



Kitsap County

County Auditor
Honorable Karen Flynn

Financial Services Manager
Ade' Ariwoola, MBA, CGFM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Fiscal Year Ended
December 31, 2002

Prepared by the Auditor's Office

KITSAP COUNTY, WASHINGTON
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended December 31, 2002

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Karen Flynn
Kitsap County Auditor

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

Adé Ariwoola
Financial Services Manager

Winnie Flores-Logan
Chief Deputy Auditor

June 26, 2003

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

We are pleased to present the Comprehensive Annual Financial Report of Kitsap County for the fiscal year ended December 31, 2002, in accordance with the provision of Chapter 36.22 of the Revised Code of Washington. The financial statements are presented in conformance with generally accepted accounting principles (GAAP), and audited in accordance with generally accepted auditing standards by the Office of the Washington State Auditor.

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

In addition to the fund-by-fund financial information in the County's financial statements, the report now includes government-wide financial statements. The government-wide financial statements include a Statement of Net Assets that provides the total net equity of the County including infrastructure and the Statement of Activities that shows the cost of providing government services. These statements have been prepared using the accrual basis of accounting versus the modified accrual method used in the fund financial statements. The new reporting model (GASB 34) includes an emphasis on the County's major funds as shown in the Governmental Fund Statements.

The County is responsible for the accuracy, completeness, and fairness of the data presented in this report, including all disclosures. We prepared this report in accordance with the following standards:

- Generally accepted accounting principles that are uniform minimum standards and guidelines for financial accounting and reporting in United States of America.
- Government accounting and financial reporting statements, interpretations, and technical bulletins issued by the Government Accounting Standards Board (GASB).
- Budgeting, Accounting and Reporting Systems (BARS) for counties, cities and other local government entities in the State of Washington. This is issued by the Washington State Auditor's Office.
- Guidelines recommended by the Government Finance Officers Association of United States of America and Canada.

The Office of the Washington State Auditor, an independent arm of the State of Washington, has audited the financial statements of the County and their report is presented as the first component of the financial section of this report.

THE COUNTY

Kitsap County, Washington is located on the Kitsap Peninsula west of Seattle and northwest of Tacoma. It was incorporated in 1857 as a statutory county, which means that the organization of the County is prescribed by state statute. Locally elected officials include the County Assessor, Auditor, Clerk, Prosecuting Attorney, Sheriff, Treasurer, seven Superior Court Judges, three District Court Judges, and the three-member Board of County Commissioners. These elected officials govern the County and establish policies on the basis of the local community's needs and preferences. The Board of County Commissioners is elected at-large for four-year terms and the chairman is elected by the majority vote of the board. A County Administrator, appointed by the Commissioners, serves the board by overseeing its departments and being responsible for the general administration of the County.

The County provides a comprehensive range of municipal services to its citizens including public safety, road improvements, judicial administration, planning and development, parks and recreations, health and social services, and general administrative services. The County is empowered to levy a property tax on both real and personal properties located within its boundaries.

LOCAL ECONOMIC CONDITION AND OUTLOOK

The military continues to have a dominant presence in Kitsap County. The Navy employed approximately 15,000 civilians in the last fiscal year. Fleet Industry Supply, Lockheed Martin, and Johnson Controls World Services are companies that provide support services to the Navy and are major employers in Kitsap County. Kitsap County has the only shipyard on the West Coast capable of overhauling nuclear aircraft carriers. School districts, hospitals, cities, and retail companies also play a major role in the employment market of the County. The major property owners include utility companies like Puget Sound Energy, US West Communications Inc., Cascade Natural Gas Corporation, and Sprint Corporation. Property tax accounts for 75% of total tax collected by the County and 28% of total general government revenue.

Continued economic growth is expected. The increase in military spending and the construction of a second bridge on the Tacoma Narrows span will impact the growth of the County. The new bridge will open up the area for easier access to Tacoma and the I-5 corridor. The County along with the newly created Public Facility District and the City of Bremerton are embarking on a revitalization project encompassing Bremerton and Kitsap County, which will bring in more hotel related business and recreation facilities. This growth will enhance the County's property tax base, resulting in higher property tax revenues subject to the statutory limitations. On the other hand, growth has and will create a demand for more services to the County's urban population.

MAJOR INITIATIVES

Strong fiscal management remains the hallmark of Kitsap County government. It has enabled the County to respond to priority needs, including public safety, public recreation facilities and the general administration of the County. Moody's Investors Service assigned a rating of A-1, and Standard and Poor's assigned a rating of A+ to Kitsap County's General Obligation Bonds in June of 2001. The County's highly favorable ratings are reflection of good fiscal management indicated by the strong reserve balance, moderate and manageable debt burden with limited future capital needs.

During the last fiscal year, the County made progress in some important areas:

County Jail Expansion

Relieving overcrowding plaguing the County since 1995, the jail expansion of 310 beds will open in early 2003 at a total project cost of \$28.5 million. This includes the costs which arose due to unanticipated geological features of the site that required special drilling equipment to place foundation piles, redesigning the roof and neighborhood street improvements, bringing the old jail up to current codes, and the cost of marrying the existing jail to the new expansion.

Kitsap County-Bremerton Government Center

The Government Center is a joint project of Kitsap County, Kitsap Housing Authority and the City of Bremerton. In the spring of 2003, the partners broke ground for the new 158,000-square-foot Government Center, which is located on Pacific Avenue, between Fifth and Sixth streets in Bremerton. The Government Center is a key part of a strategy developed by group of government, community and business leaders to revitalize the city's downtown core. It will house the City of Bremerton's major offices, Federal government offices, and some County offices.

Kitsap County Public Facility District

Kitsap County Board of County Commissioners created, by Resolution 93-2000 and passed May 15, 2000, a Public Facilities District pursuant to Chapter 165, Laws of 1999, Laws of the State of Washington, to be known as the Kitsap Public Facilities District. The District received its first grant payment from the Washington State Department of Revenue in September of 2001. The District is working with the City of Bremerton to build a hotel and convention center. This is seen as another one of the key elements to revitalizing Bremerton's downtown area into an attractive and vibrant city center. The District is also working with Kitsap County Parks department to develop the County Fair properties, which will further enhance the County's economic growth.

Kitsap County Emergency Management Center

The County broke ground in June of 2003 for the new Central Communications (9-1-1) and Department of Emergency Management Center building. It will house the 9-1-1 operation and emergency management's command center.

OTHER INFORMATION

Internal Control

County management is responsible for establishing and maintaining an internal control structure that is designed to ensure adequate protection of the County's assets from loss, theft, or misuse, and adequate accounting data to allow for preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide a reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the costs of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Annual Audit

In accordance with Washington State law (RCW 43.09.260), the Washington State Auditor's Office audits the County's records as to the financial condition and resources of the County, the resolutions and other orders of the County, and the requirements of the State Auditor have been properly complied with; and into the methods and accuracy of the County's financial reports.

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

The independent audit of the financial statements of the Kitsap County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of the federal government agencies. The standards governing "Single Audit" engagements require the independent auditor to report not only on the fair presentation of the financial statements but also on the audited government's internal controls and compliance with legal requirements with special emphasis on internal controls and legal requirements involving the administration of federal awards.

The results of the annual audit for the fiscal year ended December 31, 2002 did not indicate any significant violations of applicable laws and regulations or material weakness in the internal control.

Budgetary Control

The County maintains budgetary controls. The objective of which is to ensure compliance with the legal provisions embodied in the annual appropriated budget approved by the Board of County Commissioners.

The County's budget process includes the revenue estimate by the Director of Administrative Services, followed by the department requests and then public hearings before the Board finally adopts the budget. The adopted budget becomes a document that places before the people of Kitsap County a clear picture of the cost of public services that will be provided.

The County maintains an encumbrance accounting system as one technique to accomplish budget control. The adopted budget for last year was prepared in accordance with State law and generally accepted accounting principles.

Cash Management

Cash resources of the individual funds are combined to form a pool of cash and investments. In consistency with the County's investment policy, the Treasurer's office invested the idle cash during the year in the Washington State Investment Pool, U.S. Government or its agencies, commercial paper and certificate of deposit.

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

Risk Management

Kitsap County is a member of the Washington Counties Risk Pool, which provides liability coverage for member counties with a \$100,000 deductible per occurrence. The County maintains coverage for property claims, worker's compensation, public officials bond, boiler and machinery, and employee dishonesty bond. The County is self-insured for the first \$50,000 of claims on property insurance, \$250,000 on workers compensation, and \$5,000 on employee crime/dishonesty insurance.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Kitsap County for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended in December 2001. Kitsap County has received this prestigious award for the last five consecutive years. In addition, the County was honored with a Certificate of Recognition for early implementation of GASB 34. GFOA said that early implementation of Statement 34 is a testament to professional leadership, initiative, and commitment to improving public accountability. GFOA awards a certificate to governmental entities that exemplify excellence in financial reporting and conform to the stringent reporting requirements promulgated by the Association, GAAP and other applicable legal requirements.

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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Kitsap County, Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2001

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



President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Kitsap County for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2001. This was the 5th consecutive year that Kitsap County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

KITSAP COUNTY
List of Elected and Appointed Officials
December 31, 2002

Elected Officials

<u>TITLE</u>	<u>INCUMBENT</u>	<u>END OF TERM</u>
Assessor	Jim Avery	12/31/02
Auditor	Karen Flynn	12/31/02
Clerk	Dave Peterson	12/31/02
Commissioner, District #1	Christene "Chris" Endresen	12/31/04
Commissioner, District #2	Jan Angel	12/31/04
Commissioner, District #3	Tim Botkin	12/31/02
Coroner	Greg Sandstrom	12/31/02
District Court Judge, #1	James M. Riehl	12/31/02
District Court Judge, #2	W. Daniel Phillips	12/31/02
District Court Judge, #3	Marilyn Paja	12/31/02
Prosecuting Attorney	Russ Hauge	12/31/02
Sheriff	Steve Boyer	12/31/02
Superior Court Judge, #1	Leonard W. Costello	12/31/04
Superior Court Judge, #2	Leila Mills	12/31/04
Superior Court Judge, #3	Anna M. Laurie	12/31/04
Superior Court Judge, #4	Terry McCluskey	12/31/04
Superior Court Judge, #5	Jay Roof	12/31/04
Superior Court Judge, #6	William J. Kamps	12/31/04
Superior Court Judge, #7	M. Karlynn Haberly	12/31/04
Treasurer	Sharon Shrader	12/31/02

Appointed Officials

<u>TITLE</u>	<u>INCUMBENT</u>
County Administrator	Malcolm Fleming
Director of Public Works	Randy Casteel
Director of Administrative Services	William Nogle
	Ilene Frisch
Director of Personnel & Human Resources	Bert Furuta
Director of Department of Community Development	Bruce Freeland
Director of Parks and Recreation	Christofer Gears

Kitsap County Organization

