

Kitsap County *Washington*



Comprehensive Annual Financial Report

Fiscal Year Ended December 31, 2004



**KITSAP COUNTY
COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

County Auditor
Honorable Karen Flynn

Financial Services Manager
Ade' Ariwoola, MBA, CGFM

For The Fiscal Year Ended
December 31, 2004

Prepared by the Auditor's Office

KITSAP COUNTY, WASHINGTON
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Karen Flynn
Kitsap County Auditor

614 Division Street, MS-31 ♦ Port Orchard, Washington 98366-4678

Adé Ariwoola
Financial Services Manager

Winnie Flores-Logan
Chief Deputy Auditor

August 19, 2005

To the Honorable Board of County Commissioners and Citizens of Kitsap County:

We are pleased to present to you the 2004 Comprehensive Annual Financial Report (CAFR) of Kitsap County, Washington. This report was prepared in order to present the financial position of the County at the end of the fiscal year, December 31, 2004 and the results of its operations and the cash flows of its proprietary funds. The CAFR is also developed in order to provide meaningful financial information to legislative bodies, creditors, investors, teachers and students of public finance and the public.

Responsibility for accuracy of the data presented, the completeness and fairness of the presentation, including all disclosures rests with the management of Kitsap County. The financial statements have been prepared in conformity with the following standards:

- Generally accepted account principles (GAAP) - uniform minimum standards and guidelines for financial accounting and reporting;
- Government accounting and financial reporting statements, interpretations, and technical bulletins issued by the Government Accounting Standards Board (GASB) – statements that provide a clear picture of the county as a single, unified entity, as well as continuing to provide traditional fund-based financial statements. Each perspective (government-wide and major fund) allows the reader to address relevant questions, provides a basis for comparison (year to year or government to government), and enhances the County’s accountability;
- Budgeting, Accounting and Reporting Systems (BARS) – prescribed by the Office of the State Auditor for counties, cities, and other local government entities; and
- Guidelines recommended by the Government Finance Officers Association (GFOA) of the United States of America and Canada.

GAAP requires that management also provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A provides financial highlights and interprets the financial reports by analyzing trends, explaining changes, fluctuations, and any variances in the financial data. Kitsap County's MD&A can be found immediately following the State Auditor's report.

THE COUNTY

Kitsap County is located in Washington on the western side of the Puget Sound and covers 403 square miles of land, including the northern portion of Kitsap Peninsula and Bainbridge Island. It is west of Seattle and northwest of Tacoma. The County has 228 miles of saltwater frontage, on Hood Canal to the west, Admiralty Inlet to the north and Puget Sound to the east.

The topography is mostly low, flat-topped rolling hills separated by valleys and bays, with altitudes from sea level to 600 feet above, except for Green and Gold mountains, which rise to 1,761 feet above sea level. The climate is moderate, with mild, wet winters and cool, dry summers. Mean annual precipitation ranges from 26 inches in the north to nearly 80 inches in the mountains.

Kitsap County was incorporated in 1857 as a statutory county. This means that the organization of the County is prescribed by the state statute. Locally elected officials include the County Assessor, Auditor, Clerk, Prosecuting Attorney, Sheriff, Treasurer, eight Superior Court Judges, three District Court Judges, and a three member Board of County Commissioners. Policy-making and legislative authority are vested in the governing Board of County Commissioners, which are all elected at-large on a partisan basis for four-year terms and the chair is elected by the majority vote of the Board members. The Board appoints the County Administrator. The County Administrator serves the Board by overseeing its departments and providing leadership for the general administration of the County.

Kitsap County provides a full range of services contemplated by statute, including public safety; construction and maintenance of highways, streets, and other infrastructure; judicial administration; planning and development; parks and recreation; health and social services; sewer services; and general administrative services.

LOCAL ECONOMIC CONDITION AND OUTLOOK

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the County's specific environment within which it operates.

Population. Kitsap County has the sixth largest population of Washington State's 39 counties. In 2004, the County's population rose to 239,500 (+2,500 from 2003).¹

Although Kitsap County appears to be rural due to the vistas of water, mountains and trees, it actually has the second highest population density in the state of Washington, only surpassed by King County.

Of the four incorporated cities in Kitsap County, the largest city is Bremerton with a 2004 estimated population of 37,520 (-3.13% from the 2003 estimate). The 2004 population estimate for Port Orchard is 8,060 (+1.90% from 2003); Poulsbo 7,200 (+2.71% from 2003); and Bainbridge Island 21,760(+1.952% from 2003). Bremerton is expected to gain population in 2005 due to people moving into the new condominiums on the Bremerton waterfront.

Employment. Total employment increased to 112,600 in 2004 (+17,427 from 2003) while unemployment decreased. The non-agricultural employment is projected to increase by 4,200 over the five-year period of 2002-2005. This would be an increase of 840 jobs per year (+1.1%/year). All employment categories are projected to experience increases except manufacturing, which is expected to decrease.²

Additionally, Puget Sound Naval Shipyard will gain 1,400 workers as announced by the Pentagon on May 13, 2005.

Kitsap County's strongest economic asset is the availability of a well-trained, highly motivated workforce. The strong work ethic of a labor pool associated with military employment continues to attract attention from national employers. With the addition of well-qualified students from Olympic College and private training institutes, the County remains a desirable location for prospective employers.³

Construction. New construction activity is an important economic indicator that greatly impacts County operations and workload in areas such as planning, permits, land services, public works and public construction.

In 2004, new construction property values hit a record high of \$394.94 million (31.6% from 2003), and the growth in assessed value of all properties totaled \$915.36million (6.0% from 2003).⁴

¹ Source: Washington State Office of Financial Management

² Source: Washington State Department of Employment Security and Kitsap County Real Estate Trends Report

³ Source: Kitsap County Real Estate Trends Report

⁴ Source: Kitsap County Assessor's Report

The number and value of permits issued is an indicator of future growth in the county property tax base. In 2003, building permits (1,260) were up more than 14%; reflecting the County's highest level in the last seven years. In 2004, the County issued a total of 1,234 housing permits (-26 from 2003). This steady and above-average growth pattern is likely to characterize the Kitsap County housing market during the next several years.⁵

Kitsap County's previously low valued real estate has definitely attracted buyers from more affluent markets.

Taxable Retail Sales. Taxable retail sales continued to grow in 2004 for a total of \$2,970,706 (+\$193,365 from 2003). Over the past nine years, the State of Washington's retail sales increased by 37%, while Kitsap County's increased by 62%.⁶ Based on current economic forecasts, total taxable retail sales are expected to grow albeit more moderately in 2005.

MAJOR INITIATIVES

Kitsap County's strong fiscal management remains its hallmark. Moody's Investors Service assigned a rating of A-1, and Standard and Poor's assigned a rating of A+ to Kitsap County's General Obligation Bonds in June of 2001. The County's highly favorable ratings are a reflection of good financial management as indicated by the strong reserve balance, moderate and manageable debt burden with limited future capital needs.

Land for Development. There is substantial land ready for development: Day Road Industrial Park on Bainbridge Island, Olympic View Industrial Park and Olympic View Business Park at the Bremerton National Airport, Olhava Project in Poulsbo, Twelve Trees Project in North Kitsap County, and the Olympic Resource Management's West Hills Site in Bremerton. Over 1,000 acres of properly zoned and available land are on the market, including 370 acres for long-term lease. Another 2,000+ acres of land in the South Kitsap Industrial Area recently came on-line for development.⁷

Industrial Space. Presently, the availability of industrial space in Kitsap County is very low. Limited demand, especially large users, and substantial development costs create resistance to developing a major industrial project. This lack of industrial space, that is available in a timely manner, is limiting the County's ability to attract new industrial users. The private sector and governmental agencies are working to find solutions.⁸

⁵ Source: Kitsap County, Department of Community Development and Kitsap County Real Estate Trends Report

⁶ Source: Washington State Department of Revenue and Office of the Forecast Council

⁷ Source: Kitsap County Real Estate Trends Report

⁸ Source: Kitsap County Real Estate Trends Report

Telecommunications. The basic infrastructure of telecommunications in the Kitsap region equals that which is available in the eastern Puget Sound region. SPRINT has installed a point-of-presence (POP) on the Internet in Poulsbo, making it competitive with major metropolitan areas. Downtown Bremerton is heavily wired as a result of the Navy's presence.⁹

Fiber Optic Backbone. Kitsap Public Utility District created a fiber optic backbone throughout the County which provides wholesale access to the Bonneville Power grid. It is a 144-strand fiber optic network that brings and additional OC-48 worth of connection from outside and will deliver it through an OC-48 Sonet and Gigabit Ethernet. This high-capacity, redundant fiber optic telecommunications system offers competitively priced and qualitatively outstanding service to institutions and business throughout Kitsap County. The County is committed to continue building a state-of-the-art "virtual highway" by means of multiple and redundant broadband communication corridors so it can be a great place to do E-commerce.¹⁰

Bremerton Community Renewal Project. This project revitalized the downtown core of Bremerton beginning with public investments in the Norm Dicks Government Center and the Kitsap Conference Center. The project has spurred \$19.3 million in private developments.

Kitsap County Private Sector. Paladin Data Systems Corporation, a privately owned software engineering solutions firm, in Poulsbo, Washington received a \$1.8 million contract from the U.S. Army Space and Missile Defense Command to expand a bio-terrorism detection program on January 27, 2005.

Kitsap County Consolidated Housing. U.S. Department of the Treasury has awarded \$40 million in incentives/grants for new businesses to locate in Bremerton.

Harrison Hospital. Harrison has launched a rigorous strategic planning process meant to ensure the hospital's future as a premier regional medical center on the Kitsap and Olympic Peninsulas and Bainbridge Island.

FACTORS AFFECTING FINANCIAL REPORTING

Internal Controls. The County's internal accounting controls are designed to provide reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing the financial statements and maintaining accountability of assets. Since the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

9 Source:

10 Source:

Budgetary Controls. The County's biennial budget serves as the foundation for Kitsap County's financial planning and control. State law (RCW 36.40) establishes the general requirements of Kitsap County's biennial budget process.

The law requires that the Board of County Commissioners adopt a final budget by no later than the close of the fiscal year. The biennial budget is adopted and systematically monitored on the fund level for special revenue and capital project funds and on a department level for the general fund. Personnel service costs in each fund are controlled by position. The acquisition of capital items is approved on an item by item basis in accordance with a long-term capital acquisition plan.

Budget-to-actual comparisons are provided in this report for each individual governmental fund of which an appropriate annual budget has been adopted. For the General Fund and major Special Revenue Funds, this comparison is presented as part of the basic financial statements. For other governmental fund, this comparison is presented in the non-major governmental fund subsection.

Cash Management. The Kitsap County Treasurer is empowered by state law to invest cash holdings as directed on behalf of Kitsap County and other taxing districts. Investments are made in the Washington State Investment Pool, (which is regulated by the State Treasurer, Governor, State Auditor and Joint legislative audit and review committee), the United States Government or its agencies, commercial paper and certificates of deposit.

The County's investment policy is designed to maximize the productive use of assets entrusted to its care and to invest and manage those funds wisely and prudently. Criteria for selecting investments and the order of priority are (1) safety, (2) liquidity and, (3) yield. The underlying principle of the County's investment policy is to ensure that cash is available when needed while at the same time reaping the highest and best return on the County's investment portfolio.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Kitsap County for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2003. Kitsap County has received this prestigious award for the last seven consecutive years. GFOA awards a certificate to governmental entities that exemplify excellence in financial reporting and conform to the stringent reporting requirements promulgated by the Association, GAAP and other applicable legal requirements.

A Certificate is valid for a period of only one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

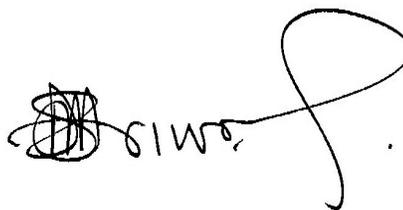
We express our appreciation to everyone in the County who assisted with and contributed to the preparation of this report. The preparation of this report could not have been accomplished without the professional, efficient, and dedicated services of the entire staff of the Auditor's Financial Services Division. We extend special recognition to the Treasurer's and Assessor's staff. We also recognize the professional efforts of the State Auditor's Office in their audit, and in the direction and advice they provide to us throughout the year.

Finally, we express our sincere appreciation to the Board of County Commissioners for their continued support, their leadership in planning and conducting the financial affairs of the County in a responsible and progressive manner, and their tireless efforts in working for the betterment of the community, and in making Kitsap County a great place to work and live.

Respectively submitted,



Karen Flynn
County Auditor



Ademola A. Ariwoola, MBA, CGFM
Financial Services Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Kitsap County,
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2003

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



Nancy L. Zjelle

President

Jeffrey R. Emer

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Kitsap County for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2003. This was the 7th consecutive year that Kitsap County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

KITSAP COUNTY
List of Elected and Appointed Officials
December 31, 2004

Elected Officials

<u>TITLE</u>	<u>INCUMBENT</u>	<u>END OF TERM</u>
Assessor	Jim Avery	12/31/06
Auditor	Karen Flynn	12/31/06
Clerk	Dave Peterson	12/31/06
Commissioner, District #1	Christene "Chris" Endresen	12/31/04
Commissioner, District #2	Jan Angel	12/31/04
Commissioner, District #3	Patty Lent	12/31/06
Coroner	Greg Sandstrom	12/31/06
District Court Judge, #1	James M. Riehl	12/31/06
District Court Judge, #2	W. Daniel Phillips	12/31/06
District Court Judge, #3	Marilyn Paja	12/31/06
Prosecuting Attorney	Russ Hauge	12/31/06
Sheriff	Steve Boyer	12/31/06
Superior Court Judge, #1	Leonard W. Costello	12/31/04
Superior Court Judge, #2	Leila Mills	12/31/04
Superior Court Judge, #3	Anna M. Laurie	12/31/04
Superior Court Judge, #4	Terry McCluskey	12/31/04
Superior Court Judge, #5	Jay Roof	12/31/04
Superior Court Judge, #6	Russell W. Hartman	12/31/04
Superior Court Judge, #7	M. Karlynn Haberly	12/31/04
Treasurer	Barbara Stephenson	12/31/06

Appointed Officials

<u>TITLE</u>	<u>INCUMBENT</u>
County Administrator	Malcolm Fleming
Director of Public Works	Randy Casteel
Director of Administrative Services	Ilene Frisch/ Benjamin Holland
Director of Personnel & Human Resources	Bert Furuta
Director of Department of Community Development	Kamuron D. Gurol
Director of Parks and Recreation	Christofer Gears

Kitsap County Organization

