



FINANCIAL SECTION



Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT

September 25, 2007

The Honorable Chairman and Members of the
Board of County 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 unit, each major fund, and the aggregate remaining fund information of Kitsap County, Washington, as of and for the year ended December 31, 2006, 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 unit, each major fund and the aggregate remaining fund information of Kitsap County, Washington, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, County Road Fund, Real Estate Excise Tax Fund, Mental Health Fund, and Home Entitlement Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 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



financial statements and supplemental information on pages 69 through 202 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 written in a cursive, flowing style with a large initial "B".

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, 2006. 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 \$511.92 (net assets). Of this amount, \$115.74 (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 \$7.68. The majority of the increase is attributable to the increase in fund balance of the Parks Capital Improvement Fund of \$5.85, which was the result of transfers from the 2006 GO Bond issued.
- As of the close of the current fiscal year, the Kitsap County governmental funds reported combined ending fund balances of \$95.59, an increase of \$8.14 over the prior year. Approximately \$84.01 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 \$9.03, or 10 percent of the total general fund expenditures.
- The Kitsap County's total general obligation debt increased by \$11.02 (10 percent) during the current fiscal year. The key factor in this increase was the issuance of 2006 GO Bond for \$18.09 to help fund various capital projects.

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, purchasing activities, and fleet of equipments. Because all these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Solid Waste, and Sewer funds, which are considered major funds of Kitsap County. Conversely, all the internal service funds are combined into single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 28 – 30 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 31 – 32 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 – 60 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 \$511.92 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.

Kitsap County's Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2006	2005	2006	2005	2006
Assets:						
Current assets	102.37	113.01	73.49	62.72	175.86	175.73
Capital assets	432.86	443.34	76.19	75.02	509.05	518.36
Total assets	535.23	556.35	149.68	137.74	684.91	694.09
Liabilities						
Other liabilities	22.62	26.63	5.28	4.54	27.90	31.17
Long-term liabilities	106.52	119.24	46.25	31.76	152.77	151.00
Total liabilities	129.14	145.87	51.53	36.30	180.67	182.17
Net assets						
Investment in capital	320.02	319.47	29.94	41.41	349.96	360.88
Restricted	10.73	21.20	25.71	14.09	36.44	35.29
Unrestricted	75.34	69.80	42.50	45.94	117.84	115.74
Total net asset	\$ 406.09	\$ 410.47	\$ 98.15	\$ 101.44	\$ 504.24	\$ 511.91

An additional portion of the Kitsap County's net assets (7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$115.74) 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 \$7.68 during the current fiscal year. The increase was mostly due to the addition of the new administrative building. Refer to the notes to the financial statements (Note 6) for a more in depth discussion of capital assets.

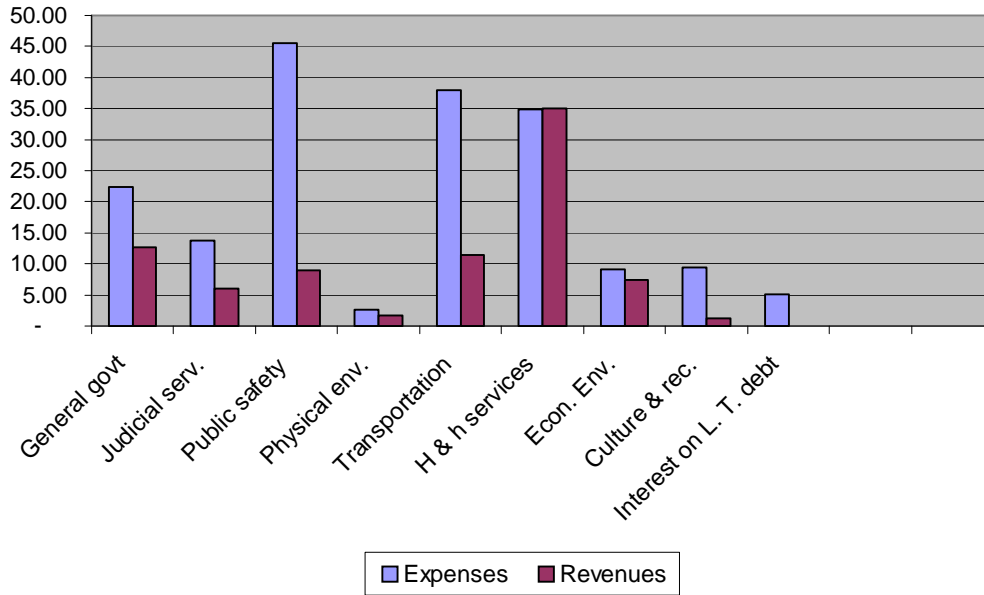
The government's restricted net asset decreased by 3% (from \$36.44 to \$35.30) and the unrestricted decreased by 2% (from \$117.84 to \$115.74).

Governmental activities. Governmental activities increased the County's net assets by \$4.38. The key elements of this net change are as follows:

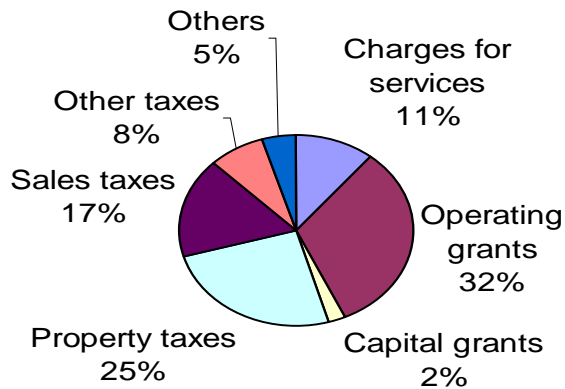
Revenues:	Governmental Activities		Business-type Activities		Total Primary government	
	2005	2006	2005	2006	2005	2006
Program revenues						
Charges for services	\$ 19.66	\$ 20.84	\$ 32.19	\$ 33.06	\$ 51.85	\$ 53.90
Operating grants	58.56	59.21	-	-	58.56	59.21
Capital grants	3.20	4.25	-	0.56	3.20	4.81
Fines & forfeits				-	-	-
General revenues						
Property taxes	46.59	46.69	-	-	46.59	46.69
Sales taxes	29.35	31.36	-	-	29.35	31.36
Other taxes	13.14	14.55	-	-	13.14	14.55
Investment earning	3.71	5.16	1.92	2.83	5.63	7.99
Other income	2.63	2.86	0.04	0.10	2.67	2.96
Total revenues	176.84	184.92	34.15	36.55	210.99	221.47
Expenses						
General government	19.13	22.85	-	-	19.13	22.85
Judicial services	13.66	13.80	-	-	13.66	13.80
Public safety	41.09	45.59	-	-	41.09	45.59
Physical environment	1.51	2.61	-	-	1.51	2.61
Transportation	35.62	37.96	-	-	35.62	37.96
Health & human services	34.97	34.84	-	-	34.97	34.84
Economic environment	8.13	9.04	-	-	8.13	9.04
Culture & recreation	7.21	9.03	-	-	7.21	9.03
Interest on LT debt	4.64	5.11	-	-	4.64	5.11
Utilities	-	-	29.79	32.78	29.79	32.78
Others	-	-	0.01	0.01	0.01	0.01
Total expenses	165.96	180.83	29.80	32.79	195.76	213.62
Inc in net assets before transfers	10.88	4.09	4.35	3.76	15.23	7.85
Special items - gain (loss)	0.10	-	0.20	-	0.30	-
Transfers	0.48	0.29	(0.48)	(0.29)	-	-
Increase in net assets	11.46	4.38	4.07	3.47	15.53	7.85
Beginning Net assets	393.83	406.09	94.08	98.15	487.91	504.24
Prior period adjustments	0.8	0	-	(0.18)	0.80	(0.18)
Ending Net assets	\$406.09	\$410.47	\$98.15	\$101.44	\$504.24	\$511.91

- Property taxes increased by \$.10 (.2 percent) during the year. Most of this increase is tax collection on new homes for roads in the unincorporated area of the county in 2006.
- Operating grants for government activities increased by \$.65
- Capital grants for government activity increased by \$1.05

Expenses and Program Revenues - Governmental Activities



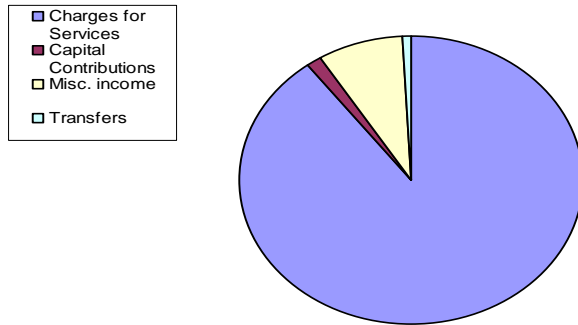
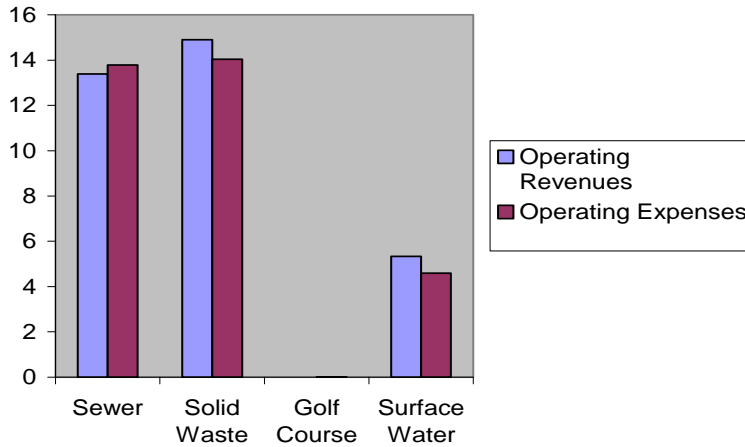
Revenues by Source – Governmental Activities



Business-type activities. The business-type activities increased the County’s net assets by \$3.47, accounting for part of the total growth in the government’s net assets. Key elements of this increase are as follows:

- Charges for services for business-type activities increased by 2.7 percent. The Sewer fund and Solid Waste account for the significant portion of this increase, which resulted from the increase in the number of service connections, and the tipping fees.

Expenses and Program Revenues – Business-type Activities



Financial Analysis of the Government’s Funds

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

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

As of the end of the current fiscal year, Kitsap County’s governmental funds reported combining ending fund balances of \$95.59, an increase of \$8.14 in comparison with the prior year. A major part of this total amount was from activity in the Parks Capital Improvement fund. The county had a \$5.85 increase in fund balance in this fund in 2006.

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 \$9.03, while the total fund balance dropped to \$20.61. 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 percent of the total general fund expenditures, while total fund balance represents 24 percent of that same amount.

The fund balance of Kitsap County's general fund decreased by \$3.09 during the current fiscal year. Key factors in this decline are as follows:

- Property tax increases not keeping pace with inflation factors.

County road fund balance decreased by \$3.09 due to an increase in road construction projects as capital outlay increased by \$7.6 in 2006.

Real Estate Excise Tax fund balance increased slightly from \$8.72 in 2005 to \$8.93 in 2006 due to increase in home sales in the county.

The Parks Capital Improvement fund had a major increase in fund balance of about \$5.82. This was due to the several ongoing parks capital projects.

The debt service funds have a total fund balance of \$3.38, 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 \$14.10, and unrestricted net assets of sewer were \$13.86, Solid Waste amounted to \$25.37, while the Surface Water was 6.53 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 \$3.50 during fiscal year 2006. This increase is due in part to increased sales tax, license and permit fees collections.

Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget. The following are the significant supplemental appropriations during the year. The county received about \$1.22 more in investment earnings than budgeted. In addition, Retail sales and use taxes exceeded the original budget by \$1.60.

During the year there was a \$7.82 increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$1.94 additional appropriation to Sheriffs Office to enable the hiring of additional officers as well as increasing services.
- \$1.33 additional appropriation to Sheriffs Office to upgrade fleet and equipment to be protect the public.
- \$.85 additional appropriation to the Community Development to enable the department to better serve the county.
- \$.66 additional appropriation to General Administration to enable them to better serve the public. In addition, they received an appropriation of \$.38 to upgrade computer and other equipment.
- \$.50 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 \$93.97, with a total of \$87.47.

Capital Assets

At the end of the fiscal year 2006, the Kitsap County investment in capital assets for its governmental activities is \$685.38 as reflected in the following schedule, which represents a net increase of \$28.31 or 4 percent from last year.

Governmental activities Change in Capital Assets (millions)

	Governmental Activities		Buiness-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	50.65	47.24	2.02	2.02	52.66	50.18
Infrastructure	419.03	412.37	0	0	419.07	412.37
Building	119.84	97.47	43.03	29.71	162.86	126.22
Building Improv	21.19	17.28	66.03	60.90	87.20	78.93
Machinery & Equipment	47.86	45.32	7.11	3.74	54.97	49.06
Construction in progress	26.81	37.39	5.20	24.00	32.01	61.39
Total	685.38	657.07	123.39	120.37	808.77	778.15
Less Accumulated depreciat	262.96	245.22	48.39	44.18	311.35	289.40
	\$422.42	\$411.85	\$75.00	\$76.19	\$497.42	\$488.75

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 \$6.65
- New Administration Building completed at a total cost of \$25.6
- The county purchased 98 acres for open space and future parks for \$2.47

- The county updated the Equipment Rental Fleet purchasing 6 pickups, 25 patrol vehicles, 1SUV, 2 mowers, a forklift, 3 large trucks and 2 trailers for \$1.82
- Park, ball field and fairground improvements completed at a cost of \$1.70
- Central Communications remotes sites for \$.80
- A biometric identification system for \$.76
- Majority of the construction in progress is various infrastructures projects totaling \$14.9
- Also in construction in progress is the Sinclair Restoration project for \$1.14

Business-type activities. Additions by the county in this area were dominated by the completion of the Kingston Plant and Outfall which accounted for \$18.92.

Long-term Debt

At year-end, the County had \$159.32 in long-term debt versus \$163.00 last year, a net change of \$3.98 and 2.4 percent.

Outstanding Debt, at Year-End

Government activities:	2005	Addition	Deletion	2006
Bond Payable	\$ 103.22	\$ 18.09	\$ 6.96	\$ 114.34
Special assessment	0.08	-	0.01	0.07
Comp	4.11	0.46	-	4.57
Int. serv. Debt	0.15	-	-	0.15
Leases	0.12	-	0.04	0.08
Notes Payable	5.38	-	0.11	5.27
Others	1.07	-	0.10	0.97
Total	114.13	18.55	7.22	125.45
Enterprise activities:				
Bond Payable	35.89	-	14.84	21.05
Comp	0.43	-	-	0.43
Others	12.59	0.65	0.68	12.56
Total	48.91	0.65	15.52	34.04
Total Debt	\$ 163.04	\$ 19.20	\$ 22.74	\$ 159.49

See Note 9 for more detail on Long-term debt.

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

- 2006 projects - \$18.09

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 \$120.97 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

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KITSAP COUNTY, WASHINGTON

Statement of Net Assets

December 31, 2006

	Governmental Activities	Business-type Activities	Total	Component Unit PFD
ASSETS				
Cash and Cash equivalents	\$ 56,695,710	\$ 5,447,752	\$ 62,143,462	90,025
Deposits with fiscal agents	85,000	-	85,000	-
Investments	25,630,333	40,464,847	66,095,180	971,383
Receivables(net)				-
Property taxes	2,315,297	-	2,315,297	-
Special assessments	201,217	6,373	207,590	-
Accounts	144,795	2,314,033	2,458,828	-
Others	18,173	-	18,173	-
Internal balances	430,777	(430,777)	0	-
Due from other governments	8,452,232	557,173	9,009,405	-
Prepayments	318,501	-	318,501	-
Inventories	1,074,449	262,900	1,337,349	-
Restricted assets:				-
Cash and cash equivalents	2,548,807	2,125,642	4,674,449	-
Deposits with fiscal agents	58,889	-	58,889	-
Investments	15,038,062	11,970,466	27,008,528	-
Notes/Contracts	9,523,609	-	9,523,609	-
Long-term Receivable from Comp. Unit	11,395,000	-	11,395,000	-
Capital assets, net (Note1)				-
Land	50,650,714	2,021,221	52,671,935	-
Infrastructure	205,482,344	-	205,482,344	-
Buildings	99,784,950	22,489,497	122,274,447	-
Improvements & Other Buildings	15,683,872	42,150,364	57,834,236	-
Machinery & Equipment	24,003,658	3,137,635	27,141,293	-
Construction In Progress	26,813,601	5,223,105	32,036,706	-
Total assets	<u>556,349,990</u>	<u>137,740,232</u>	<u>694,090,222</u>	<u>1,061,408</u>
LIABILITIES				
Accounts payable and accrued expenses	4,761,791	1,508,793	6,270,584	-
Due to other governments	820,150	120,969	941,119	-
Other liabilities	6,502,286	617,753	7,120,039	-
Unearned revenue	8,359,213	-	8,359,213	-
Non current Liabilities (Note 2):				
Due within one year	6,190,393	2,978,152	9,168,545	-
Due in more than one year	119,244,197	31,071,277	150,315,474	11,395,000
Total liabilities	<u>145,878,030</u>	<u>36,296,944</u>	<u>182,174,974</u>	<u>11,395,000</u>
NET ASSETS				
Invested in capital assets, net of related debt	319,470,402	41,407,373	360,877,775	-
Restricted:				
Capital Projects	17,823,347	-	17,823,347	-
Debt service	3,376,990	14,096,108	17,473,098	-
Unrestricted	69,801,221	45,939,807	115,741,028	(10,333,592)
Total net assets	<u>\$ 410,471,960</u>	<u>\$ 101,443,288</u>	<u>\$ 511,915,248</u>	<u>\$ (10,333,592)</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, 2006

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	\$ 22,846,610	\$ 7,166,835	\$ 5,443,790	\$ -	\$ (10,235,985)	\$ -	\$ (10,235,985)	\$ -
Judicial Services	13,801,540	4,277,345	1,747,455	-	(7,776,740)	-	(7,776,740)	-
Public Safety	45,587,755	828,770	8,080,661	-	(36,678,324)	-	(36,678,324)	-
Physical Environment	2,612,816	1,630,657	18,854	-	(963,305)	-	(963,305)	-
Transportation	37,955,970	1,185,725	5,923,314	4,253,035	(26,593,896)	-	(26,593,896)	-
Health & Human Services	34,836,982	279,624	34,764,456	-	207,098	-	207,098	-
Economic Environment	9,041,016	4,349,137	3,103,583	-	(1,588,296)	-	(1,588,296)	-
Culture & Recreation	9,030,709	1,125,513	126,998	-	(7,778,198)	-	(7,778,198)	-
Interest on Long-term Debt	5,105,258	-	-	-	(5,105,258)	-	(5,105,258)	-
Total Governmental Activities	<u>180,818,656</u>	<u>20,843,606</u>	<u>59,209,111</u>	<u>4,253,035</u>	<u>(96,512,905)</u>	<u>0</u>	<u>(96,512,905)</u>	<u>-</u>
Business-type Activities								
Solid Waste	14,028,733	14,902,394	-	-	-	873,661	873,661	-
Sewer Utility	14,168,901	12,825,678	-	562,445	-	(780,778)	(780,778)	-
Surface Water	4,580,368	5,333,384	-	-	-	753,016	753,016	-
Golf	8,097	-	-	-	-	(8,097)	(8,097)	-
Total business-type activities	<u>32,786,099</u>	<u>33,061,456</u>	<u>-</u>	<u>562,445</u>	<u>-</u>	<u>837,802</u>	<u>837,802</u>	<u>-</u>
Total Primary Government	<u>\$ 213,604,755</u>	<u>\$ 53,905,062</u>	<u>\$ 59,209,111</u>	<u>\$ 4,815,480</u>	<u>(96,512,905)</u>	<u>837,802</u>	<u>(95,675,103)</u>	<u>-</u>
Component Units:								
Public Facility District(PFD)	1,066,264	-	500,000	-	-	-	-	(566,264)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					46,694,497	-	46,694,497	-
Property taxes, levied for debt service					-	-	-	-
Sales & use taxes					31,354,055	-	31,354,055	1,197,100
Other taxes					14,536,727	-	14,536,727	-
Investment earnings					5,162,842	2,830,227	7,993,069	33,032
Miscellaneous					2,849,703	104,930	2,954,633	-
Special item - gain(loss) on sale of capital assets					-	-	-	-
Transfers					299,535	(299,535)	-	-
Total general revenues, special items, and transfers					<u>100,897,358</u>	<u>2,635,622</u>	<u>103,532,980</u>	<u>1,230,132</u>
Change in net assets					4,384,453	3,473,424	7,857,877	663,869
Net assets - beginning					406,087,507	98,147,903	504,235,410	(10,997,461)
Prior Period Adjustments					-	(178,038)	(178,038)	-
Net assets - ending					<u>\$ 410,471,960</u>	<u>\$ 101,443,289</u>	<u>\$ 511,915,249</u>	<u>\$ (10,333,592)</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 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.

Home Entitlement – A fund used to account for funding and spending of the County’s Home Entitlement Program

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.

KITSAP COUNTY, WASHINGTON

Balance Sheet
 Governmental Funds
 December 31, 2006

	Special Revenue Funds			
	General Fund	Road Department	Real Estate Excise Tax	Mental Health
ASSETS				
Cash and Cash equivalents	\$ 9,200,728	\$ 14,428,049	\$ 766,855	\$ 2,356,566
Deposits with fiscal agents	-	-	58,889	-
Investments	-	7,444,777	8,293,370	-
Receivables(net)	-	-	-	-
Property Taxes	1,356,482	859,796	-	-
Special assessments	(883)	104,731	-	-
Accounts	182,392	-	-	-
Notes/Contracts	11,395,000	-	5,272,500	-
Others	14,921	-	-	-
Due from other funds	1,016,235	193,048	-	1,444
Due from other governments	1,259,398	1,630,083	-	43,490
Interfund loan receivable	-	-	-	-
Prepayments	22,200	-	-	-
Advance to other funds	160,000	500,000	-	-
Total assets	\$ 24,606,474	\$ 25,160,484	\$ 14,391,615	\$ 2,401,500
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	1,527,854	112,813	87,269	136,035
Due to other funds	23,131	1,044,464	-	-
Due to other governments	-	-	-	45,520
Other liabilities	1,144,354	468,967	-	7,616
Advance from other fund	-	-	-	-
Revenues collected in advance	13,540	-	-	-
Deferred revenue	1,289,519	964,527	5,375,000	-
Long term debt due within one year	-	-	-	-
Total liabilities	3,998,398	2,590,772	5,462,269	189,171
Fund balances				
Reserved:				
Prepayments	22,200	-	-	-
Advance/Receivable	11,555,000	-	-	-
Unreserved:				
General fund	9,030,873	-	-	-
Special revenues	-	22,569,712	8,929,346	2,212,329
Debt services	-	-	-	-
Capital projects funds	-	-	-	-
Total fund balance	20,608,076	22,569,712	8,929,346	2,212,329
Total liabilities & fund balances	\$ 24,606,474	\$ 25,160,484	\$ 14,391,615	\$ 2,401,500

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

KITSAP COUNTY, WASHINGTON

Balance Sheet
 Governmental Funds
 December 31, 2006

	Home Entitlement	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash equivalents	\$ 51,426	\$ 13,635,377	\$ 40,439,001
Deposits with fiscal agents	-	5,000	63,889
Investments	188,836	24,741,411	40,668,395
Receivables(net)	-	-	-
Property Taxes	-	99,019	2,315,297
Special assessments	-	97,369	201,217
Accounts	-	(37,597)	144,795
Notes/Contracts	2,661,109	1,590,000	20,918,609
Others	3,252	-	18,173
Due from other funds	20,991	101,267	1,332,984
Due from other governments	122,375	5,396,886	8,452,232
Interfund loan receivable	-	-	-
Prepayments	-	-	22,200
Advance to other funds	-	-	660,000
Total assets	\$ 3,047,989	\$ 45,628,735	\$ 115,236,793
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	269,360	2,113,490	4,246,821
Due to other funds	20,991	119,565	1,208,151
Due to other governments	-	774,630	820,150
Other liabilities	-	213,632	1,834,569
Advance from other fund	30,000	630,000	660,000
Revenues collected in advance	-	-	13,540
Deferred revenue	2,661,109	572,032	10,862,187
Long term debt due within one year	-	-	-
Total liabilities	2,981,460	4,423,349	19,645,418
Fund balances			
Reserved:			
Prepayments	-	-	22,200
Advance/Receivable	-	-	11,555,000
Unreserved:			
General fund	-	-	9,030,873
Special revenues	66,529	20,005,049	53,782,965
Debt services	-	3,376,990	3,376,990
Capital projects funds	-	17,823,347	17,823,347
Total fund balance	66,529	41,205,386	95,591,375
Total liabilities & fund balances	\$ 3,047,989	\$ 45,628,735	\$ 115,236,793

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, 2006

Fund balances of governmental funds - page 18 \$ 95,591,375

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	685,383,752	
Depreciation	(262,964,613)	
Capital asset net of depreciation		422,419,139

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

Bond payable	114,408,737	
Compensated absences	4,571,974	
Capital lease	58,001	
Other long-term liabilities	6,239,593	
Long-term debt		(125,278,304)

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

2,516,514

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	20,663,277	
Liabilities	(5,440,039)	
Asset less liabilities		15,223,239

Net assets of governmental activities - page 13

\$ 410,471,960

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, 2006

	General Fund	Special Revenue Funds		
		County Roads	Real Estate Excise Tax	Mental Health
REVENUES:				
Property taxes	\$ 24,444,566	\$ 20,366,370	\$ -	\$ 390,004
Retail sales & use taxes	23,119,370	-	-	-
Other taxes	5,889,600	50,141	7,001,149	-
Licenses and permits	3,168,436	120,547	-	-
Intergovernmental	8,149,209	10,148,194	-	21,404,781
Charges for services	11,050,633	538,060	-	-
Fines & forfeits	2,704,429	23,516	-	-
Investment earnings	2,687,300	425,668	658,171	-
Miscellaneous	938,030	27,396	3,200	156,700
Total revenues	82,151,573	31,699,893	7,662,520	21,951,486
EXPENDITURES:				
Current:				
General government	24,329,441	-	27,576	-
Judicial Services	13,623,781	-	-	-
Public safety	33,084,379	-	-	-
Physical Environment	1,253,385	-	-	-
Transportation	-	23,128,597	-	-
Health & Human Services	-	-	-	21,009,306
Economic Environment	6,009,713	-	-	-
Culture & recreation	6,361,087	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	-	88,859	102,500	-
Interest and other charges	-	7,878	253,953	-
Capital outlay	1,213,710	12,808,423	1,754,831	-
Total expenditures	85,875,496	36,033,757	2,138,859	21,009,306
Excess(deficiency) of revenues over expenditures	(3,723,923)	(4,333,863)	5,523,660	942,180
OTHER FINANCING SOURCES (USES):				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Premiums on bonds	-	-	-	-
Sale of capital assets	-	135,100	-	-
Transfers in	2,223,021	5,086,000	1,754,831	7,500
Transfers out	(1,593,552)	(3,980,214)	(7,069,943)	(200,000)
Other adjustments	-	-	-	-
Total other financing sources & uses	629,469	1,240,886	(5,315,112)	(192,500)
Net change in fund balance	(3,094,454)	(3,092,978)	208,548	749,680
Fund balances-beginning	23,702,530	25,662,690	8,720,798	1,462,649
Prior period adjustments	-	-	-	-
Fund balances-ending	\$ 20,608,076	\$ 22,569,712	\$ 8,929,346	\$ 2,212,329

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, 2006

	Home Entitlement	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Property taxes	\$ -	\$ 1,493,558	\$ 46,694,498
Retail sales & use taxes	-	8,234,685	31,354,055
Other taxes	-	1,595,837	14,536,727
Licenses and permits	-	19,089	3,308,072
Intergovernmental	1,048,131	22,711,830	63,462,144
Charges for services	-	2,883,747	14,472,440
Fines & forfeits	-	335,149	3,063,094
Investment earnings	8,751	1,382,950	5,162,840
Miscellaneous	4,274	1,584,501	2,714,101
Total revenues	1,061,155	40,241,345	184,767,972
EXPENDITURES:			
Current:			
General government	-	1,413,012	25,770,029
Judicial Services	-	144,946	13,768,727
Public safety	-	9,309,773	42,394,152
Physical Environment	-	1,359,430	2,612,815
Transportation	-	373,703	23,502,300
Health & Human Services	-	13,674,019	34,683,325
Economic Environment	1,048,131	1,967,155	9,024,999
Culture & recreation	-	1,590,774	7,951,861
Interest on long-term debt	-	-	-
Debt service			
Principal	-	6,973,290	7,164,649
Interest and other charges	-	5,088,306	5,350,136
Capital outlay	-	7,411,312	23,188,276
Total expenditures	1,048,131	49,305,720	195,411,269
Excess(deficiency) of revenues over expenditures	13,024	(9,064,375)	(10,643,296)
OTHER FINANCING SOURCES (USES):			
Refunding bonds issued	-	-	-
Capital -related debt issued	-	18,085,000	18,085,000
Premiums on bonds	-	338,094	338,094
Sale of capital assets	-	502	135,602
Transfers in	-	29,808,474	38,879,826
Transfers out	-	(25,805,268)	(38,648,977)
Other adjustments	-	-	-
Total other financing sources & uses	-	22,426,803	18,789,546
Net change in fund balance	13,024	13,362,428	8,146,250
Fund balances-beginning	53,505	27,842,957	87,445,129
Prior period adjustments	-	-	-
Fund balances-ending	\$ 66,529	\$ 41,205,385	\$ 95,591,375

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, 2006

Net change in fund balances-total governmental funds - page 21 \$ 8,146,250

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	23,188,274
Depreciation	(20,256,914)

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	(18,423,094)
Other debt issuance costs	244,879
Bond principal	7,164,649

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

Internal services Activities

Net Transfers	68,686
Depreciation already included above	1,484,436
Net profit	2,767,287

Change in net assets of governmental activities - page 14 \$ 4,384,453

KITSAP COUNTY, WASHINGTON

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

General Fund

Year Ended December 31, 2006

	2006			
	Original	Final	Actual	Variance
	Budget	Budget		Final Budget
REVENUES:				
Property taxes	\$ 24,492,919	\$ 24,492,919	\$ 24,444,566	\$ (48,353)
Retail sales & use taxes	21,520,000	22,541,145	23,119,370	578,225
Other taxes	6,162,670	6,162,670	5,889,600	(273,070)
Licenses and permits	3,222,357	3,279,730	3,168,436	(111,294)
Intergovernmental	6,902,695	9,067,275	8,149,209	(918,066)
Charges for services	10,844,399	11,023,477	11,050,633	27,156
Fines & forfeits	3,035,885	3,154,064	2,704,429	(449,635)
Investment earnings	1,463,166	1,463,166	2,687,300	1,224,134
Miscellaneous	1,003,767	1,059,511	938,030	(121,481)
Total revenues	78,647,858	82,243,957	82,151,573	(92,384)
EXPENDITURES:				
Current:				
General government				
Administrative Services	\$ 625,948	\$ 683,936	\$ 653,293	\$ 30,643
Assessor	2,473,833	2,548,920	2,342,554	206,366
Auditor	3,419,543	3,584,932	3,526,530	58,402
Commissioners	1,168,523	1,221,749	1,169,304	52,445
General Administration	6,841,011	7,501,396	7,459,986	41,410
Personnel & Human resources	951,459	1,137,361	1,081,477	55,884
Prosecuting attorney	7,119,497	7,624,388	7,206,551	417,837
Treasurer	950,377	989,134	889,746	99,388
Total general government	23,550,191	25,291,816	24,329,440	962,376
Judicial Services				
Clerk	\$ 6,236,900	\$ 6,359,563	\$ 6,002,361	\$ 357,202
District court	2,756,678	2,882,028	2,692,324	189,704
Superior court	2,694,508	2,938,050	2,763,005	175,045
Juvenile	2,264,346	2,429,592	2,166,091	263,501
Total Judicial services	13,952,432	14,609,233	13,623,781	985,452
Public safety				
Sheriff	\$ 16,578,181	\$ 18,516,373	\$ 17,836,580	\$ 679,793
Jail	9,527,699	9,598,148	9,365,311	232,837
Juvenile	5,121,742	5,442,139	5,011,916	430,223
Coroner	850,126	905,660	867,281	38,379
Personnel & Human Resources	4,680	8,010	3,290	4,720
Total Public Safety	32,082,428	34,470,330	33,084,378	1,385,952
Physical Environment				
Community Development	\$ 1,188,953	\$ 1,721,594	\$ 1,253,385	\$ 468,209
Total Physical Environment	1,188,953	1,721,594	1,253,385	468,209
Economic Environment				
Community Development	\$ 5,877,071	\$ 6,192,340	\$ 6,009,713	\$ 182,627
Total Economic Environment	5,877,071	6,192,340	6,009,713	182,627
Culture & recreation				
Parks	\$ 5,590,490	\$ 5,847,659	\$ 5,537,594	\$ 310,065
Cooperative Extension	300,961	301,731	295,770	5,961
Personnel & Human Resources	566,192	595,459	527,723	67,736
Total Culture & Recreation	6,457,643	6,744,849	6,361,087	383,762
Capital outlay	1,535,732	3,338,067	1,213,710	2,124,357
Total expenditures	84,644,450	92,368,229	85,875,496	6,492,734
Excess(deficiency) of revenues over expenditures	(5,996,592)	(10,124,272)	(3,723,923)	6,400,350
OTHER FINANCING SOURCES (USES):				
Transfers in	1,782,831	2,225,117	2,223,021	(2,096)
Transfers out	(1,504,559)	(1,600,715)	(1,593,552)	7,163
Total other financing sources & uses	278,272	624,402	629,469	5,067
Net change in fund balance	(5,718,320)	(9,499,870)	(3,094,454)	6,405,417
Fund balances-beginning	23,702,530	23,702,530	23,702,530	-
Fund balances-ending	17,984,210	14,202,660	20,608,076	6,405,417

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, 2006

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 20,282,648	\$ 20,282,648	\$ 20,366,370	\$ 83,722
Retail sales & use taxes	-	-	-	-
Other taxes	40,000	40,000	50,141	10,141
Licenses and permits	80,000	80,000	120,547	40,547
Intergovernmental	10,376,800	10,824,550	10,148,194	(676,356)
Charges for services	279,000	279,000	538,060	259,060
Fines & forfeits	-	-	23,516	23,516
Investment earnings	14,000	14,000	425,668	411,668
Miscellaneous	3,000	3,000	27,396	24,396
Total revenues	<u>31,075,448</u>	<u>31,523,198</u>	<u>31,699,893</u>	<u>176,695</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	22,075,027	22,500,177	23,128,597	(628,420)
Health & Human Services	-	-	-	-
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	88,859	88,859	88,859	-
Interest and other charges	8,078	8,078	7,878	200
Capital outlay	9,316,400	14,675,000	12,808,423	1,866,577
Total expenditures	<u>31,488,364</u>	<u>37,272,114</u>	<u>36,033,757</u>	<u>1,238,357</u>
Excess(deficiency) of revenues over expenditures	<u>(412,916)</u>	<u>(5,748,916)</u>	<u>(4,333,863)</u>	<u>1,415,053</u>
OTHER FINANCING SOURCES (USES):				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	135,100	135,100
Transfers in	6,180,000	6,180,000	5,086,000	(1,094,000)
Transfers out	(3,979,966)	(3,980,217)	(3,980,214)	3
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>2,200,034</u>	<u>2,199,783</u>	<u>1,240,886</u>	<u>(958,897)</u>
Net change in fund balance	<u>1,787,118</u>	<u>(3,549,133)</u>	<u>(3,092,978)</u>	<u>456,155</u>
Fund balances-beginning	25,662,690	25,662,690	25,662,690	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 27,449,808</u>	<u>\$ 22,113,557</u>	<u>\$ 22,569,712</u>	<u>\$ 456,155</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, 2006

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Retail sales & use taxes	-	-	-	-
Other taxes	-	-	-	-
Licenses and permits	5,230,000	5,230,000	7,001,149	1,771,149
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines & forfeits	-	-	-	-
Investment earnings	502,000	502,000	658,171	156,171
Miscellaneous	-	-	3,200	3,200
Total revenues	<u>5,732,000</u>	<u>5,732,000</u>	<u>7,662,520</u>	<u>1,930,520</u>
EXPENDITURES:				
Current:				
General government	50,000	50,000	27,576	22,424
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	-	-	-	-
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service	-	-	-	-
Principal	103,000	103,000	102,500	500
Interest and other charges	252,000	252,000	253,953	(1,953)
Capital outlay	-	1,754,831	1,754,831	0
Total expenditures	<u>405,000</u>	<u>2,159,831</u>	<u>2,138,859</u>	<u>20,972</u>
Excess(deficiency) of revenues over expenditures	<u>5,327,000</u>	<u>3,572,169</u>	<u>5,523,660</u>	<u>1,951,491</u>
OTHER FINANCING SOURCES (USES):				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	-	1,754,831	1,754,831	-
Transfers out	(7,070,430)	(7,070,430)	(7,069,943)	487
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>(7,070,430)</u>	<u>(5,315,599)</u>	<u>(5,315,112)</u>	<u>487</u>
Net change in fund balance	<u>(1,743,430)</u>	<u>(1,743,430)</u>	<u>208,548</u>	<u>1,951,978</u>
Fund balances-beginning	8,720,798	8,720,798	8,720,798	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 6,977,368</u>	<u>\$ 6,977,368</u>	<u>\$ 8,929,346</u>	<u>\$ 1,951,978</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, 2006

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 200,000	\$ 200,000	\$ 390,004	\$ 190,004
Retail sales & use taxes	-	-	-	-
Other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	26,800,000	26,800,000	21,404,781	(5,395,219)
Charges for services	-	-	-	-
Fines & forfeits	-	-	-	-
Investment earnings	-	-	-	-
Miscellaneous	100,000	100,000	156,700	56,700
Total revenues	<u>27,100,000</u>	<u>27,100,000</u>	<u>21,951,486</u>	<u>(5,148,514)</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	26,907,500	26,907,500	21,009,306	5,898,194
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay				
Total expenditures	<u>26,907,500</u>	<u>26,907,500</u>	<u>21,009,306</u>	<u>5,898,194</u>
Excess(deficiency) of revenues over expenditures	<u>192,500</u>	<u>192,500</u>	<u>942,180</u>	<u>749,680</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>(192,500)</u>	<u>-</u>
Net change in fund balance	-	-	749,680	749,680
Fund balances-beginning	1,462,649	1,462,649	1,462,649	0
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>1,462,649</u>	<u>1,462,649</u>	<u>\$ 2,212,329</u>	<u>\$ 749,680</u>

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

KITSAP COUNTY, WASHINGTON

Home Entitlement Fund 166

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2006

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Retail sales & use taxes	-	-	-	-
Other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	2,485,808	2,373,364	1,048,131	(1,325,233)
Charges for services	-	-	-	-
Fines & forfeits	-	-	-	-
Investment earnings	-	-	8,751	8,751
Miscellaneous	-	-	4,274	4,274
Total revenues	2,485,808	2,373,364	1,061,155	(1,312,209)
EXPENDITURES:				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	-	-	-	-
Economic Environment	2,485,808	2,373,364	1,048,131	1,325,233
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	2,485,808	2,373,364	1,048,131	1,325,233
Excess(deficiency) of revenues over expenditures	-	-	13,024	13,024
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	-	-	-	-
Other adjustments	-	-	-	-
Total other financing sources & uses	-	-	-	-
Net change in fund balance	-	-	13,024	13,024
Fund balances-beginning	53,505	53,505	53,505	-
Prior period adjustments	-	-	-	-
Fund balances-ending	53,505	53,505	\$ 66,529	\$ 13,024

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

KITSAP COUNTY, WASHINGTON

Statement of Net Assets

Proprietary Funds

December 31, 2006

	Business-type Activities-Enterprise Funds			Total	Governmental Activities Internal Services Funds
	Sanitary Sewer	Solid Waste	Other Non-Major Funds		
ASSETS					
Current assets:					
Cash and Cash equivalents	\$ 1,549,885	\$ 2,872,013	\$ 1,025,854	\$ 5,447,752	\$ 18,805,516
Deposits with fiscal agents	-	-	-	-	80,000
Investments	12,274,656	22,153,424	6,036,767	40,464,847	-
Receivables(net)					
Special assessments	6,373	-	-	6,373	-
Accounts	1,073,875	1,254,999	(14,841)	2,314,033	-
Due from other funds	2,371,436	76,621	130,990	2,579,047	407,011
Due from other governments	-	262,173	295,000	557,173	-
Prepayments	-	-	-	-	296,301
Inventories	262,900	-	-	262,900	1,074,449
Restricted assets:					
Cash and cash equivalents	2,125,642	-	-	2,125,642	-
Deposits with fiscal agents	-	-	-	-	-
Investments	11,970,466	-	-	11,970,466	-
Total current assets	<u>31,635,233</u>	<u>26,619,230</u>	<u>7,473,770</u>	<u>65,728,233</u>	<u>20,663,277</u>
Noncurrent assets:					
Capital assets, net (Note1)					
Land	1,123,482	472,444	425,295	2,021,221	-
Buildings	42,330,646	658,279	37,267	43,026,192	-
Improvements & Other Buildings	58,256,168	1,606,355	6,169,917	66,032,440	-
Machinery & Equipments	6,893,710	76,808	135,812	7,106,330	25,890,469
Construction In Progress	3,406,950	15,526	1,800,630	5,223,106	-
Less accumulated depreciation	(45,736,468)	(1,055,954)	(1,595,044)	(48,387,466)	(13,937,082)
Total noncurrent assets	<u>66,274,488</u>	<u>1,773,458</u>	<u>6,973,877</u>	<u>75,021,823</u>	<u>11,953,387</u>
Total assets	<u>97,909,721</u>	<u>28,392,688</u>	<u>14,447,646</u>	<u>140,750,055</u>	<u>32,616,664</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	332,919	953,748	222,126	1,508,793	514,970
Due to other funds	2,517,602	167,799	324,423	3,009,824	101,067
Due to other governments	3,705	-	117,264	120,969	-
Other liabilities	529,890	51,437	36,426	617,753	4,667,717
Total current liabilities	<u>3,384,116</u>	<u>1,172,984</u>	<u>700,239</u>	<u>5,257,339</u>	<u>5,283,754</u>
Non current Liabilities (Note 2):					
Due within one year	2,978,152	-	-	2,978,152	-
Due in more than one year	30,930,397	72,675	68,205	31,071,277	156,284
Total noncurrent liabilities	<u>33,908,549</u>	<u>72,675</u>	<u>68,205</u>	<u>34,049,429</u>	<u>156,284</u>
Total liabilities	<u>37,292,665</u>	<u>1,245,659</u>	<u>768,444</u>	<u>39,306,768</u>	<u>5,440,038</u>
NET ASSETS					
Invested in capital assets, net of related debt	32,660,038	1,773,458	6,973,877	41,407,373	11,797,103
Restricted:					
Debt service	14,096,108	-	-	14,096,108	-
Unrestricted	13,860,910	25,373,571	6,705,326	45,939,807	15,379,523
Total net assets	<u>\$ 60,617,056</u>	<u>\$ 27,147,029</u>	<u>\$ 13,679,202</u>	<u>\$ 101,443,288</u>	<u>\$ 27,176,626</u>

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

KITSAP COUNTY, WASHINGTON

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

Proprietary Funds

For the Year Ended December 31, 2006

	Business-type Activities - Enterprise Funds				Governmental
	Sanitary Sewer	Solid Waste	Other Non-Major Funds	Total	Activities Internal Service Funds
Operating revenues:					
Charges for services	\$ 12,825,678	\$ 14,902,394	\$ 5,333,384	\$ 33,061,456	\$ 18,170,940
Miscellaneous	-	-	104,930	104,930	6,587
Total operating revenues	12,825,678	14,902,394	5,438,314	33,166,386	18,177,527
Operating expenses:					
Personal services	4,573,989	1,441,489	1,759,494	7,774,972	5,261,243
Contractual services	860,189	1,091,766	1,628,552	3,580,507	1,037,970
Utilities	1,173,797	10,938,051	68,364	12,180,212	22,425
Repair and maintenance	40,217	54,962	40,239	135,418	725,678
Other supplies and expenses	1,998,531	393,174	803,915	3,195,620	5,872,290
Insurance claims and expenses	87,600	7,627	37,860	133,087	1,214,807
Depreciation	3,856,448	101,664	250,041	4,208,153	1,484,436
Total operating expenses	12,590,771	14,028,733	4,588,465	31,207,969	15,618,849
Operating income	234,907	873,661	849,849	1,958,417	2,558,678
Nonoperating revenue (expenses)					
Interest and investment revenue	1,092,423	899,405	279,359	2,271,187	-
Miscellaneous revenue	-	409,040	150,000	559,040	-
Interest expense	(1,578,130)	-	-	(1,578,130)	-
Miscellaneous expense	-	-	-	-	(18,307)
Total nonoperating expenses	(485,707)	1,308,445	429,359	1,252,097	(18,307)
Income (loss) before contributions & transfers	(250,800)	2,182,106	1,279,208	3,210,514	2,540,371
Capital contributions	562,445	-	-	562,445	158,230
Transfers in	2,746,965	470,880	591,830	3,809,675	87,634
Transfers out	(2,868,115)	(470,880)	(770,216)	(4,109,211)	(18,948)
Change in net assets	190,495	2,182,106	1,100,822	3,473,423	2,767,287
Total net assets - beginning	60,604,600	24,964,923	12,578,380	98,147,903	24,409,339
Prior Period Adjustments	(178,038)	-	-	(178,038)	-
Total net assets - ending	\$ 60,617,057	\$ 27,147,029	\$ 13,679,202	\$ 101,443,288	\$ 27,176,626

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, 2006

	Business-type Activities - Enterprise Funds			Total	Governmental
	Sanitary Sewer	Solid Waste	Other Non- Major Funds		Activities Internal service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$11,624,557	\$14,902,394	\$ 5,438,314	\$ 31,965,265	\$ 18,843,090
Payments to suppliers	(2,612,348)	(12,707,217)	(2,517,246)	(17,836,811)	(8,914,964)
Payments to employees	(4,555,120)	(1,431,935)	(1,744,502)	(7,731,557)	(5,256,977)
Net cash provided by operating activities	<u>4,457,089</u>	<u>763,242</u>	<u>1,176,566</u>	<u>6,396,897</u>	<u>4,671,149</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants received	-	346,947	-	346,947	-
Transfers	(121,150)	-	(178,386)	(299,536)	68,686
Net cash provided by noncapital activities	<u>(121,150)</u>	<u>346,947</u>	<u>(178,386)</u>	<u>47,411</u>	<u>68,686</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	562,445	-	-	562,445	158,230
Purchases of capital assets	(1,922,258)	-	(1,027,279)	(2,949,537)	(1,982,987)
Principal paid on capital debt	(2,244,940)	-	-	(2,244,940)	-
Interest paid on capital debt	(1,312,928)	-	-	(1,312,928)	-
Net cash from related financing activities	<u>(4,917,681)</u>	<u>-</u>	<u>(1,027,279)</u>	<u>(5,944,960)</u>	<u>(1,824,757)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	5,333,600	200,000	2,950,000	8,483,600	-
Purchase of Investment	(6,045,058)	(2,449,405)	(2,808,028)	(11,302,490)	-
Interest and dividends	1,092,423	899,405	279,359	2,271,187	-
Net cash provided by investing activities	<u>380,965</u>	<u>(1,350,000)</u>	<u>421,331</u>	<u>(547,704)</u>	<u>-</u>
Net (decrease) in cash and cash equivalents	<u>(200,777)</u>	<u>(239,811)</u>	<u>392,232</u>	<u>(48,356)</u>	<u>2,915,078</u>
Balances - beginning of the year	3,876,304	3,111,824	633,620	7,621,748	15,890,438
Balances - end of the year	<u>\$ 3,675,527</u>	<u>\$ 2,872,013</u>	<u>\$ 1,025,852</u>	<u>\$ 7,573,392</u>	<u>\$ 18,805,516</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 234,907	\$ 873,661	\$ 849,849	\$ 1,958,417	\$ 2,558,678
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	3,856,448	101,664	250,041	4,208,153	1,484,436
Change in assets and liabilities:					
Receivables, net	113,841	(98,615)	4,352	19,578	451,161
Due from other funds	(1,837,632)	184,772	(83,223)	(1,736,083)	540,643
Due from other governments	522,361	-	-	522,361	-
Inventories	20,733	-	-	20,733	(135,846)
Prepaid	-	-	-	-	-
Accounts and other payables	(11,659)	(60,142)	49,396	(22,405)	122,179
Due to other funds	1,539,329	(241,183)	93,292	1,391,438	9,598
Due to other governments	(573)	(34,477)	(6,404)	(41,454)	-
Employee benefits	-	-	-	-	-
Accrued expenses	465	28,008	4,271	32,744	(363,969)
Deposit with Fiscal Agents	18,869	9,554	14,992	43,415	4,269
Net cash provided by operating activities	<u>\$ 4,457,089</u>	<u>\$ 763,242</u>	<u>\$ 1,176,566</u>	<u>\$ 6,396,897</u>	<u>\$ 4,671,149</u>

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

KITSAP COUNTY, WASHINGTON

Statement of Fiduciary Net Assets

12/31/2006

	<u>Employee Deferred Compensation</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$ -	\$ 26,040,273
Deposits with Fiscal Agents	25,813,593	95,000
Investments		188,340,340
Taxes Receivable		7,040,589
Other Current Receivables		43,641
Due From Other Funds		-
Due From Other Governments		123,719
Total Assets	<u>\$25,813,593</u>	<u>\$ 221,683,562</u>
LIABILITIES		
Warrants Payable		\$ 5,193,850
Accounts Payable		
Sales Tax Payable		
Other Accrued Liabilities		
Due to Other Funds		
Due to Other Governments		1,250
Custodial Account		216,488,462
Total Liabilities	<u>\$ -</u>	<u>\$ 221,683,562</u>
NET ASSETS		
Held in trust for pension benefits and other purposes	\$25,813,593	

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, 2006

	Employee Deferred <u>Compensation</u>
ADDITIONS	
Contributions:	
Employer	\$ -
Plan Members	2,065,520
Total Contributions	<u>2,065,520</u>
Roll-Ins	-
Investment Earnings	2,516,740
Total Additions	<u>4,582,260</u>
DEDUCTIONS	
Benefits	(1,462,307)
Others	-
Total Deductions	<u>(1,462,307)</u>
Change In Net Assets	3,119,954
Net Assets-Beginning Of The Year	22,693,639
Net Assets-End Of The Year	<u>\$ 25,813,593</u>

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2006

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KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2006

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 **home entitlement fund** is used to account for the funding and operation of the County's Home program.

The County reports the following major proprietary funds:

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

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

Additionally, the County reports the following fund types:

Internal service funds provided Information and Computer services, Self-Insurance program, and Equipment Rental and Repair services to other departments or agencies of the county, or to other agencies, on a cost reimbursement basis.

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

Agency funds are used to account for the funds held in a custodial nature for other entities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of the inter-fund activity has been eliminated for the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Indirect costs are allocated by either the number of staff, or the square footage of the office occupancy. Insurance costs are allocated by the number of staff covered, and information services costs that are not direct 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 majority of County funds on the modified accrual basis of accounting. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for one fiscal year. They are re-budgeted every year throughout the fiscal periods of the debt or the capital 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).

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:

<u>Fund Description</u>	<u>Original Budget</u>	<u>Budget Change</u>	<u>Final Budget</u>
General Fund	\$ 86,149,009	7,819,935	\$ 93,968,944
County Road Funds	\$ 35,468,330	5,784,001	\$ 41,252,331
Real Estate Excise Tax	\$ 7,475,430	1,754,831	\$ 9,230,261
Home Entitlement	\$ 2,485,808	(112,444)	\$ 2,373,364
Non Major funds	\$ 62,285,970	38,942,267	\$ 101,228,137
		\$ 54,188,590	

3. Excess of expenditures over appropriations.

For the year ended December 31, 2006, expenditures did not exceed appropriations in any of the general fund departments

4. Deficit Balance

At December 31, 2006, the following fund reported deficit in fund balance of fund net assets, which is a violation of state statute:

<u>Fund</u>	<u>Deficit</u>
Bethel Corridor Development Project	\$430,554

The county has taken steps to address this issue in 2007 by issuing an operating transfer of \$1.5 million from the Road Construction fund. This transfer offset the deficit as well as provide for 2007 expenditures of this capital projects fund.

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, 2006, the treasurer was holding

\$ 79.25 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 4.)

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Property Taxes Note 5.) 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 13 (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 6)

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 those items with an initial individual cost of more than \$5,000.00 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The 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. Capital assets of Kitsap County are depreciated using the straight-line method over the following estimated useful lives:

Asset Category	Useful Life Years
Buildings	45
Other Improvements	20 - 45
Road System	7 - 25
Bridges	40
Sidewalks	30
Machinery	6 - 12
Sheriff Vehicles	6
Non Sheriff Vehicles	6 - 10
Office Equipment	10
Computer Equipment	4 - 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 9)
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. 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 4. INVESTMENTS

As required by the state law, all investments of the County's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, or certificates of deposit with Washington state banks and savings and loan institutions. All temporary investments are stated at fair market value. Other property and investments are shown on the statement of net assets at cost.

All of the County's investments are held by the County's safekeeping agent, BNY Western Trust, and the Bank of New York is the custodian for the Washington state Investment Pool.

At year-end, the County held the following investment balances. The credit ratings of the issuers are listed, along with credit exposure as a percentage of total investments. Included are floating rate note securities that adjust weekly, monthly or quarterly to rates resembling current market and securities in which the coupon rate increases or 'steps up' periodically as the security approaches maturity.

Rating	%	Cost	Fair Value	Maturities in Years			
				Less Than 1	1 - 2	2 - 3	3 - 4
AAA	15.1	\$ 54,628,322	\$ 54,412,052	\$ 49,410,980	\$ -	\$ 5,001,072	\$ -
AAA	15.7	56,888,963	56,537,254	41,707,029	14,830,225	-	-
AAA	18.2	65,649,251	64,926,622	31,549,144	28,420,016	4,957,462	-
AAA	1.4	4,997,974	4,873,967	-	4,873,967	-	-
N/R	19.3	69,919,866	69,919,866	69,919,866	-	-	-
N/R	0.8	3,000,000	3,000,000	3,000,000	-	-	-
N/R	29.5	106,581,159	106,581,159	106,581,159	-	-	-
	100	\$ 361,665,535	\$ 360,250,920	\$ 302,168,178	\$ 48,124,208	\$ 9,958,534	\$ -

The fair value included accrued interest of \$ 1,251,700.

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 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.

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 5. 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 2006 was 1.0857 per \$1,000 on an assessed valuation of \$23,320,361,965 for a total regular levy of \$25,348,427.

The County's road levy for the year 2006 was \$1.474 per \$1,000 on an assessed valuation of \$14,854,656,996 for total road levy of \$21,942,085.

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 6. CAPITAL ASSETS

The following is the summary of changes in capital assets activity for the year ended December 31, 2006:

	Beginning Balance	Increase	Decrease	Ending Balance
Government activities:				
Assets not being depreciated				
Land	\$ 47,241,041	\$ 3,409,673	\$ -	\$ 50,650,714
Land - Infrastructure	59,229,479	371,504	-	\$ 59,600,983
Construction in Progress	37,384,869	17,149,430	27,720,698	\$ 26,813,601
Total	143,855,389	20,930,607	27,720,698	\$ 137,065,298
Assets being depreciated				
Buildings	97,472,990	23,334,267	962,416	\$ 119,844,841
Building Improvements	17,283,311	3,900,868	3,086	\$ 21,181,093
Infrastructure	353,144,444	6,275,308	-	\$ 359,419,752
Equipment & Machinery	45,320,122	5,463,882	2,911,236	\$ 47,872,768
Total	513,220,867	38,974,325	3,876,738	\$ 548,318,454
Total capital assets	657,076,256	59,904,932	31,597,436	\$ 685,383,752
Less accumulated depreciation				
Buildings	17,627,934	2,431,957	-	\$ 20,059,891
Building Improvements	4,562,797	936,790	2,366	\$ 5,497,221
Infrastructure	199,858,156	13,680,235		\$ 213,538,391
Equipment & Machinery	23,176,048	3,207,926	2,514,864	\$ 23,869,110
Total	245,224,935	20,256,908	2,517,230	\$ 262,964,613
Government activities				
capital assets, net	\$ 411,851,321	\$ 39,648,024	\$29,080,206	\$ 422,419,139

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

Function/Program	Amount
Government activities:	
General government	\$ 1,328,303
Judicial Services	32,813
Public safety	3,193,604
Transportation	14,453,670
Health & Human service	153,656
Economic environment	16,017
Culture & recreation	1,078,845
Total	\$ 20,256,908

	Beginning Balance	Increase	Decrease	Ending Balance
Business-type activities				
Assets not being depreciated				
Land	\$ 2,021,221	\$ -	\$ -	\$ 2,021,221
Construction in Progress	23,993,068	1,707,342	20,477,304	5,223,106
Total	26,014,289	1,707,342	20,477,304	7,244,327
Asset being depreciated				
Building	29,712,343	13,313,850	-	43,026,193
Building Improvements	60,898,116	5,134,323	-	66,032,439
Equipment & Machinery	3,743,630	3,362,701	-	7,106,331
Total	94,354,089	21,810,874	-	116,164,963
Grand Total	120,368,378	23,518,216	20,477,304	123,409,290
Less accumulated depreciation				
Building	18,779,458	1,757,238	-	20,536,696
Building Improvements	21,753,716	2,128,359	-	23,882,075
Equipment & Machinery	3,646,141	322,555	-	3,968,696
Total	44,179,315	4,208,152	-	48,387,467
Business-type activities capital assets, net	\$ 76,189,063	\$ 19,310,064	\$ 20,477,304	\$ 75,021,823

NOTE 7. 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 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise, an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. 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 Benefit Board.

There are 1,181 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Retirees and Beneficiaries Receiving Benefits	68,609
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	22,567
Active Plan Members Vested	104,574
Active Plan Members Nonvested	51,004
Total	246,754

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. The methods used to determine the contribution requirements are established under state statute in accordance with chapter 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2006, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	3.69%**	3.69%	3.69%****
Employee	6%***	3.50%	*****

- *The employer rates include the employer administrative expense fee currently set at 0.18%.
- ** The employer rate for the state elected officials is 5.44%
- *** The employee rate for state elected officials is 7.50%
- ** Plan 3 defined benefit portion only.
- *** Variable from 5.0% minimum to 15.0% maximum based on the rate selected by the PERS 3 member.

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
2006	\$ 111,284	\$ 1,306,570	\$ 517,894
2005	\$ 77,395	\$ 708,080	\$ 86,049
2004	\$ 63,952	\$ 569,668	\$ 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 benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age 50. The benefit per year of service calculated as a percent of final average salary is as follows:

Term of Service	Percent of Final Average
20 or more years	2.00%
10 but less than 20 years	1.50%
5 but less than 10 years	1.00%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of the final average salary. A cost-of-living allowance is granted (indexed to Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age 50 with 20 years of service, or at the age 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. The Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53 and 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 Seattle Consumer Price Index), capped at three percent annually.

There are 376 participating employers in LEOFF. Membership in LEOFF consisted of

the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Retirees and Beneficiaries Receiving Benefits	8,723
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	577
Active Plan Members Vested	12,348
Active Plan Members Nonvested	3,543
Total	25,191

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 in accordance with Chapter 41.45 RCW. All employers are required to contribute at the level required by the state law. The Legislature has the ability, by means of a special funding arrangement, to appropriate money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 and Plan 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as percentage of current-year covered payroll, as of December 31, 2006, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	4.90%**
Employee	0.00%	7.85%
State	n/a	3.13%

*The employer rates include the employer administrative expense fee currently set at 0.18%.
 ** The employer rate for ports and universities is 8.03%.

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
2006	\$ 441	\$ 386,283
2005	\$ 441	\$ 316,589
2004	\$ 608	\$ 223,988

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS was created by the 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; Parks and Recreation, Commission, Gambling Commission, Washington State Patrol, and 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 retirement benefits are vested after an employee completes five years of eligible service and attains the age of 65. 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.

The first actuarial valuation of the PSERS system will be effective as of September 2006 and reported in the year 2007.

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, 2006 were as follows:

	PSERS Plan 2
Employer*	6.76%
Employee	6.57%

*The employer rate includes an employer administrative expense of 0.18%

Both Kitsap County and the employees made the required contributions, The County's required contributions for the year ended December 31, 2006 were as follows:

	PSERS Plan 2
2006	\$ 52,805

NOTE 8. RISK MANAGEMENT

The county is exposed to various risks of loss related to torts, theft, damage to, and destruction of assets, errors or omissions, injuries to employees, and natural disasters. RCW 48.62 authorizes the governing body of any governmental entities to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The County uses Washington Counties Risk Pool to insure its liability risks including public officials' errors and omissions. The Pool was formed on August 18, 1988, and it currently has 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, 2006, the County's estimated total undiscounted outstanding liability for the workers' compensation program is approximately \$2,071,317. It is funded at less than 60% confidence level. The County is planning to bring the confidence level to a 60% confidence level over the next three years.

Workers Compensation	Year ended	
	31-Dec-05	31-Dec-06
Unpaid claims, beginning of fiscal year	\$ 1,992,970	\$ 2,119,116
Incurred claims (including IBNRs)	800,000	1,224,489
Claim payments	(673,854)	(1,272,288)
Unpaid claims, end of fiscal year	\$ 2,119,116	\$ 2,071,317

General Liability	Year ended	
	31-Dec-05	31-Dec-06
Unpaid claims, beginning of fiscal year	\$ 2,569,655	\$ 2,448,141
Incurred claims (including IBNRs)	(68,405)	505,333
Claim payments	(53,109)	(441,157)
Unpaid claims, end of fiscal year	\$ 2,448,141	\$ 2,512,317

General liability

The County has \$20,000,000 per occurrence liability protection with a \$500,000 deductible with Washington County 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 9. 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, 2006, the debt limits for the County was as follows:

	Without a Vote	With a Vote	
		2.50%	5.00%
Legal Limit	\$ 349,805,430	\$ 583,009,050	\$ 1,166,018,100
Applicable Outstanding Debt	120,972,594	120,972,594	120,972,594
Margin Available	\$ 228,832,836	\$ 462,036,456	\$ 1,045,045,506

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. During the year, general obligation bonds totaling \$18,085,000 were issued to finance improvements to County buildings and park improvements.

General obligation bonds currently outstanding are as follows:

Issued Name & Purpose	Maturity Range	Interest Rate %	Original Amount	Amount of Installment
1996 - Refunding	5/1/07 - 11/1/12	5.2 - 5.7	\$9,875,000	630,000 - 2,675,000
1999 - Open space purchase	6/1/07 - 12/1/18	4.0 - 4.9	5,100,000	230,000 - 375,000
1999B - Purchase 911 equip	1/1/07 - 7/1/19	4.65 - 5.3	10,680,000	70,000 - 515,0005
2000 - Jail Addition	1/1/07 - 7/1/10	4.7 - 4.9	20,000,000	545,000 - 630,000
2001 - Refunding	5/1/07 - 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	6/1/07 - 12/1/27	2.5 - 4.875	10,250,000	310,000 - 565,000
2003B - Administrative Building	6/1/07 - 12/1/28	2.5 - 4.75	17,805,000	380,000 - 1,465,000
2004 - Gen. Govt. - Refunding	1/1/07 - 7/1/29	3.25 - 5.0	20,664,719	465,000 - 1,075,000
2004 - Bus.-type - Refunding	1/1/07 - 7/1/09	3.25 - 4.0	535,281	107,240 - 113,595
2005 - Refunding	7/1/07 - 7/1/25	3.25 - 5.0	18,995,000	30,000 - 1,500,000
2006 - Improve Buildings & Parks	7/6/07 - 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
2007	5,554,572	5,337,845	110,428	11,591
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 - 2016	25,770,000	17,987,395	-	-
2017 - 2021	26,935,000	12,053,116	-	-
2022 - 2026	25,375,000	5,593,153	-	-
2027 - 2031	8,375,000	935,683	-	-
Total	\$ 114,343,737	\$ 60,817,728	\$ 331,263	\$ 22,457

During 2006, the County issued \$18,085,000 of general obligation bonds to provide resources to fund various capital projects including acquisition of parks, courthouse renovation and other various projects.

As of December 31, 2006 the County had \$65,000 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
2007	-	3,478
2008	-	3,477
2009	-	3,478
2010	-	3,477
2011	-	3,477
2012 - 2016	65,000	5,350
Total	\$ 65,000	\$ 22,737

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	6/1/07 - 12/1/18	4.2 - 5.1	11,010,000	495,000 - 810,000
Sewer Refunding 2001	7/1/07 - 7/1/16	3.5 - 5.625	13,075,000	1,070,000 - 1,620,000
D.O.E. Loan # L0400026	5/1/07 - 5/1/25	1.5	14,188,000	231,392 - 303,064
PWTF Loan # PW-01-691-036	7/1/07 - 7/1/21	1.5	2,605,000	150,816
Total			\$ 40,878,000	

Revenue bond debt service requirements for revenue bonds are as follows:

Revenue Bond		
Year Ending December 31	Principal	Interest
2007	2,180,340	1,147,651
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 - 2016	13,969,250	2,666,484
2017 - 2021	5,120,074	405,900
2022 - 2026	2,074,509	62,898
Total	\$ 32,806,760	\$ 8,154,422

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 \$5.27 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 \$5.525

Million note with the Kitsap County Health District, which will be used to repay the Kitsap County Consolidated Housing Authority.

NOTE 10. LEASES

Operating leases

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

Capital Leases

The county has entered into a lease agreement as lessee for financing the acquisition of a mailing system for the county. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of their future minimum lease payments as of the inception date.

The asset acquired through the capital lease is as follows:

Machinery & equipment	\$ 733,000
Less: Accumulated depreciation	<u>(675,000)</u>
Total	<u><u>\$ 58,000</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2006, were as follows:

Year Ending Dec. 31	Governmental Activities
2007	<u>\$ 58,000</u>
Total minimum lease payments	<u>58,000</u>
Less: amount representing interest	<u>0</u>
PV of minimum lease payments	<u><u>\$ 58,000</u></u>

NOTE 11. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bond payables:					
General obligation bonds	\$ 103,222,027	\$ 18,085,000	\$ 6,963,290	\$ 114,343,737	\$ 5,554,572
Special assessment debt	75,000	-	10,000	65,000	-
Total bond payable	103,297,027	18,085,000	6,973,290	114,408,737	5,554,572
Capital leases	117,182	-	59,182	58,000	58,000
Compensated absences	4,112,909	459,065	-	4,571,974	369,451
Internal services comp.	152,016	4,269	-	156,285	9,458
Notes Payable	5,375,000	-	102,500	5,272,500	105,000
Other liabilities	1,070,952	-	103,859	967,093	93,912
Governmental-activities Long-term liabilities	\$ 114,125,086	\$ 18,548,334	\$ 7,238,831	\$ 125,434,589	\$ 6,190,393
Business-type activities					
Bond payable:					
General obligation bonds	\$ 432,973	\$ -	\$ 101,710	\$ 331,263	\$ 110,428
Revenue bonds	35,455,000	-	14,740,000	20,715,000	2,180,340
Total bond payable	35,887,973	-	14,841,710	21,046,263	2,290,768
Other liabilities	12,598,553	654,464	684,831	12,568,186	615,340
Compensated absences	391,564	43,416	-	434,980	72,044
Business-type activities Long-term liabilities	\$ 48,878,090	\$ 697,880	\$ 15,526,541	\$ 34,049,429	\$ 2,978,152
Total	\$ 163,003,176	\$ 19,246,214	\$ 22,765,372	\$ 159,484,018	\$ 9,168,545

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 12. 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, 2006, the County acts as guarantor of several Kitsap County Consolidated Housing Authority's bond issues. There is an outstanding balance of \$40.680 million as of December 31, 2006.

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 13. 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.

From	Non Major	Total
General Fund	160,000	\$ 160,000

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 to Other Funds	Due from other funds								
	Gen. Fund	County Roads	Home Entitlement	Non Major	Solid Waste	Sewer Utility	Ent. Non Major	Internal Service	Total
General Fd	19,015	721,276		17,188	4,322	105,579	70,204	78,650	1,016,235
County Rds	3,816	142,665		1,395	4,403	9,555	10,423	20,791	193,048
Mental Health				1,444					1,444
Home Entitle			20,991						20,991
Non Major	300			99,538	1,429				101,267
Solid Waste		915			73,720	570	1,416		76,621
Sewer Utility		246			67,114	2,283,444	19,006	1,626	2,371,436
Ent. Non Major		58,167			16,811	8,158	47,854		130,990
Internal Serv.		121,195				110,296	175,520		407,011
Total	23,131	1,044,464	20,991	119,565	167,799	2,517,602	324,423	101,067	4,319,043

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 Fund	County Roads	Real Estate Excise tax	Mental Health	Non Major	Internal Service	Total
OUT							
General Fund	-	-		7,500	1,498,418	87,634	1,593,552
County Roads	-	3,539,000		-	441,215	-	3,980,215
REET	-	1,547,000		-	5,522,943	-	7,069,943
Mental Health	-	-		-	200,000	-	200,000
Nonmajor	2,223,021	-	1,754,831	-	21,827,415	-	25,805,267
Solid Waste	-	-		-	-	-	-
Sewer	-	-		-	121,150	-	121,150
Nonmajor Ent	-	-		-	178,385	-	178,385
Int. Serv	-	-		-	18,948	-	18,948
Total	2,223,021	5,086,000	1,754,831	7,500	29,808,474	87,634	38,967,460

NOTE 14. 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 GO 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 15. DEFERRED COMPENSATION

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the County (without being restricted to the provisions of the benefits under the plan). It is subject only to the claims of the County’s general creditors. Participants’ rights under the plan are equal to those of general creditors of the County in an amount equal to the fair value of the deferred account for each participant.

It is the opinion of the County legal counsel that the County has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The County believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The investment carrying values of the plans are as follows:

<u>Investment company</u>	<u>Fair Value</u>
PEBSCO	\$ 14,132,202
INC	5,620,973
Hartford	5,729,563
ICMA	330,855
Total	<u>\$ 25,813,593</u>

NOTE 16. POST-EMPLOYMENT BENEFITS

In addition to the retirement described in Note 7 above, the County provides certain medical insurance benefits for retired public safety employees. Substantially the entire County's LEOFF 1 employees may become eligible for these benefits if they reach normal retirement age while working for County. There are 42 participants eligible to receive these benefits. In 2006, expenditures of \$336,318 were recognized for post-employment health benefit. The program is funded on a "pay as you go" basis.

NOTE 17. COMMITMENTS

As of the end of the year the County has spent over \$1.1 million for the restoration of Sinclair Inlet and committed over \$1.6 million for renovation of the courthouse.

NOTE 18. OTHER DISCLOSURES

A. Prior Period Adjustment

The Sanitary Sewer fund reported a prior period adjustment of (\$178,038) to correct the loan balance for the Kingston Treatment Plant Outfall underreported in 2005.