

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Kitsap County's financial performance provides an overview of the County's financial activities for the fiscal year ended on December 31, 2001. Please read it as part of the accompanying transmittal letter and the accompanying basic financial statements.

Financial Highlights

- The General Fund, on a current financial resources basis, reported expenditures in excess of revenues and other financing sources and uses by \$827,857
- On the government-wide basis for governmental activities, the County had expenses net of program revenue of \$68.62 million, which was \$10.15 million less than the general revenues of \$78.77 million.
- The County's total net asset excluding component units, on the government-wide basis, totaled \$208.39 million as of December 31, 2001.
- On June 15, 2001, the County sold \$11.215 million in general obligations bonds at a true interest cost of 4.0 percent. The tax-exempt bonds, which will mature incrementally over the next 20 years, will be used to finance the addition to the County's Jail facility.
- General Fund's actual resources available for appropriation in 2001 (revenue inflows and fund balance) exceeded final budget by \$1.7 million while actual appropriations (outflows) were \$1.83 million less than budget.
- The General Fund reported excess expenditures over revenues of \$3.8 million however, the fund balance decreased by \$0.83 million primarily due to the County's attempt to keep the fund balance at about 9% of the annual budget.

Using the Financial Section of this Report

This Comprehensive Annual Financial Report consists of four sections:

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

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

For the past twenty years, the primary focus of the local government financial statements have been summarized fund type information on a current financial resources basis. This approach has been modified and for the first time, the County's financial statements present two kinds of statements, each with a different snapshot of the County's finances. The new focus is on both the County as a whole (government-wide) and the fund financial statements. The government-wide financial statements, which are new, provide

both long-term and short-term information about the County's overall financial status. The fund financial statements, which have been provided in the past, focus on the individual parts of the County government, reporting the County's operations in more detail than the government-wide statement. Both perspectives (government-wide and fund) allow the users to address relevant questions broaden the basis of comparison (year to year or government to government) and enhance the County's accountability.

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

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

- The Statement of Net Assets
- The Statement of Activities

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

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

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

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

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

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

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

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

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

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

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

Financial Analysis of the County (as a whole)

In accordance with GASB Statement No. 34, the County is not required to restate prior periods for the purposes of providing comparative information. However, in the future years, when prior year information is available, a comparative analysis of government-wide information will be presented

Summary of Statement of Net Assets
For the Fiscal Year Ended as of December 31, 2001

	Governmental Activities	Business-type Activities	Total Primary Government
Assets:			
Current assets	123,239,239	65,449,812	188,689,051
Capital assets	92,113,864	66,063,107	158,176,971
Total assets	215,353,103	131,512,919	346,866,022
Liabilities			
Other liabilities	17,896,389	2,109,731	20,006,120
Long-term liabilities	73,264,060	45,205,281	118,469,341
Total liabilities	91,160,449	47,315,012	138,475,461
Net assets			
Investment in capital	14,132,031	21,362,107	35,494,138
Reserved	3,051,174	618,170	3,669,344
Unreserved	107,009,449	62,217,630	169,227,079
Total net asset	\$ 124,192,654	\$ 84,197,907	\$ 208,390,561

The County's combined net assets (which is the County's bottom line), increased to \$208.39 million from \$197.05 million because of the increase in net assets in Governmental Activities. Net assets of the County's governmental funds were \$124.19 million. The County's unrestricted net assets, the part of net assets that can be used to finance day-to-day operations were \$107million.

The following is an explanation of the changes between fiscal years as shown above: Long-term debt increased by \$45,000 due to new bounded debt for jail expansion and retirement of some old debt. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements.

The net assets of business-type activities remained stable at \$84.2 million. The County can use these net assets to finance the continuing operations of its sewer, recycling, and surface water programs.

CHANGES IN NET ASSETS

For the Fiscal Year Ended as of December 31, 2001

For fiscal year ended December 31, 2001, the revenues from governmental funds totaled \$141.63 millions. The property tax revenues, the County's largest revenue source was \$39.75 millions while the operating grants and contributions mounted to \$50.45 millions.

The expenses for governmental activities totaled \$131.47 million that includes the 21/2 percent cost of living increase for the employees' compensation. With low unemployment level in the Kitsap area, and high demand for skilled employees in both public and private sector, the County conducted a salary study that will be implemented next year for the management staff.

Public safety continues to be the County's highest priority and commitment. The County is expanding its jail facilities, equipping the patrol cars with computers, and hiring more deputies. The County accrued \$27.19 millions on public safety activities in 2001.

	Governmental Activities	Business-type Activities	Total Primary Government
Revenues:			
Program revenues			
Charges for services	\$ 12,262,866	\$ 17,119,389	\$ 29,382,255
Operating grants	50,445,966	-	50,445,966
Capital grants	144,662	-	144,662
General revenues			
Property taxes	39,751,530	-	39,751,530
Sales taxes	19,426,369	-	19,426,369
Other taxes	8,936,614	-	8,936,614
Fines & forfeits	2,002,347	-	2,002,347
Investment earning	5,920,549	2,707,910	8,628,459
Other income	2,736,982	2,595,855	5,332,837
Total revenues	141,627,885	22,423,154	164,051,039
Expenses			
General government	24,153,957	-	24,153,957
Judicial services	12,238,605	-	12,238,605
Public safety	27,187,605	-	27,187,605
Physical environment	1,504,840	-	1,504,840
Transportation	18,068,131	-	18,068,131
Health & human services	33,520,791	-	33,520,791
Economic environment	6,312,008	-	6,312,008
Culture & recreation	5,003,951	-	5,003,951
Interest on Long term debt	3,484,316	-	3,484,316
Utilities	-	21,211,396	21,211,396
Others	-	26,435	26,435
Total expense	131,474,204	21,237,831	152,712,035
Increase(decrease) to net asset	\$ 10,153,681	\$ 1,185,323	\$ 11,339,004

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

At year-end, the County's general funds reported \$9.35 millions in fund balance, which is a decrease of \$0.83 million or 8% from last year. The primary reason for the General Funds decrease in the fund balance was the county's decision to maintain the fund balance at a certain percentage of the budget.

GENERAL FUND BUDGETARY HIGHLIGHTS:

	Original budget	Amended budget	Actual
Revenues			
Taxes	41,524,243	41,524,243	42,398,439
Intergovernmental	6,509,550	7,191,615	7,217,674
Others	14,910,806	14,957,505	14,305,816
Total Revenues	62,944,599	63,673,363	63,921,929
Expenditures			
Expenditures	66,699,779	69,550,147	67,720,391
Other financing sources (uses)	(371,100)	(573,533)	2,970,606
Total expenditures	67,070,879	70,123,680	64,749,785
Change to fund balance	(4,126,280)	(6,450,317)	(827,856)

Expenditures and other financing uses exceeded revenue and other financing sources by \$0.83 million in the General Fund for the fiscal year 2001.

Actual General Fund revenues exceed original budgeted revenues by \$248,566 during fiscal year 2001. This increase is due in part to increased property tax collections and sales tax.

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.

Capital Assets

At the end of the fiscal year 2001, the County had \$126.73 millions invested in a variety of capital assets, as reflected in the following schedule, which represents a net increase of \$11.13 million or 9.63 percent from last year.

Government Funds

Change in Capital Assets

	<u>1/1/2001</u>	<u>Additions</u>	<u>Retirement</u>	<u>12/31/2001</u>
Land	23,533,135	3,676,710		27,209,845
Building	51,529,619	83,200		51,612,819
Non-building	5,715,583	276,839	(1,000)	5,991,422
Machinery & Equipment	33,277,650	3,196,686	(400,216)	36,074,120
Construction-in-progress	1,541,035	4,302,269		5,843,304
Total	\$ 115,597,022	\$ 11,535,704	\$ (401,216)	\$ 126,731,510
Accumulated depreciation	31,429,442	3,552,212	364,008	34,617,646
Net Asset	\$ 84,167,580	\$ 7,983,492	\$ (765,224)	\$ 92,113,864

The following are the major additions to the Capital Asset:

- The County is expanding its jail space from a 200 to a 510-bed facility.
- The County purchased several parcels of land, and two of the parcels are for park development:
 - Illahee forest land, 346 acres \$3 millions
 - Wicks lake park, 90 acres for \$.5 million
 - Dwight Street, .17 acres for \$110,412

- The County purchase some major equipment, the following are some of the equipment purchased:
 - LIS System server for \$350,277
 - Playground equipment addition for \$302,470
 - Park improvement for \$202,867
 - Mobile Data Terminal System and OCTEL upgrade for \$568,124

County change in definition of Capital

In 2000, the County passed a resolution increasing the threshold of capitalized asset to \$5,000 from \$500.

Long-term Debt

At year-end, the County had \$73.26 millions in long-term debt versus \$71.98 millions last year, a net change of \$1.28 million and 1.78 percent.

Table Five
Outstanding Debt, at Year-End
(In Millions)

Government activities:	2000	Addition	Deletion	2001
Bond Payable	\$ 67.027	\$ 11.215	\$ 11.170	\$ 67.072
Specila assessment	0.495		0.155	0.340
Comp	3.479	0.438	-	3.917
Int. serv. Debt	-	0.339	-	0.339
Leases	0.569	0.136	0.121	0.584
Others	0.408	0.643	0.042	1.009
Total	\$ 71.978	\$ 12.771	\$ 11.488	\$ 73.261

Enterprise activities:

Bond Payable	32.244	13.583	1.435	\$ 44.392
Comp	0.266	0.018		0.284
Others	0.111	0.418		0.529
Total	\$ 32.621	\$ 14.019	\$ 1.435	\$ 45.205

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

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

County Jail addition bond - \$11.22 millions

The Standard and Poor's Corporation and Moody's Investors Service reaffirmed the Kitsap County's triple-A bond rating, in conjunction with the issuance of the \$11.22 millions in general obligation bonds.

The State limits the amount of general obligation debts the County can issue without the vote of the people to 1.5% of the total assessed value. As of the end of the fiscal year, the County has \$143.2 million remaining in debt capacity (non-voted).

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

Contacting the County's Financial Management

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

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

Telephone (360) 337-7132

or visit the County's web site at
www.kitsapgov.com