005, current members of PERS who are emergency medical technicians can elect to become members of LEOFF Plan 2. Effective July 1, 2003 the LEOFF Plan 2 Retirement Board was established to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan. LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

Plan 1 members are vested after the completion of 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 actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age

50, the reduction is 3 percent for each year 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 383 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	8,951
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	602
Active Plan Members Vested	12,711
Active Plan Members Nonvested	3,603
Total	25,867

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 LEOFF Plan 2 Retirement Board. 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 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. 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 required contribution rates expressed as percentage of current-year covered payroll, as of December 31, 2007, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.35%**
Employee	0.00%	8.64%
State	N/A	3.45%

*The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for ports and universities is 8.80%.

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

	LEOFF Plan 1	LEOFF Plan 2
2007	\$ 287	\$ 442,481
2006	\$ 441	\$ 386,283
2005	\$ 441	\$ 316,589

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS was created by the 2004 legislature and became effective July 1, 2006. PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and those full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A covered employer is one that participates in PSERS. Covered employers include: State of Washington agencies: Department of Corrections; Department of Natural Resources, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, Liquor Control Board; Washington state counties; and Washington state cities except for Seattle, Tacoma and Spokane.

To be eligible for PSERS, an employee must work on a full-time basis and:

- have completed a certified criminal justice training course with the authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington, and carry a firearm as part of the job; OR
- have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; OR
- function as a limited authority Washington peace officer, as defined in RCW 10.93.020; OR
- have primary responsibility to supervise eligible members who meet the above criteria

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PSERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 2 members are vested after the completion of five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 retirees prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. 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.

There are 69 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	0
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	0
Active Plan Members Vested	0
Active Plan Members Non-vested	2,073
TOTAL	2,073

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2007 were as follows:

	PSERS Plan 2
Employer*	8.55%
Employee	6.57%

*The employer rate includes an employer administrative expense of 0.16%

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

	PSERS Plan 2
2007	\$ 279,281
2006	\$ 52,805

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 the 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 29 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, 2007, the County's estimated total undiscounted outstanding liability for the workers' compensation program is approximately \$1,950,000. It is funded at the 60% confidence level.

Workers Compensation	Year ended	
	31-Dec-06	31-Dec-07
Unpaid claims, beginning of fiscal year	\$ 2,119,116	\$ 2,071,317
Incurred claims (including IBNRs)	1,224,489	901,071
Claim payments	(1,272,288)	(1,022,388)
Unpaid claims, end of fiscal year	\$ 2,071,317	\$ 1,950,000

General Liability	Year ended	
	31-Dec-06	31-Dec-07
Unpaid claims, beginning of fiscal year	\$ 2,448,141	\$ 2,512,317
Incurred claims (including IBNRs)	505,333	983,212
Claim payments	(441,157)	(614,224)
Unpaid claims, end of fiscal year	\$ 2,512,317	\$ 2,881,305

General liability

The County has \$20,000,000 per occurrence liability protection with a \$500,000 deductible with the Washington Counties Risk Pool (WCRP). The County is responsible for the first \$500,000; the Pool acquires reinsurance from unrelated underwriters to cover all losses above \$100,000 per occurrence. The Pool reinsures the risks to the maximum policy limit. The County has never had a claim in excess of the policy limits. This policy also covers auto liability, employment and public officials' liability.

Property insurance

The county has a \$50,000 per occurrence deductible and is insured for up to \$50 million per occurrence through an independent insurance carrier. The earthquake coverage 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 \$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. 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, 2007 the debt limits for the County were as follows:

	Without a Vote	With a Vote	
		2.50%	5.00%
Legal Limit	\$ 428,692,314	\$ 714,487,190	\$ 1,428,974,380
Applicable Outstanding Debt	115,045,681	115,045,681	115,045,681
Margin Available	\$ 313,646,633	\$ 599,441,509	\$ 1,313,928,699

A. General Obligation Bonds

The government issues general obligation and revenue bonds to provide funds for the purchase of assets and the acquisition and construction of major capital facilities. Bonded indebtedness has also been entered into to advance refund several general obligation and revenue bonds. General obligation bonds have been issued for both governmental and business-type activities and are being repaid from the applicable resources. The revenue bonds are being repaid by proprietary fund revenues.

General obligation bonds currently outstanding are as follows:

Issued Name & Purpose	Maturity Range	Interest Rate %	Original Amount	Amount of Installment
1996 - Refunding	11/1/08 - 11/1/12	5.35 - 5.7	\$9,875,000	630,000 - 2,675,000
1999 - Open space purchase	12/1/08 - 12/1/18	4.15 - 4.9	5,100,000	240,000 - 375,000
1999B - Purchase 911 equip	7/1/08 - 7/1/19	4.75 - 5.3	10,680,000	70,000 - 515,000
2000 - Jail Addition	7/1/08 - 7/1/10	4.8 - 4.9	20,000,000	570,000 - 630,000
2001 - Refunding	11/1/08 - 11/1/20	4.50 - 5.0	11,215,000	235,000 - 1,260,000
2002A - Special Event Center	10/1/08- 10/1/26	4.3 - 5.375	11,395,000	380,000 - 910,000
2003 - Public Works Annex	12/1/08 - 12/1/27	3.0 - 4.875	10,250,000	320,000 - 565,000
2003B - Administrative Building	12/1/08 - 12/1/28	2.75 - 4.75	17,805,000	390,000 - 1,465,000
2004 - Gen. Govt. - Refunding	7/1/08 - 7/1/29	3.25 - 5.0	20,664,719	465,000 - 1,075,000
2004 - Bus.-type - Refunding	7/1/08 - 7/1/09	3.25 - 3.25	535,281	107,240 - 113,595
2005 - Refunding	7/1/08 - 7/1/25	3.25 - 5.0	18,995,000	30,000 - 1,500,000
2006 - Improve Buildings & Parks	7/1/08 - 7/1/31	4.0 - 5.0	18,085,000	505,000 - 985,000
Total			\$ 154,600,000	

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	5,922,760	5,117,832	107,240	7,174
2009	6,131,405	4,870,114	113,595	3,692
2010	6,110,000	4,600,014	-	-
2011	4,170,000	4,322,576	-	-
2012	7,035,000	4,135,491	-	-
2013 - 2017	23,890,000	16,761,099	-	-
2018 - 2022	27,405,000	10,792,056	-	-
2023 - 2027	22,610,000	4,353,570	-	-
2028 - 2032	5,515,000	527,130	-	-
Total	\$ 108,789,165	\$ 55,479,882	\$ 220,835	\$ 10,866

As of December 31, 2007 the County had \$45,000 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.

Debt service requirements for special assessments are:

Special Assessment Bonds

Year Ending December 31	Governmental Activities	
	Principal	Interest
2008	-	2,407
2009	-	2,408
2010	-	2,407
2011	-	2,408
2012	10,000	2,407
2013 - 2017	35,000	1,873
Total	\$ 45,000	\$ 13,910

B. Revenue bonds

The revenue bonds currently outstanding are as follows:

Issued Name & Purpose	Maturity Range	Interest Rate %	Original Amount	Amount of Installment
Sewer 1999	12/1/08 - 12/1/18	4.25 - 5.1	11,010,000	515,000 - 810,000
Sewer Refunding 2001	7/1/08 - 7/1/16	3.625 - 5.625	13,075,000	1,115,000 - 1,620,000
D.O.E. Loan # L0400026	5/1/08 - 5/1/25	1.5	14,188,000	234,887 - 303,064
PWTF Loan # PW-01-691-036	7/1/08 - 7/1/21	0.5	2,605,000	150,816 - 150,816
Total			\$ 40,878,000	

Debt service requirements for revenue bonds and loans are as follows:

Revenue Bond		
Year Ending December 31	Principal	Interest
2008	2,252,356	1,081,641
2009	2,324,478	1,011,459
2010	2,401,707	931,167
2011	2,484,046	847,222
2012	2,566,496	759,356
2013 - 2017	12,868,219	2,062,771
2018 - 2022	4,236,261	279,292
2023 - 2027	1,492,857	33,863
Total	\$ 30,626,420	\$ 7,006,771

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

Notes Payable

The County has a Note Payable of \$5.167 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 \$5.167 Million note with the Kitsap County Health District, which will be used to repay the Kitsap County Consolidated Housing Authority.

NOTE 11. LEASES

Operating leases

The County does not have any non-cancelable operating leases.

Capital Leases

The County does not have any non-cancelable capital leases.

NOTE 12. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bond payables:					
General obligation bonds	\$ 114,343,737		\$ 5,554,572	\$ 108,789,165	\$ 5,922,760
Special assessment debt	65,000	-	20,000	45,000	-
Total bond payable	114,408,737	-	5,574,572	108,834,165	5,922,760
Capital leases	58,000	-	58,000	-	-
Compensated absences	4,571,974	4,074,172	3,820,128	4,826,018	480,280
Internal services comp.	156,285	192,152	167,775	180,662	10,392
Notes Payable	5,272,500	80,000	105,000	5,247,500	125,000
Net OPEB Obligation	-	758,601	-	758,601	-
Other liabilities	967,093	-	178,912	788,181	78,912
Governmental-activities Long-term liabilities	<u>\$ 125,434,589</u>	<u>\$ 5,104,925</u>	<u>\$ 9,904,387</u>	<u>\$ 120,635,127</u>	<u>\$ 6,617,344</u>
Business-type activities					
Bond payable:					
General obligation bonds	\$ 331,263	\$ -	\$ 110,428	\$ 220,835	\$ 107,240
Unamortized premium	11,137			11,137	
Revenue bonds	20,715,000	-	1,565,000	19,150,000	2,252,356
Unamortized premium	465,288	-	47,432	417,856	
Total bond payable	21,522,688	-	1,722,860	19,799,828	2,359,596
Other liabilities	12,091,761	-	615,340	11,476,421	615,340
Compensated absences	434,980	444,611	430,650	448,941	80,767
Business-type activities Long-term liabilities	<u>\$ 34,049,429</u>	<u>\$ 444,611</u>	<u>\$ 2,768,850</u>	<u>\$ 31,725,190</u>	<u>\$ 3,055,703</u>
Total	<u>\$ 159,484,018</u>	<u>\$ 5,549,536</u>	<u>\$ 12,673,237</u>	<u>\$ 152,360,317</u>	<u>\$ 9,673,047</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. The 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 13. CONTINGENCIES AND LITIGATIONS

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 a material adverse effect on the financial condition of the County.

As of the December 31, 2007, the County acts as guarantor of several Kitsap County Consolidated Housing Authority's bond issues. There is an outstanding balance of \$42.74 million as of December 31, 2007.

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.

NOTE 14. INTER-FUND BALANCES AND TRANSFERS

1. Advances to/From other funds

The Advance balance is the outstanding long-term loan between funds. It is usually more than one year.

Advances From	Advances To	
	Non Major	Total
General Fund	160,000	\$ 160,000
County Roads	\$ 500,000	\$ 500,000

2. Due from other funds/Due to other funds

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Due from other funds										
Due to Other Funds	Gen. Fund	County Roads	Home Entitlement	Non Major	Solid Waste	Sewer Utility	Enterprise Non Major	Internal Service	Agency Funds	Total
General Fund		1,077,100	97	77,356	1,077	101,932	129,006	88,576	1,358	1,476,502
County Rds		135,142		264,608	3,973	8,584	3,510	14,571		430,388
Home Entitle			0	19,937						19,937
Non Major		259,090	19,937	824,976	817					1,104,820
Solid Waste		1,233			644,997	702	1,044			647,976
Sewer Utility	234	123			72,181		25,750			98,288
Ent. Non Major		9,802			12,941	9,376	46,594			78,713
Internal Serv.	3,514	637,862		2,641		123,859	311,488			1,079,364
Total	3,748	2,120,352	20,034	1,189,518	735,986	244,453	517,392	103,147	1,358	4,935,988

3. Transfer

Transfers are used to 1) move revenues from funds with collection authorization to the debt service funds as debt principal and interest payments become due, 2) move unrestricted revenues to finance various programs that the county must account for in other funds.

TRANSFERS-FUND FINANCIAL STATEMENTS							
IN	General	County	Real Estate	Mental	Non	Internal	
OUT	Fund	Roads	Excise tax	Health	Major	Service	Total
General Fund	-	-		7,500	1,317,805	-	1,325,305
County Roads	-	1,000,000		-	1,206,158	-	2,206,158
REET	-	1,000,000		-	4,961,781	-	5,961,781
Mental Health	-	-		-	-	-	-
Nonmajor	2,501,918	27,342	-	-	5,992,655	-	8,521,915
Solid Waste	-	-		-	-	-	-
Sewer	-	-		-	149,374	-	149,374
Nonmajor Ent	-	-		-	234,021	-	234,021
Int. Serv	21,284	-		-	23,700	-	44,984
Total	2,523,202	2,027,342	-	7,500	13,885,494	-	18,443,538

NOTE 15. RECEIVABLES AND PAYABLES.

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 “capital contributions” 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 defer revenue recognition in connection with resources that have been received, but not earned.

The County has an \$11.395 million long-term receivable due from the Public Facility District, one of its component units. The County sold G.O. bonds 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 books and the note is reflected on the PFD books as well.

NOTE 16. 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:

Investment company	Fair Value
PEBSCO	\$ 14,899,257
ING	5,961,330
Hartford	6,446,453
ICMA	444,504
Total	\$ 27,751,544

NOTE 17. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

As required by the Revised Code of Washington (RCW) Chapter 41.26, the County provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined benefit multi-employer healthcare plan. The members necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan or any other similar source are covered. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical plan benefit provisions. Financial reporting for the LEOFF retiree healthcare plan is included in the County's Comprehensive Annual Financial Report. As of December 31, 2007 there were 42 active participants in this closed plan.

Funding Policy

Funding for LEOFF retiree healthcare costs is provided entirely by the County as required by RCW. The County's funding policy is based upon pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other post employment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount determined using the alternative method permitted under GASB No. 45. A single retirement age of 56.22 was assumed for all active members for the purpose of determining the actuarial liability. Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in September 30, 2006 actuarial valuation issued by the Office of State Actuary (OSA). Healthcare costs and trends were determined by Millman and used by OSA in the state-wide LEOFF 1 medical performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Cost Credit. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2007. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB. The net OPEB obligation of \$758,601 is included as a noncurrent liability on the Statement of Net Assets. The actuarial valuation was performed on February 11, 2008.

OTHER POST EMPLOYMENT BENEFITS OBLIGATION

YEAR ENDING
12/31/2007

Determination of Annual Required Contribution:

Normal Cost at year end		\$ 1,247,758
Amortization of UAAL*		-
Annual Required Contribution (ARC)		\$ 1,247,758
Determination of Net OPEB Obligation:		
Annual Required Contribution		\$ 1,247,758
Interest on prior year Net OPEB Obligation		-
Adjustment to ARC		-
Annual OPEB Cost		\$ 1,247,758
Contributions		489,157
Increase in Net OPEB Obligations		\$ 758,601
Net OPEB Obligation - beginning of year		\$ -
Net OPEB Obligation - end of year		\$ 758,601

*Unfunded Actuarial Accrued Liability

NOTE 18. COMMITMENTS

As of the end of the year the County has spent over \$1.9 million for the renovation of the courthouse to prepare it for temporary use as it is decided what to do with it in the future. No further commitments have been made to the project until future plans are finalized. The County spent over \$2.7 million for weatherization of the Public Works Building. Another \$.6 million has been committed to the project in 2008.

NOTE 19. OTHER NOTE DISCLOSURES

- A. GASB – 45 Accounting for Other Post-Employment Benefits
GASB 45 establishes standards for accounting and financial reporting for other post-employment benefits to be paid by the county. Note 17 details changes made by the county to comply with this requirement.
- B. Change of Depreciable life of certain fixed assets of the county.
Our policy previously stated buildings would have a useful life of 45 years for depreciation purposes. In 2007 we adjusted the useful life to 20 – 45 years. This was done to recognize major components of the sewage treatment plants included in the Buildings account of the Sanitary Sewer operation are expected to need replacement approximately every 20 years.