

Kitsap County *Washington*



Comprehensive Annual Financial Report

Fiscal Year Ended December 31, 2005



**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, 2005

Prepared by the Auditor's Office

KITSAP COUNTY, WASHINGTON
 Comprehensive Annual Financial Report
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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

June 30, 2006

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

We are pleased to present to you the 2005 Comprehensive Annual Financial Report (CAFR) of Kitsap County, Washington. State law requires that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended December 31, 2005. 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.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that is established for this purpose. Since the cost of the internal control 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.

The Washington State Auditor's Office, an independent arm of the State of Washington, led by an independently elected official has issued an unqualified (no findings) opinion on the Kitsap County financial statements for the year ended December 31, 2005. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

THE COUNTY

Kitsap County occupies a unique portion of the State of Washington, directly between the urban areas of Seattle and Tacoma and the wilderness of the Olympic Mountains. It is bounded by the Hood Canal on the west, Puget Sound on the east, and Mason and Pierce Counties to the south.

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 ECONOMY

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 2005, the County's population rose to 240,400 (+900 from 2004).

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 2005 estimated population of 34,580 (-7.84% from the 2004 estimate). The 2005

population estimate for Port Orchard is 8,250 (+2.36% from 2004); Poulsbo 7,450 (+3.47% from 2004); and Bainbridge Island 22,200(+2.02% from 2004). Bremerton is expected to gain population in 2006 due to people moving into the new condominiums on the Bremerton waterfront.

Employment. Total employment increased to 115,100 in 2005 (+3,100 from 2004) while unemployment was at 4.8%. All employment categories are projected to experience increases except manufacturing, which is expected to decrease.

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.

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

In 2005, new construction property values hit a record high of \$499.92 million (+26.58% from 2004), and the growth in assessed value of all properties totaled \$23.32 billion (+20.30 from 2004).

The number and value of permits issued is an indicator of future growth in the county property tax base. In 2005, the County issued 2,218 housing permits. There has been a steady above-average growth pattern that is likely to characterize the Kitsap County housing market during the next several years.

Kitsap County's previously low valued real estate has definitely attracted buyers from more affluent markets. The projection is that the County will continue to experience moderate growth for the next three years due to the lower median cost of homes compared to the Seattle and Tacoma housing markets.

Sales Tax Revenue. Sales tax revenue continued to grow in 2005 for a total of \$29,354,349 (+\$387,865 from 2004). Construction of a Wal-Mart Superstore in Poulsbo and the increase in the number of small businesses were the main reason for the economic growth in Kitsap County in 2005. Based on current economic forecasts, total sales tax revenues are expected to continue to grow beyond 2006.

MAJOR INITIATIVES

The Board of County Commissioners are committed to providing quality service to its citizens and improving the quality of life throughout the county at a reasonable cost. Their visions for the county are:

- Safe and Healthy Communities
- Protected Natural Resources and Systems
- Thriving Local Economy
- Inclusive Government
- Effective and Efficient County Services

Their 2005 priorities emphasized trail enhancement projects, especially the Mosquito Fleet Heritage Corridor Management Plan, park infrastructure financing and sustained funding to support the Methamphetamine Task Force and Kitsap Nuisance Abatement Team. Other priorities included a transportation needs analysis and sub-area planning for Silverdale.

The County spent nearly \$28 million on road maintenance and construction in 2005 and has a budget of \$36.9 million for road maintenance and construction in 2006. Emphasis on safe communities is evident by an increasingly large percentage of the General Fund budget going to the Law and Justice Programs. Expenditures in these programs were \$52 million in 2005 and are budgeted at \$56 million in 2006, up by \$13.9 million from five years ago.

Over the past two years, the County has issued more than \$42 million in Limited Tax General Obligation bonds for construction, parks and open space purchases. Some of the County departments and offices are scheduled to move into their new Administration Building in June of 2006. The Offices of County Assessor, Auditor, Commissioners', and Treasurer, and the Department of Administrative Services, and the Department of Community Development are moving to the new building. After this move, the Public Works building will be renovated and weatherized and then the Courthouse, which has housed the administrative functions along with the Law and Justice functions will become a true Law and Justice Center housing only Law and Justice functions shortly after the completion of the Public Works building renovation/weatherization project. The County also has plans to design and build a new state-of-the-art Morgue facility within the next three years.

Kitsap County has more saltwater shoreline than any other county in the State of Washington. In the last year, the County has made strategic moves to accumulate saltwater access for the public throughout the county. Most notably, the county purchased Forbes Landing, a pristine sandy beach, in the Hansville area of North

Kitsap, and the Olalla boat ramp in South Kitsap County. The county also purchased open space forested land in Central Kitsap County to insure that preserved forests are available to the public and to create a wildlife corridor through the Central Kitsap area. The County also secured the last piece of land for the Central Kitsap (Silverdale) Campus.

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.

RELEVANT FINANCIAL POLICIES

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.

Annual Audit. The Office of the State Auditor conducts an annual audit of the financial statements of Kitsap County as required by state law (RCW 43.09.260). The goal of the independent audit is to provide reasonable assurance that the financial statements of the County for the fiscal year ended December 31, 2005 are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and assessing the overall financial statement presentation. The auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Kitsap County's financial statements for the fiscal year ended December 31, 2005 are fairly presented in conformity with generally accepted accounting principles (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

The State Auditor is also required to transmit a copy of noncompliance findings to the State Attorney General's Office if any such report discloses malfeasance, misfeasance, or nonfeasance in the office on the part of any public officer or employee. The Attorney General shall institute such legal action as is proper in the county within thirty days upon receipt of the State Auditor's report.

The independent audit of the financial statements of Kitsap County was part of a broader, federally mandated, single audit, designed to meet the special needs of federal grantor agencies as provided for in the Single Audit Act of 1984 and U.S. office of Management and Budget (OMB) Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Information related to this single audit act, including the schedule of expenditures of federal awards and state/local financial assistance, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations, will be issued in a separately issued Single Audit Report.

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 the 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.

Risk Management. Kitsap County is a member of the Washington Counties Risk Pool (pool). State law authorizes governmental entities to form or join a pool for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services. All pool joint self-insurance liability coverage, including public officials' errors and omissions, are on an 'occurrence' basis.

The County maintains an active risk management program emphasizing loss prevention, safety, and insurance purchase coordination. The Self-Insurance Fund is responsible for assessing charges to county funds, paying claim settlements and purchasing risk insurance policies. Interfund charges are based primarily on the loss experience of the various contributing funds. The County is self-insured for the first \$50,000 of claims on property insurance, \$250,000 on industrial insurance (workers compensation) claims and \$5,000 on employee crime/dishonesty insurance.

AWARDS AND ACKNOWLEDGEMENTS

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, 2004. Kitsap County has received this prestigious award for the last eight 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.

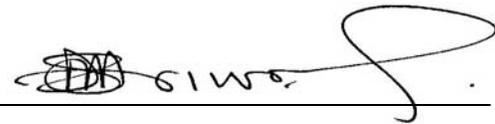
We express our appreciation to everyone in the County who assisted with and contributed to the preparation of this report. The preparation of this report could not have been accomplished without the professional, efficient, and dedicated services of the entire staff of the Auditor's Financial Services 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,

A handwritten signature in cursive script, appearing to read "Karen Flynn".

Karen Flynn
County Auditor

A handwritten signature in cursive script, appearing to read "Ademola A. Ariwoola".

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, 2004

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.



President

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, 2004. This was the 8th 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, 2005

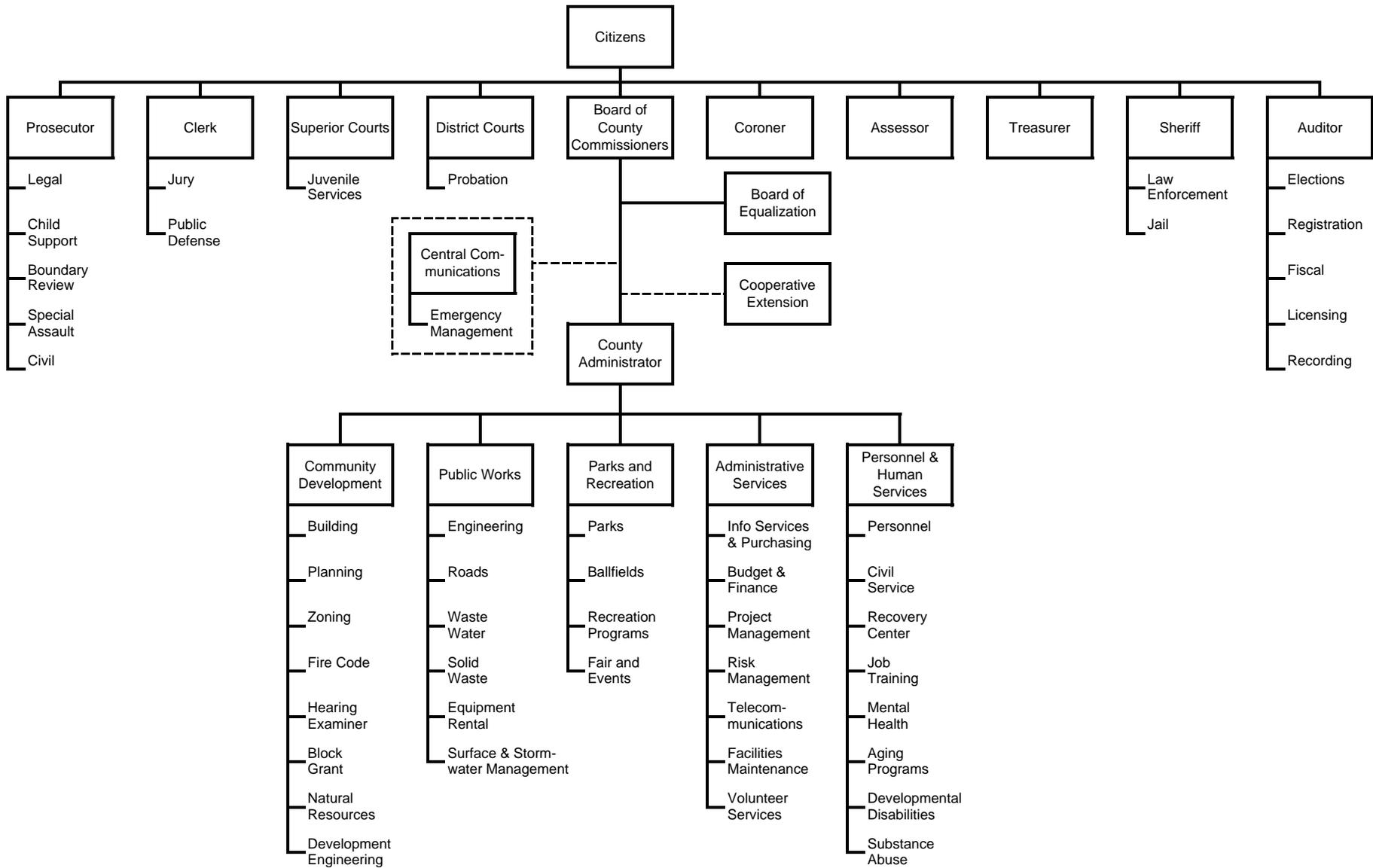
Elected Officials

<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	12/31/08
Commissioner, District #2	Jan Angel	12/31/08
Commissioner, District #3	Patty Lent	12/31/06
Coroner	Greg Sandstrom	12/31/06
District Court Judge, #1	James Riehl	12/31/06
District Court Judge, #2	W. Daniel Phillips	12/31/06
District Court Judge, #3	Marilyn Paja	12/31/06
District Court Judge, #4	Stephen J. Holman	12/31/06
Prosecuting Attorney	Russ Hauge	12/31/06
Sheriff	Steve Boyer	12/31/06
Superior Court Judge, #1	Leonard W. Costello	12/31/08
Superior Court Judge, #2	Leila Mills	12/31/08
Superior Court Judge, #3	Anna Laurie	12/31/08
Superior Court Judge, #4	Theodore F. Spearman	12/31/08
Superior Court Judge, #5	Jay B. Roof	12/31/08
Superior Court Judge, #6	Russell W. Hartman	12/31/08
Superior Court Judge, #7	M. Karlynn Haberly	12/31/08
Superior Court Judge, #8	Sally F. Olsen	12/31/08
Treasurer	Barbara Stephenson	12/31/06

Appointed Officials

<u>TITLE</u>	<u>INCUMBENT</u>
County Administrator	Malcolm Fleming/ Cris Gear
Director of Public Works	Randy Casteel
Director of Administrative Services	Benjamin Holland
Director of Personnel & Human Resources	Bert Furuta
Director of Community Development	Kamuron D. Gurol/ Cindy Baker
Director of Parks and Recreation	Cris Gears/ Mark Mauren
Director of Information Services	Bud Harris

Kitsap County Organization



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