



Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT

June 30, 2006

Board of 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 units, each major fund, and the aggregate remaining fund information of Kitsap County, Washington, as of and for the year ended December 31, 2005, 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 opinion.

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 units, each major fund, the aggregate remaining fund information and budget comparisons of the Kitsap County, Washington, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General, County Roads, Real Estate Excise Tax, and Mental Health funds, 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 60 through 171 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 fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

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, 2005. 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 on pages II-1 thru II-4 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 \$504.24 (net assets). Of this amount, \$117.83 (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 \$16.34. The majority of the increase is attributable to the increase in the property tax revenue to the county roads. The County collected \$30 million in revenue and spent \$25.7 million in 2005 compared to 25.9 in revenue and 23.5 in expenditures in 2004.
- As of the close of the current fiscal year, the Kitsap County governmental funds reported combined ending fund balances of \$87.45, a decrease of \$11.58 over the prior year. Approximately \$75.87 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 \$12.13, or 15 percent of the total general fund expenditures.
- The Kitsap County's total general obligation debt decreased by \$7.07 (6 percent) during the current fiscal year. The key factor in this decrease was the redemption of \$15.41 million from 2000 GO Bond, \$4.4 million from 1999B Bond and \$2.3 million from 2002B Bond.

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 11 - 13 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 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, and mental health, all of which are considered major funds. Data from the other eighty-six 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 its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 14 – 26 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 27 – 29 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 30 – 31 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 – 58 of this report.

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents certain *required supplementary information* concerning the Kitsap County progress in funding its obligations to provide pension benefits to its employees.

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 60 – 158 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 \$504.24 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 (69 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	
	2004	2005	2004	2005	2004	2005
Assets:						
Current assets	133.46	102.37	68.47	73.49	201.93	175.86
Capital assets	397.80	432.86	75.62	76.19	473.42	509.05
Total assets	531.26	535.23	144.09	149.68	675.35	684.91
Liabilities						
Other liabilities	24.43	22.62	4.43	5.28	28.86	27.90
Long-term liabilities	113.00	106.52	45.59	46.25	158.59	152.77
Total liabilities	137.43	129.14	50.02	51.53	187.45	180.67
Net assets						
Investment in capital	298.90	320.02	30.09	29.94	328.99	349.96
Restricted	27.64	10.73	19.05	25.71	46.69	36.44
Unrestricted	67.29	75.34	44.93	42.50	112.22	117.84
Total net asset	\$ 393.83	\$ 406.09	\$ 94.07	\$ 98.15	\$ 487.90	\$ 504.24

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 (\$117.83) 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 \$16.34 during the current fiscal year. The increase is due to the increase in tax collection for roads and decrease in the spending for roads.

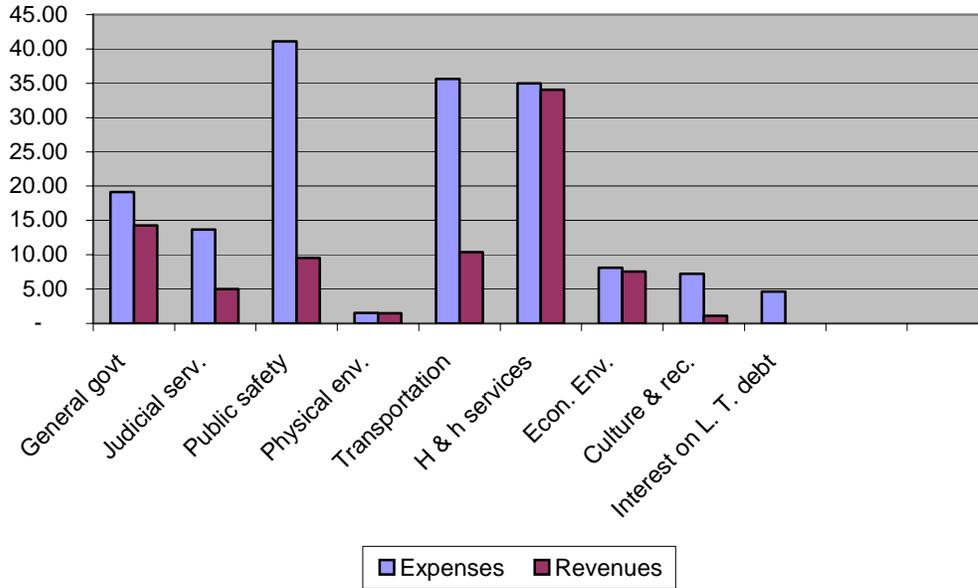
The government's restricted net asset decreased by 22% (from \$46.69m to \$36.44m) and the unrestricted increased by 5% (from \$112.22m to \$117.83m). This has increased the ability of the government to meet its future needs with unrestricted funds.

Governmental activities. Governmental activities increased the County's net assets by \$12.26 million. The key elements of this net change are as follows:

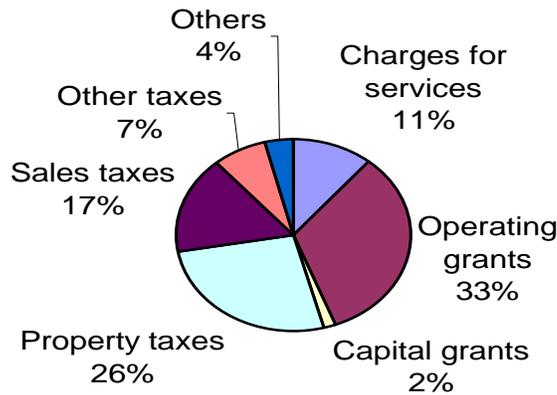
Revenues:	Governmental Activities		Business-type Activities		Total Primary government	
	2004	2005	2004	2005	2004	2005
Program revenues						
Charges for services	\$ 18.50	\$ 19.66	\$ 30.05	\$32.19	\$ 48.55	\$ 51.85
Operating grants	55.09	58.56		-	55.09	58.56
Capital grants	0.85	3.20	0.23	-	1.08	3.20
Fines & forfeits				-	-	-
General revenues						
Property taxes	45.33	46.59		-	45.33	46.59
Sales taxes	34.59	29.35		-	34.59	29.35
Other taxes	4.51	13.14		-	4.51	13.14
Investment earning	3.04	3.71	1.23	1.92	4.27	5.63
Other income	2.49	2.63	0.37	0.04	2.86	2.67
Total revenues	164.40	176.84	31.88	34.15	196.28	210.99
Expenses						
General government	20.92	19.13	-	-	20.92	19.13
Judicial services	12.94	13.66	-	-	12.94	13.66
Public safety	35.25	41.09	-	-	35.25	41.09
Physical environment	1.46	1.51	-	-	1.46	1.51
Transportation	34.43	35.62	-	-	34.43	35.62
Health & human services	36.17	34.97	-	-	36.17	34.97
Economic environment	8.71	8.13	-	-	8.71	8.13
Culture & recreation	6.85	7.21	-	-	6.85	7.21
Interest on LT debt	5.08	4.64	-	-	5.08	4.64
Utilities	-	-	28.42	29.79	28.42	29.79
Others	-	-	0.01	0.01	0.01	0.01
Total expenses	161.81	165.96	28.43	29.80	190.24	195.76
Inc in net assets before transfers	2.59	10.88	3.45	4.35	6.04	15.23
Special items - gain (loss)	(3.35)	0.10	-	0.20	(3.35)	0.30
Transfers	0.70	0.48	(0.70)	(0.48)	-	-
Increase in net assets	(0.06)	11.46	2.75	4.07	2.69	15.53
Beginning Net assets	385.77	393.83	93.31	94.08	479.08	487.91
Prior period adjustments	8.12	0.8	(1.98)	0	6.14	0.80
Ending Net assets	\$393.83	\$406.09	\$94.08	\$98.15	\$ 487.91	\$ 504.24

- o Property taxes increased by \$1.26 (3 percent) during the year. Most of this increase is tax collection on new homes for roads in the unincorporated area of the county in 2005.
- o Operating grants for government activities increased by \$3.46 million

Expenses and Program Revenues - Governmental Activities



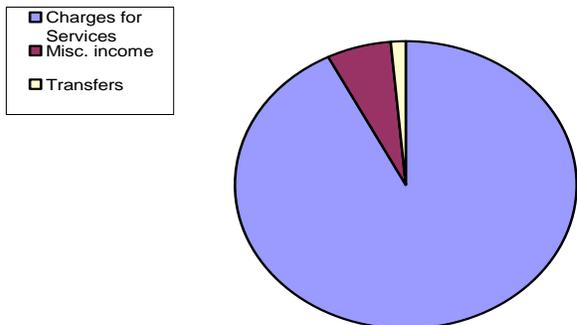
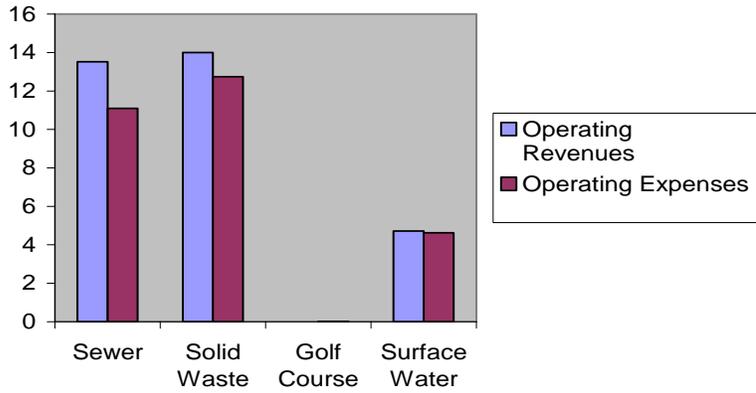
Revenues by Source – Governmental Activities



Business-type activities. The business-type activities increased the County’s net assets by \$4.07, 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 6 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 \$87.45, a decrease of \$11.58 in comparison with the prior year. A major part of this total amount is from the Administrative building construction. The county has \$12.87 million decrease in fund balance in the Administrative building construction fund.

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 \$12.13, while the total fund balance reached \$23.70. 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 15 percent of the

total general fund expenditures, while total fund balance represents 30 percent of that same amount.

The fund balance of Kitsap County's general fund decreased by \$2.01million during the current fiscal year. Key factors in this decline are as follows:

- The desire of the board to spend down the fund balance.

County road fund balance increased by \$7.94 million due to increase grant revenue for road construction, and increase in property tax due to increase in house construction in the unincorporated areas of the county.

Real Estate Excise Tax fund balance also increased from 7.76 m to 8.72 m in 2005 due to increase in home sale in the county.

Administrative building construction fund had a major decrease in fund balance of about 13 million. This is due to the spending down of the funds available for the construction.

The debt service funds have a total fund balance of \$3.82, 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 \$25.71, and unrestricted net assets of sewer was \$13.03, Solid Waste amounted to 23.09, while the Surface Water was 6.82 and Village Green Golf Course was \$0.18

General Fund budgetary Highlights

GENERAL FUND BUDGETARY HIGHLIGHTS:

Actual General Fund revenues exceed original budgeted revenues by \$.54 during fiscal year 2005. 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 a grant award for about 0.75 million for community policing project during 2005.

	Original budget	Amended budget	Actual
Revenues			
Intergovernmental	7.23	8.18	7.53
Total Revenues	7.23	8.18	7.53
Expenditures			
Expenditures	83.63	85.45	79.99
Other financing sources (uses)	0.37	0.33	0.31
Total expenditures	84.00	85.78	80.30
Change to fund balance	\$ 91.23	\$ 93.96	\$ 87.83

Capital Assets

At the end of the fiscal year 2005, the Kitsap County investment in capital assets for its governmental activities is \$657.08 million as reflected in the following schedule, which represents a net increase of \$15.40 million or 2 percent from last year.

Governmental activities

Change in Capital Assets (millions)

	12/31/2004	Additions	Retirements	12/31/2005
Land	42.18	5.06		47.24
Infrastructure	409.95	2.41		412.36
Building	96.47	1		97.47
Non-building	14.16	3.13		17.29
Machinery & Equipment	36.46	10.63	1.76	45.33
Construction in progress	25.47	20.68	8.76	37.39
Total	624.69	42.91	10.52	657.08
Less Accumulated depreciat	226.9	20.05	1.72	245.23
	\$ 397.79	\$ 22.86	\$ 8.80	\$ 411.85

The following are the major additions to the Capital Assets:

- Various infrastructure projects were completed during the year at a cost of \$2.43
- Central communication remote sites improvements at a cost of \$ 4.80
- Central communication microwave system improvements at a cost of \$ 1.5
- Emergency management phone system was installed for \$1.03
- Emergency management facility classrooms and furnishings at a cost of .9
- The county purchased several parcels of land :
 - 149 acres for open space or future parks for \$ 5.1
 - 4 parcels around the courthouse campus for parking or future developments for \$0.12
- Park, ball field and fairground improvements completed at a cost of \$2.09
- Improvements to the pavilion, and special events center \$.41
- The county purchased 1 mobile command vehicle, 3 undercover police cars and 2 passenger vans for \$.42
- The general fund upgraded ballot tabulation, imaging and computer systems for \$.19

- The county updated the Equipment Rental fleet by purchasing 15 pickups, 13 police cars, 3 rollers, 3 vans, 2 sander trucks, 2 SUV's and 1 backhoe costing \$1.36
- Information services purchased imaging system equipment at a cost \$0.5

Business-type activities. The County spent additional over \$3 million on its Kingston's wastewater treatment facility.

Long-term Debt

At year-end, the County had \$163.00 million in long-term debt versus \$168.45 million last year, a net change of \$5.45 million and 3 percent.

Outstanding Debt, at Year-End

Government activities:	2004	Addition	Deletion	2005
Bond Payable	\$ 110.30	\$ 18.99	\$ 26.07	\$ 103.22
Special assessment	0.14	-	0.06	0.08
Comp	3.84	0.27	-	4.11
Int. serv. Debt	0.12	0.03	-	0.15
Leases	0.18	-	0.06	0.12
Notes Payable	5.58	-	0.20	5.38
Others	1.04	0.12	0.09	1.07
Total	121.20	19.41	26.48	114.13
Enterprise activities:				
Bond Payable	38.15	-	2.26	35.89
Comp	0.36	0.04	-	0.40
Others	8.75	3.89	0.05	12.59
Total	47.26	3.93	2.31	48.88
Total Debt	\$ 168.46	\$ 23.34	\$ 28.79	\$ 163.01

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

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

- 2005 projects and refunding - \$19 million

The Standard and Poor's Corporation and Moody's Investors Service rate the Kitsap County's debt as a triple-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 \$109.93 million 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 (Notes 4 & 5).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

Contacting the County's Financial Management

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

If you have questions about this report or need additional financial information, contact Ade Ariwoola, Financial Services Manager
Kitsap County Auditor's Office
614 Division Street, MS-31
Port Orchard, Washington, 98366.
Telephone (360) 337-7132 or visit the County's web site at www.kitsapgov.com

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KITSAP COUNTY, WASHINGTON

Statement of Net Assets

December 31, 2005

	Governmental Activities	Business-type Activities	Total	Component Unit PFD
ASSETS				
Cash and Cash equivalents	\$ 52,687,027	\$ 5,160,417	\$ 57,847,444	65,389
Deposits with fiscal agents	80,000	-	80,000	-
Investments	25,686,791	39,901,633	65,588,424	332,150
Receivables(net)				
Property taxes	2,249,943	-	2,249,943	-
Special assessments	202,983	30,336	233,319	-
Accounts	366,241	2,309,648	2,675,889	-
Others	18,187	-	18,187	-
Internal balances	775,423	(775,422)	1	-
Due from other governments	8,455,548	867,438	9,322,986	-
Prepayments	769,662	-	769,662	-
Inventories	938,603	283,633	1,222,236	-
Restricted assets:				
Cash and cash equivalents	2,283,438	2,461,331	4,744,769	-
Deposits with fiscal agents	58,889	13,532,341	13,591,230	-
Investments	7,795,637	9,714,790	17,510,427	-
Notes/Contracts	9,611,943	-	9,611,943	-
Long-term Receivable from Comp. Unit	11,395,000	-	11,395,000	-
Capital assets, net (Note1)				
Land	47,241,041	2,021,221	49,262,262	-
Infrastructure	212,515,767	-	212,515,767	-
Buildings	79,845,056	10,932,885	90,777,941	-
Improvements & Other Buildings	12,720,514	39,144,401	51,864,915	-
Machinery & Equipment	22,144,075	97,489	22,241,564	-
Construction In Progress	37,384,869	23,993,068	61,377,937	-
Total assets	<u>535,226,637</u>	<u>149,675,209</u>	<u>684,901,846</u>	<u>397,539</u>
LIABILITIES				
Accounts payable and accrued expenses	4,813,873	1,531,198	6,345,071	-
Due to other governments	820,150	162,423	982,573	-
Other liabilities	6,420,008	607,842	7,027,850	-
Unearned revenue	2,960,013	-	2,960,013	-
Non current Liabilities (Note 2):				
Due within one year	7,609,922	2,888,951	10,498,873	-
Due in more than one year	106,515,163	46,336,895	152,852,058	11,395,000
Total liabilities	<u>129,139,129</u>	<u>51,527,309</u>	<u>180,666,438</u>	<u>11,395,000</u>
NET ASSETS				
Invested in capital assets, net of related debt	320,024,295	29,942,078	349,966,373	-
Restricted:				
Capital Projects	6,906,199	-	6,906,199	-
Debt service	3,824,211	25,708,462	29,532,673	-
Unrestricted	75,332,803	42,497,361	117,830,164	(10,997,461)
Total net assets	<u>\$ 406,087,508</u>	<u>\$ 98,147,901</u>	<u>\$ 504,235,409</u>	<u>\$ (10,997,461)</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, 2005

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	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities								
General Government	\$ 19,134,048	\$ 6,931,551	\$ 7,338,984	\$ -	\$ (4,863,513)	\$ -	\$ (4,863,513)	\$ -
Judicial Services	13,660,917	3,694,668	1,327,176	-	(8,639,073)	-	(8,639,073)	-
Public Safety	41,094,184	788,494	6,740,188	-	(33,565,502)	-	(33,565,502)	-
Physical Environment	1,509,023	1,452,680	6,181	-	(50,162)	-	(50,162)	-
Transportation	35,615,196	1,126,468	6,051,114	3,190,622	(25,246,992)	-	(25,246,992)	-
Health & Human Services	34,968,243	303,182	33,769,745	-	(895,316)	-	(895,316)	-
Economic Environment	8,125,510	4,420,951	3,140,350	-	(564,209)	-	(564,209)	-
Culture & Recreation	7,206,037	942,538	183,564	-	(6,079,935)	-	(6,079,935)	-
Interest on Long-term Debt	4,642,458	-	-	-	(4,642,458)	-	(4,642,458)	-
Total Governmental Activities	<u>165,955,616</u>	<u>19,660,531</u>	<u>58,557,302</u>	<u>3,190,622</u>	<u>(84,547,160)</u>	<u>0</u>	<u>(84,547,160)</u>	<u>-</u>
Business-type Activities								
Solid Waste	12,736,762	13,983,162	-	-	-	1,246,400	1,246,400	-
Sewer Utility	12,425,725	13,496,377	-	-	-	1,070,652	1,070,652	-
Surface Water	4,627,040	4,713,661	-	-	-	86,621	86,621	-
Golf	7,705	-	-	-	-	(7,705)	(7,705)	-
Total business-type activities	<u>29,797,232</u>	<u>32,193,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,395,968</u>	<u>2,395,968</u>	<u>-</u>
Total Primary Government	<u>\$ 195,752,848</u>	<u>\$ 51,853,731</u>	<u>\$ 58,557,302</u>	<u>\$ 3,190,622</u>	<u>(84,547,160)</u>	<u>2,395,968</u>	<u>(82,151,192)</u>	<u>-</u>
Component Units:								
Public Facility District(PFD)	1,009,335	-	-	-	-	-	-	(1,009,335)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					46,589,196	-	46,589,196	-
Property taxes, levied for debt service					-	-	-	-
Sales & use taxes					29,354,349	-	29,354,349	1,101,474
Other taxes					13,139,373	-	13,139,373	-
Investment earnings					3,705,644	1,919,592	5,625,236	7,877
Miscellaneous					2,634,182	41,727	2,675,909	40,000
Special item - gain(loss) on sale of capital assets					107,650	195,171	302,821	-
Transfers					477,620	(477,620)	-	-
Total general revenues, special items, and transfers					<u>96,008,014</u>	<u>1,678,870</u>	<u>97,686,884</u>	<u>1,149,351</u>
Change in net assets					<u>11,460,853</u>	<u>4,074,838</u>	<u>15,535,691</u>	<u>140,016</u>
Net assets - beginning					<u>393,825,896</u>	<u>94,073,065</u>	<u>487,898,961</u>	<u>(11,137,477)</u>
Prior Period Adjustments					<u>800,758</u>		<u>800,758</u>	<u>-</u>
Net assets - ending					<u>\$ 406,087,507</u>	<u>\$ 98,147,903</u>	<u>\$ 504,235,410</u>	<u>\$ (10,997,461)</u>

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

FUND FINANCIAL STATEMENTS

Unlike Government-wide Financial Statements that reports on the county as a whole, Fund Financial Statements focus on the individual major funds of the county.

- ❑ 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 Statement of Activities.
- ❑ Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund.
- ❑ 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

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 accounted for in another fund.

County Roads: A fund used to account for the maintenance and the construction of county roads and bridges.

Real Estate Excise Tax: A fund used to account for the collection and the spending of the excise tax.

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.

Balance Sheet
 Governmental Funds
 December 31,2005

	Special Revenue Funds			
	General Fund	Road Department	Real Estate Excise Tax	Mental Health
ASSETS				
Cash and Cash equivalents	\$ 12,213,149	\$ 14,500,515	\$ 73,650	\$ 1,196,644
Deposits with fiscal agents	-	-	58,889	-
Investments	-	11,022,178	6,155,584	-
Receivables(net)	-	-	-	-
Property Taxes	1,294,073	848,745	-	-
Special assessments	883	104,731	-	-
Accounts	361,924	-	-	-
Notes/Contracts	11,395,000	-	5,375,000	-
Others	14,921	-	-	-
Due from other funds	815,300	314,907	-	-
Due from other governments	806,540	1,286,995	-	337,758
Interfund loan receivable	-	500,000	2,432,675	-
Prepayments	22,200	-	-	-
Advance to other funds	160,000	-	-	-
Total assets	\$ 27,083,990	\$ 28,578,071	\$ 14,095,798	\$ 1,534,402
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	1,100,683	515,931	-	20,680
Due to other funds	2,606	1,222,600	-	-
Due to other governments	-	-	-	45,520
Other liabilities	974,460	223,374	-	5,553
Advance from other fund	-	-	-	-
Revenues collected in advance	10,519	-	-	-
Deferred revenue	1,293,190	953,476	5,375,000	-
Long term debt due within one year	-	-	-	-
Total liabilities	3,381,458	2,915,381	5,375,000	71,753
Fund balances				
Reserved:				
Prepayments	22,200	-	-	-
Advance/Receivable	11,555,000	-	-	-
General fund	12,125,332	-	-	1,462,649
Special revenues	-	25,662,690	8,720,798	-
Debt services	-	-	-	-
Capital projects funds	-	-	-	-
Total fund balance	23,702,532	25,662,690	8,720,798	1,462,649
Total liabilities & fund balances	\$ 27,083,990	\$ 28,578,071	\$ 14,095,798	\$ 1,534,402

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

KITSAP COUNTY, WASHINGTON
Balance Sheet
Governmental Funds
December 31, 2005

	Other Governmental Funds	Total Governmental Funds
ASSETS		
Cash and Cash equivalents	\$ 11,096,071	\$ 39,080,029
Deposits with fiscal agents	-	58,889
Investments	16,304,666	33,482,428
Receivables(net)	-	-
Property Taxes	107,125	2,249,943
Special assessments	97,369	202,983
Accounts	4,317	366,241
Notes/Contracts	4,236,943	21,006,943
Others	3,266	18,187
Due from other funds	68,470	1,198,677
Due from other governments	6,024,255	8,455,548
Interfund loan receivable	-	2,932,675
Prepayments	-	22,200
Advance to other funds	-	160,000
Total assets	\$ 37,942,482	\$ 109,234,743
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	2,783,788	4,421,082
Due to other funds	54,233	1,279,439
Due to other governments	774,630	820,150
Other liabilities	184,938	1,388,325
Advance from other fund	3,092,675	3,092,675
Revenues collected in advance	-	10,519
Deferred revenue	3,155,754	10,777,420
Long term debt due within one year	-	-
Total liabilities	10,046,018	21,789,610
Fund balances		
Reserved:		
Prepayments	-	22,200
Advance/Receivable	-	11,555,000
General fund	-	13,587,981
Special revenues	17,166,054	51,549,542
Debt services	3,824,211	3,824,211
Capital projects funds	6,906,199	6,906,199
Total fund balance	27,896,464	87,445,133
Total liabilities & fund balances	\$ 37,942,482	\$ 109,234,743

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, 2005

Fund balances of governmental funds - page 17 \$ 87,445,133

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	657,076,256	
Depreciation	(245,224,934)	
Capital asset net of depreciation		411,851,322

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

Bond payable	103,297,027	
Compensated absences	4,112,909	
Capital lease	117,182	
Other long-term liabilities	6,445,952	
Long-term debt		(113,973,070)

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

7,827,926

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	18,604,155	
Liabilities	(5,667,958)	
Asset less liabilities		12,936,197

Net assets of governmental activities - page 12

\$ 406,087,508

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, 2005

	General Fund	Special Revenue Funds		
		County Roads	Real Estate Excise Tax	Mental Health
REVENUES:				
Property taxes	\$ 25,124,029	\$ 19,722,525	\$ -	\$ 241,947
Retail sales & use taxes	21,694,399	-	-	-
Other taxes	4,372,428	54,403	7,217,273	-
Licenses and permits	3,309,767	107,756	-	-
Intergovernmental	7,525,382	9,229,890	-	20,117,201
Charges for services	10,430,570	493,241	-	-
Fines & forfeits	2,348,651	12,920	-	-
Investment earnings	1,835,336	191,725	551,630	-
Miscellaneous	1,041,094	119,002	4,800	100,000
Total revenues	77,681,656	29,931,462	7,773,703	20,459,148
EXPENDITURES:				
Current:				
General government	21,969,051	-	62,444	-
Judicial Services	13,471,313	-	-	-
Public safety	31,293,072	-	-	-
Physical Environment	1,445,639	-	-	-
Transportation	-	20,429,262	-	-
Health & Human Services	-	-	-	20,549,988
Economic Environment	5,340,535	-	-	-
Culture & recreation	5,650,586	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	-	88,859	137,841	-
Interest and other charges	-	9,046	241,814	-
Capital outlay	822,406	5,176,624	476,465	-
Total expenditures	79,992,602	25,703,791	918,564	20,549,988
Excess(deficiency) of revenues over expenditures	(2,310,946)	4,227,671	6,855,139	(90,840)
OTHER FINANCING SOURCES (USES):				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	100,000	-
Transfers in	1,819,513	7,901,174	-	7,500
Transfers out	(1,514,288)	(4,193,626)	(5,995,852)	(200,000)
Other adjustments	-	-	-	-
Total other financing sources & uses	305,225	3,707,548	(5,895,852)	(192,500)
Net change in fund balance	(2,005,721)	7,935,219	959,287	(283,340)
Fund balances-beginning	25,708,255	17,727,471	7,761,511	1,745,989
Prior period adjustments	-	-	-	-
Fund balances-ending	\$ 23,702,534	\$ 25,662,690	\$ 8,720,798	\$ 1,462,649

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, 2005

	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>
REVENUES:		
Property taxes	\$ 1,500,694	\$ 46,589,195
Retail sales & use taxes	7,659,950	29,354,349
Other taxes	1,495,269	13,139,373
Licenses and permits	17,295	3,434,818
Intergovernmental	24,875,452	61,747,925
Charges for services	2,663,130	13,586,941
Fines & forfeits	277,202	2,638,773
Investment earnings	1,126,953	3,705,644
Miscellaneous	1,369,284	2,634,180
Total revenues	<u>40,985,229</u>	<u>176,831,198</u>
EXPENDITURES:		
Current:		
General government	1,424,621	23,456,116
Judicial Services	139,551	13,610,864
Public safety	6,900,398	38,193,470
Physical Environment	63,384	1,509,023
Transportation	107,341	20,536,603
Health & Human Services	14,260,365	34,810,353
Economic Environment	2,763,254	8,103,789
Culture & recreation	570,710	6,221,296
Interest on long-term debt	-	-
Debt service		
Principal	7,277,692	7,504,392
Interest and other charges	4,391,598	4,642,458
Capital outlay	<u>23,565,278</u>	<u>30,040,773</u>
Total expenditures	61,464,192	188,629,137
Excess(deficiency) of revenues over expenditures	<u>(20,478,963)</u>	<u>(11,797,939)</u>
OTHER FINANCING SOURCES (USES):		
Refunding bonds issued	20,226,480	20,226,480
Capital -related debt issued	-	-
Payment to bond refunding escrow agent	(20,507,263)	(20,507,263)
Sale of capital assets	7,650	107,650
Transfers in	15,662,331	25,390,518
Transfers out	(13,069,962)	(24,973,728)
Other adjustments	(25,000)	-
Total other financing sources & uses	<u>2,294,236</u>	<u>243,657</u>
Net change in fund balance	<u>(18,184,727)</u>	<u>(11,554,282)</u>
Fund balances-beginning	46,081,183	99,024,409
Prior period adjustments	-	(25,000)
Fund balances-ending	<u>\$ 27,896,456</u>	<u>\$ 87,445,127</u>

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, 2005

Net change in fund balances-total governmental funds - page 20 \$ (11,554,282)

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	30,040,773
Depreciation	(20,049,890)

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	(20,226,480)
Bond principal	7,504,392
Payment to bond refunding escrow	20,507,263

Internal services Activities

Net Transfers	60,825
Depreciation already included above	2,084,828
Net profit	3,093,424

Change in net assets of governmental activities - page 13 \$ 11,460,853

KITSAP COUNTY, WASHINGTON

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

General Fund

Year Ended December 31, 2005

	2005			
	Original	Final	Actual	Variance
	Budget	Budget		Final Budget
REVENUES:				
Property taxes	\$ 25,060,723	\$ 25,060,723	\$ 25,124,029	\$ 63,306
Retail sales & use taxes	20,545,000	20,545,000	21,694,399	1,149,399
Other taxes	4,644,296	4,644,296	4,372,428	(271,868)
Licenses and permits	3,022,357	3,022,357	3,309,767	287,410
Intergovernmental	7,231,245	8,180,181	7,525,382	(654,799)
Charges for services	10,455,808	10,455,808	10,430,570	(25,238)
Fines & forfeits	2,869,292	2,869,292	2,348,651	(520,641)
Investment earnings	1,311,685	1,311,685	1,835,336	523,651
Miscellaneous	1,031,492	1,051,238	1,041,094	(10,144)
Total revenues	<u>76,171,898</u>	<u>77,140,580</u>	<u>77,681,656</u>	<u>541,076</u>
EXPENDITURES:				
Current:				
General government				
Administrative Services	\$ 593,176	\$ 609,088	\$ 527,355	\$ 81,733
Assessor	2,383,030	2,397,188	2,280,118	117,070
Auditor	3,314,598	3,375,177	3,299,834	75,343
Commissioners	1,149,989	1,201,579	1,115,016	86,563
General Administration	8,032,860	6,318,468	5,715,031	603,437
Personnel & Human resources	1,300,739	1,342,351	1,249,043	93,308
Prosecuting attorney	6,899,635	7,166,870	6,891,084	275,786
Treasurer	913,773	935,854	891,570	44,284
Total general government	<u>24,587,800</u>	<u>23,346,575</u>	<u>21,969,051</u>	<u>1,377,524</u>
Judicial Services				
Clerk	\$ 6,041,443	\$ 6,068,424	\$ 6,187,512	\$ (119,088)
District court	2,696,031	2,699,388	2,542,694	156,694
Superior court	2,663,316	2,718,903	2,612,057	106,846
Juvenile	2,202,236	2,208,247	2,129,050	79,197
Total Judicial services	<u>13,603,026</u>	<u>13,694,962</u>	<u>13,471,313</u>	<u>223,649</u>
Public safety				
Sheriff	\$ 15,950,606	\$ 18,363,617	\$ 16,924,745	\$ 1,438,872
Jail	9,148,585	9,206,228	8,942,585	263,643
Juvenile	4,966,089	4,995,954	4,653,143	342,811
Coroner	812,011	813,158	771,356	41,802
Personnel & Human Resources	4,589	4,589	1,244	3,345
Total Public Safety	<u>30,881,880</u>	<u>33,383,546</u>	<u>31,293,073</u>	<u>2,090,473</u>
Physical Environment				
Community Development	\$ 1,600,280	\$ 1,603,959	\$ 1,445,639	\$ 158,320
Total Physical Environment	<u>1,600,280</u>	<u>1,603,959</u>	<u>1,445,639</u>	<u>158,320</u>
Economic Environment				
Community Development	\$ 5,246,344	\$ 5,323,928	\$ 5,340,537	\$ (16,609)
Total Economic Environment	<u>5,246,344</u>	<u>5,323,928</u>	<u>5,340,537</u>	<u>(16,609)</u>
Culture & recreation				
Parks	\$ 5,295,798	\$ 5,359,319	\$ 5,148,827	\$ 210,492
Cooperative Extension	293,219	293,336	264,711	28,625
Personnel & Human Resources	238,717	238,717	237,049	1,668
Total Culture & Recreation	<u>5,827,734</u>	<u>5,891,372</u>	<u>5,650,587</u>	<u>240,785</u>
Capital outlay	<u>1,886,049</u>	<u>2,203,638</u>	<u>822,406</u>	<u>1,381,232</u>
Total expenditures	<u>83,633,113</u>	<u>85,447,980</u>	<u>79,992,606</u>	<u>5,455,374</u>
Excess(deficiency) of revenues over expenditures	(7,461,215)	(8,307,400)	(2,310,950)	5,996,450
OTHER FINANCING SOURCES (USES):				
Transfers in	1,782,831	1,836,017	1,819,513	(16,504)
Transfers out	(1,407,930)	(1,506,288)	(1,514,288)	(8,000)
Total other financing sources & uses	<u>374,901</u>	<u>329,729</u>	<u>305,225</u>	<u>(24,504)</u>
Net change in fund balance	<u>(7,086,314)</u>	<u>(7,977,671)</u>	<u>(2,005,725)</u>	<u>5,971,946</u>
Fund balances-beginning	<u>(15,500,000)</u>	<u>(15,500,000)</u>	<u>25,708,255</u>	<u>41,208,255</u>
Fund balances-ending	<u>(22,586,314)</u>	<u>(23,477,671)</u>	<u>23,702,530</u>	<u>47,180,201</u>

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, 2005

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 19,670,394	\$ 19,670,394	\$ 19,722,525	\$ 52,131
Retail sales & use taxes	-	-	-	-
Other taxes	40,000	40,000	54,403	14,403
Licenses and permits	80,000	80,000	107,756	27,756
Intergovernmental	9,223,560	10,012,560	9,229,890	(782,670)
Charges for services	324,000	324,000	493,241	169,241
Fines & forfeits	-	-	12,920	12,920
Investment earnings	14,000	14,000	191,725	177,725
Miscellaneous	3,000	3,000	119,002	116,002
Total revenues	<u>29,354,954</u>	<u>30,143,954</u>	<u>29,931,462</u>	<u>(212,492)</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	21,296,588	21,435,588	20,429,262	1,006,326
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	9,246	9,246	9,046	200
Capital outlay	<u>7,884,750</u>	<u>6,977,750</u>	<u>5,176,624</u>	<u>1,801,126</u>
Total expenditures	<u>29,279,443</u>	<u>28,511,443</u>	<u>25,703,791</u>	<u>2,807,652</u>
Excess(deficiency) of revenues over expenditures	<u>75,511</u>	<u>1,632,511</u>	<u>4,227,671</u>	<u>2,595,160</u>
OTHER FINANCING SOURCES (USES):				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	4,913,000	4,913,000	7,901,174	2,988,174
Transfers out	(4,154,623)	(4,193,707)	(4,193,626)	81
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>758,377</u>	<u>719,293</u>	<u>3,707,548</u>	<u>2,988,255</u>
Net change in fund balance	<u>833,888</u>	<u>2,351,804</u>	<u>7,935,219</u>	<u>5,583,415</u>
Fund balances-beginning	(19,556,243)	(19,556,243)	17,727,471	37,283,714
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ (18,722,355)</u>	<u>\$ (17,204,439)</u>	<u>\$ 25,662,690</u>	<u>\$ 42,867,129</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, 2005

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 200,000	\$ 200,000	\$ 241,947	\$ 41,947
Retail sales & use taxes	-	-	-	-
Other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	26,800,000	26,800,000	20,117,201	(6,682,799)
Charges for services	-	-	-	-
Fines & forfeits	-	-	-	-
Investment earnings	-	-	-	-
Miscellaneous	100,000	100,000	100,000	-
Total revenues	<u>27,100,000</u>	<u>27,100,000</u>	<u>20,459,148</u>	<u>(6,640,852)</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	26,907,500	26,907,500	20,549,988	6,357,512
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>20,549,988</u>	<u>6,357,512</u>
Excess(deficiency) of revenues over expenditures	<u>192,500</u>	<u>192,500</u>	<u>(90,840)</u>	<u>(283,340)</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	-	-	(283,340)	(283,340)
Fund balances-beginning	(1,400,000)	(1,400,000)	1,745,989	3,145,989
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>(1,400,000)</u>	<u>(1,400,000)</u>	<u>\$ 1,462,649</u>	<u>\$ 2,862,649</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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Retail sales & use taxes	-	-	-	-
Other taxes	4,940,000	4,940,000	7,217,273	2,277,273
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines & forfeits	-	-	-	-
Investment earnings	503,000	503,000	551,630	48,630
Miscellaneous	-	-	4,800	4,800
Total revenues	<u>5,443,000</u>	<u>5,443,000</u>	<u>7,773,703</u>	<u>2,330,703</u>
EXPENDITURES:				
Current:				
General government	-	-	62,444	(62,444)
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	-	-	-	-
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	100,000	100,000	137,841	(37,841)
Interest and other charges	253,000	253,000	241,814	11,186
Capital outlay	350,000	768,000	476,465	291,535
Total expenditures	<u>703,000</u>	<u>1,121,000</u>	<u>918,564</u>	<u>202,436</u>
Excess(deficiency) of revenues over expenditures	<u>4,740,000</u>	<u>4,322,000</u>	<u>6,855,139</u>	<u>2,533,139</u>
OTHER FINANCING SOURCES (USES):				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	100,000	(100,000)
Transfers in	-	-	-	-
Transfers out	(5,862,999)	(5,957,427)	(5,995,852)	(38,425)
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>(5,862,999)</u>	<u>(5,957,427)</u>	<u>(5,895,852)</u>	<u>(138,425)</u>
Net change in fund balance	<u>(1,122,999)</u>	<u>(1,635,427)</u>	<u>959,287</u>	<u>2,394,714</u>
Fund balances-beginning	(11,000,000)	(11,000,000)	7,761,511	18,761,511
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ (12,122,999)</u>	<u>\$ (12,635,427)</u>	<u>\$ 8,720,798</u>	<u>\$ 21,156,225</u>

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

KITSAP COUNTY, WASHINGTON

Statement of Net Assets

Proprietary Funds

December 31, 2005

	Business-type Activities-Enterprise Funds				Governmental Activities Internal Services Funds
	Sanitary Sewer	Solid Waste	Other Non-Major Funds	Total	
ASSETS					
Current assets:					
Cash and Cash equivalents	\$ 1,414,973	\$ 3,111,824	\$ 633,620	\$ 5,160,417	\$ 15,890,436
Deposits with fiscal agents	-	-	-	-	80,000
Investments	13,818,874	19,904,020	6,178,739	39,901,633	-
Receivables(net)					
Special assessments	30,336	-	-	30,336	-
Accounts	1,163,753	1,156,384	(10,489)	2,309,648	-
Due from other funds	533,804	261,393	47,767	842,964	947,654
Due from other governments	522,361	200,077	145,000	867,438	-
Prepayments	-	-	-	-	747,462
Inventories	283,633	-	-	283,633	938,603
Restricted assets:					
Cash and cash equivalents	2,461,331	-	-	2,461,331	-
Deposits with fiscal agents	13,532,341	-	-	13,532,341	-
Investments	9,714,790	-	-	9,714,790	-
Total current assets	<u>43,476,196</u>	<u>24,633,698</u>	<u>6,994,637</u>	<u>75,104,531</u>	<u>18,604,155</u>
Noncurrent assets:					
Capital assets, net (Note1)					
Land	1,123,482	472,444	425,295	2,021,221	-
Buildings	29,016,797	658,279	37,267	29,712,343	-
Improvements & Other Buildings	54,806,405	1,606,355	4,485,357	60,898,117	-
Machinery & Equipments	3,543,492	76,808	123,330	3,743,630	25,419,577
Construction In Progress	21,507,148	15,526	2,470,394	23,993,068	-
Less accumulated depreciation	(41,880,020)	(954,290)	(1,345,004)	(44,179,314)	(13,946,434)
Total noncurrent assets	<u>68,117,304</u>	<u>1,875,122</u>	<u>6,196,639</u>	<u>76,189,065</u>	<u>11,473,143</u>
Total assets	<u>111,593,500</u>	<u>26,508,820</u>	<u>13,191,276</u>	<u>151,293,596</u>	<u>30,077,298</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	344,578	1,013,890	172,730	1,531,198	392,791
Due to other funds	978,273	408,982	231,131	1,618,386	91,469
Due to other governments	4,278	34,477	123,668	162,423	-
Other liabilities	552,258	23,429	32,155	607,842	5,031,683
Total current liabilities	<u>1,879,387</u>	<u>1,480,778</u>	<u>559,684</u>	<u>3,919,849</u>	<u>5,515,943</u>
Non current Liabilities (Note 2):					
Due within one year	2,888,951	-	-	2,888,951	9,823
Due in more than one year	46,220,562	63,120	53,213	46,336,895	142,192
Total noncurrent liabilities	<u>49,109,513</u>	<u>63,120</u>	<u>53,213</u>	<u>49,225,846</u>	<u>152,015</u>
Total liabilities	<u>50,988,900</u>	<u>1,543,898</u>	<u>612,897</u>	<u>53,145,695</u>	<u>5,667,958</u>
NET ASSETS					
Invested in capital assets, net of related debt	21,896,742	1,875,122	6,196,639	29,968,503	11,330,951
Restricted:					
Debt service	25,708,462	-	-	25,708,462	-
Unrestricted	12,999,396	23,089,800	6,381,740	42,470,936	13,078,389
Total net assets	<u>\$ 60,604,600</u>	<u>\$ 24,964,922</u>	<u>\$ 12,578,379</u>	<u>\$ 98,147,901</u>	<u>\$ 24,409,340</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, 2005

	Business-type Activities - Enterprise Funds				Governmental Activities Internal Service Funds
	Sanitary Sewer	Solid Waste	Other Non-Major Funds	Total	
Operating revenues:					
Charges for services	\$ 13,496,377	\$ 13,983,162	\$ 4,713,661	\$ 32,193,200	\$ 17,107,558
Miscellaneous	19,635	21,975	117	41,727	32,078
Total operating revenues	13,516,012	14,005,137	4,713,778	32,234,927	17,139,636
Operating expenses:					
Personal services	4,261,246	1,231,308	1,704,642	7,197,196	4,312,079
Contractual services	1,206,524	809,043	1,785,895	3,801,462	759,178
Utilities	984,618	10,022,954	86,042	11,093,614	19,920
Repair and maintenance	109,512	167,035	100,150	376,697	739,787
Other supplies and expenses	1,485,677	392,993	591,122	2,469,792	4,628,188
Insurance claims and expenses	83,058	7,251	36,043	126,352	1,734,423
Depreciation	2,959,609	106,178	330,851	3,396,638	2,084,828
Total operating expenses	11,090,244	12,736,762	4,634,745	28,461,751	14,278,403
Operating income	2,425,768	1,268,375	79,033	3,773,176	2,861,233
Nonoperating revenue (expenses)					
Interest and investment revenue	737,860	611,288	224,014	1,573,162	-
Miscellaneous revenue	-	346,180	250	346,430	-
Interest expense	(1,335,481)	-	-	(1,335,481)	-
Miscellaneous expense	-	-	-	-	(2,192)
Total nonoperating expenses	(597,621)	957,468	224,264	584,111	(2,192)
Income (loss) before contributions & transfers	1,828,147	2,225,843	303,297	4,357,287	2,859,041
Capital contributions	-	-	195,171	195,171	173,556
Transfers in	3,964,384	470,880	591,830	5,027,094	89,326
Transfers out	(4,150,469)	(470,880)	(883,365)	(5,504,714)	(28,499)
Change in net assets	1,642,062	2,225,843	206,933	4,074,838	3,093,424
Total net assets - beginning	58,962,538	22,739,080	12,371,447	94,073,065	21,315,916
Prior Period Adjustments	-	-	-	-	-
Total net assets - ending	\$ 60,604,600	\$ 24,964,923	\$ 12,578,380	\$ 98,147,903	\$ 24,409,340

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 31,2005

	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	\$12,833,761	\$13,636,520	\$ 4,856,140	\$ 31,326,421	\$ 16,571,822
Payments to suppliers	(3,549,431)	(10,980,280)	(2,364,013)	(16,893,724)	(7,907,658)
Payments to employees	(4,234,584)	(1,226,313)	(1,700,266)	(7,161,163)	(4,284,333)
Net cash provided by operating activities	5,049,746	1,429,927	791,861	7,271,534	4,379,831
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants received	6,158,774	252,687	-	6,411,461	-
Transfers	(186,085)	-	(291,535)	(477,620)	60,827
Net cash provided by noncapital activities	5,972,689	252,687	(291,535)	5,933,841	60,827
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	-	-	-	-	173,556
Purchases of capital assets	(3,157,426)	(15,526)	(600,688)	(3,773,640)	(2,027,598)
Principal paid on capital debt	(2,262,308)	-	-	(2,262,308)	-
Interest paid on capital debt	(1,318,438)	-	-	(1,318,438)	-
Net cash from related financing activities	(6,738,172)	(15,526)	(600,688)	(7,354,386)	(1,854,042)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	8,667,000	1,100,000	3,700,000	13,467,000	-
Purchase of Investment	(12,231,938)	(2,711,360)	(3,649,241)	(18,592,539)	-
Interest and dividends	737,859	611,289	224,014	1,573,162	-
Net cash provided by investing activities	(2,827,079)	(1,000,071)	274,773	(3,552,377)	-
Net (decrease) in cash and cash equivalents	1,457,184	667,017	174,411	2,298,612	2,586,616
Balances - beginning of the year	2,419,120	2,444,807	459,209	5,323,136	13,303,821
Balances - end of the year	\$ 3,876,304	\$ 3,111,824	\$ 633,620	\$ 7,621,748	\$ 15,890,437
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 2,425,768	\$ 1,268,375	\$ 79,033	\$ 3,773,176	\$ 2,861,233
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	2,959,609	106,178	330,851	3,396,638	2,084,828
Change in assets and liabilities:					
Receivables, net	(223,788)	(129,104)	185,047	(167,845)	(61,816)
Due from other funds	(458,463)	(259,513)	(42,685)	(760,661)	(505,998)
Due from other governments	-	-	-	-	-
Inventories	(25,046)	-	-	(25,046)	(172,163)
Prepaid	-	-	-	-	-
Accounts and other payables	(371,237)	141,571	95,819	(133,847)	(80,834)
Due to other funds	747,008	292,255	152,576	1,191,839	12,712
Due to other governments	4,278	1,040	(6,533)	(1,215)	233
Employee benefits	-	-	-	-	-
Accrued expenses	(35,045)	4,130	(6,623)	(37,538)	211,723
Deposit with Fiscal Agents	26,662	4,995	4,376	36,033	29,913
Net cash provided by operating activities	\$ 5,049,746	\$ 1,429,927	\$ 791,861	\$ 7,271,534	\$ 4,379,831

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

KITSAP COUNTY, WASHINGTON

Statement of Fiduciary Net Assets December 31, 2005

	Employee Deferred Compensation	Agency Funds
ASSETS		
Cash	\$ -	\$ 31,930,160
Deposits with fiscal Agents/Trustees	22,747,517	100,000
Investments	-	200,525,553
Taxes Receivable	-	6,303,598
Other current Receivables	-	-
Due From Other Funds	-	-
Due from other Governmental Units	-	-
Total Assets	<u>22,747,517</u>	<u>\$ 238,859,312</u>
LIABILITIES		
Warrants payable	-	\$ 4,250,942
Accounts Payable	-	-
Sales Tax Payable	-	-
Other Accrued Liabilities	-	-
Due to Other Funds	-	-
Due to Other Governmental Units	-	-
Custodial Account	-	234,608,370
Total Liabilities	<u>-</u>	<u>\$ 238,859,312</u>
NET ASSETS		
Held In Trust Fo Pension Benefits & Other Purposes	<u>\$ 22,747,517</u>	

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, 2005

	Employee Deferred <u>Compensation</u>
ADDITIONS	
Contributions:	
Employer	\$ -
Plan Members	6,068,097
Total Contributions	<u>6,068,097</u>
Roll-Ins	-
Investment Earnings	1,402,606
Total Additions	<u>7,470,703</u>
DEDUCTIONS	
Benefits	(6,019,183)
Others	14,152
Total Deductions	<u>(6,005,032)</u>
Change In Net Assets	1,465,672
Net Assets-Beginning Of The Year	21,281,845
Net Assets-End Of The Year	<u>\$ 22,747,517</u>

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2005

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KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2005

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 commission 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 the sales tax revenues. 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. Complete financial statements may be obtained at the Kitsap County Public Facility District, C/O Anne Blair, 16550 Agate Point Road, Bainbridge Island, WA 98110

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 a \$2 million 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 amount 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 changes in net assets) 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. 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 financials 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 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. 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 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 roads 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 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, 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 trust 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 cost 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. Assets, liabilities, and net assets or equity.

1. Capital Assets

See Note 4(f) for more information on capital assets, infrastructure, their capitalization threshold, and depreciation.

2. 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, 2005, the treasurer was holding \$ 87.40 million in short-term residual investments of the \$94.48 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. The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during the year 2005 were approximately \$ 139,350.

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.

3. 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(b)).

4. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Property Taxes Note 4(c)). 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. As of December 31, 2005, \$ 22,369 of special assessments receivable were delinquent.

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.

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. Fund Equity

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 STATEMENTS

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. BUDGETARY INFORMATION

A. Scope of Budget

Annual appropriated budgets are adopted for 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 projects.

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 appropriation for capital outlay, which are carried forward from year to year until fully expended or 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 law of 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 the 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 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.

B. Budget revision.

Revisions were made to the original budgets of the following funds during the year:

Fund Number	Fund Description	Original Budget	Budget Change	Final Budget
001	General Fund	\$ 85,041,043	1,913,225	\$ 86,954,268
101	County Road Funds	\$ 33,434,066	(728,916)	\$ 32,705,150
131	Real Estate Excise Tax	\$ 6,565,999	512,428	\$ 7,078,427
	Non Major funds	\$ 46,675,647	25,162,760	\$ 71,838,407
			\$ 26,859,497	

C. Excess of expenditures over appropriations.

For the year ended December 31, 2005, expenditures exceeded appropriations in the following general fund department:

Department	Amount
Clerk	119,088

These over-expenditures were funded by greater than anticipated revenues in the General fund.

NOTE 4. DETAIL NOTE ON ALL FUNDS

A. Deposits

The county's 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.

B. 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 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.

Investment Type	Rating	%	Fair Value	Maturities in Years			
				Less Than 1	1 - 2	2 - 3	3 - 4
FHLB	AAA	27	\$ 101,094,951	\$ 46,932,293	\$ 49,189,965	\$ -	\$ 4,972,693
Freddie Mac	AAA	22	80,194,012	39,245,465	31,183,317	9,765,230	-
Fannie Mae	AAA	24	88,619,119	32,891,788	31,174,474	19,613,101	4,939,756
FFCB	AAA	4	14,864,676	10,022,083	-	4,842,593	-
US Treasuries	N/R	3	9,953,720	9,953,720	-	-	-
Wa. St LGIP	N/R	14	50,315,800	50,315,800	-	-	-
Cert of Deposit	N/R	1	2,000,000	2,000,000	-	-	-
Money Market	N/R	5	20,384,060	20,384,060	-	-	-
		100	\$ 367,426,338	\$ 211,745,209	\$ 111,547,756	\$ 34,220,924	\$ 9,912,449

The fair value included accrued interest of \$ 1,651,772.

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.

C. 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 may levy up to 1.80 per \$1,000 of assessed valuation for general governmental services. The county's regular levy for the year 2005 was 1.256137 per \$1,000 on an assessed valuation of \$19,385,082,483 for a total regular levy of \$24,350,321.

The county is also authorized to levy \$2.25 per \$1,000 of assessed valuation in unincorporated areas for road construction and maintenance. This levy is subject to the same limitations as the levy for general government services. The county's road levy for the year 2005 was \$1.718079 per \$1,000 on an assessed valuation of \$12,274,406,465 for total road levy of \$21,088,408.

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.

D. Receivables and Payables.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "*due to/from other funds*" (i.e., the current portion of inter-fund loans) or "*advances to /from other funds*" (i.e., the non-current portion of the inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities or business-type activities are reported in the government-wide financial statements in "*internal balance*."

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 expendable available financial resources.

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 "contributed capital" 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 bond 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 book and the note is reflected on the PFD books as well.

E. 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 a) 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	Gen. Fund	County Roads	Non Major	Solid Waste	Sewer Utility	Ent. Non Major	Internal Service	Total
General Fd		578,371		57,037	91,547	14,022	74,323	815,300
County Rds	2,510	255,821	5,275	5,036	25,997	3,746	16,522	314,907
Non Major			47,767	20,702				68,469
Solid Waste		582		260,160	285	366		261,393
Sewer Utility		308		62,301	452,183	18,388	624	533,804
Ent. Non Major		3,547		3,746	8,169	32,305		47,767
Internal Serv.	96	383,971	1,190		400,093	162,304		947,654
Total	2,606	1,222,600	54,232	408,982	978,274	231,131	91,469	2,989,294

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.

IN	General Fund	County Roads	Mental Health	Non Major	Internal Service	Total
General Fund	-	-	7,500	1,417,462	89,326	1,514,288
County Roads	-	3,745,000	-	448,626	-	4,193,626
REET	-	723,000	-	5,272,852	-	5,995,852
Mental Health	-	-	-	200,000	-	200,000
Nonmajor	1,819,513	3,433,174	-	7,817,272	-	13,069,959
Solid Waste	-	-	-	-	-	-
Sewer	-	-	-	186,085	-	186,085
Nonmajor Ent	-	-	-	291,535	-	291,535
Int. Serv	-	-	-	28,499	-	28,499
Total	1,819,513	7,901,174	7,500	15,662,331	89,326	25,479,844

F. Capital assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), 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 cost 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
Trucks and Trailers	7 - 15

The following is the summary of changes in capital assets activity for the year ended December 31, 2005:

	Beginning Balance	Increase	Decrease	Ending Balance
Government activities:				
Assets not being depreciated				
Land	\$ 42,185,625	\$ 5,055,416	\$ -	\$ 47,241,041
Land - Infrastructure	59,214,451	15,028	-	\$ 59,229,479
Construction in Progress	25,471,952	18,309,168	6,396,251	\$ 37,384,869
Total	126,872,028	23,379,612	6,396,251	\$ 143,855,389
Assets being depreciated				
Buildings	96,476,897	996,093	-	\$ 97,472,990
Building Improvements	14,157,452	3,125,859	-	\$ 17,283,311
Infrastructure	350,729,461	2,414,983	-	\$ 353,144,444
Equipment & Machinery	36,458,894	10,625,430	1,764,202	\$ 45,320,122
Total	497,822,704	17,162,365	1,764,202	\$ 513,220,867
Total capital assets	624,694,732	40,541,977	8,160,453	\$ 657,076,256
Less accumulated depreciation				
Buildings	15,519,248	2,108,686	-	\$ 17,627,934
Building Improvements	3,783,636	779,161	-	\$ 4,562,797
Infrastructure	186,115,130	13,743,026	-	\$ 199,858,156
Equipment & Machinery	21,476,846	3,419,017	1,719,816	\$ 23,176,047
Total	226,894,860	20,049,890	1,719,816	\$ 245,224,934
Government activities capital assets, net	\$ 397,799,872	\$ 20,492,087	\$ 6,440,637	\$ 411,851,322

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

Function/Program	Amount
Government activities:	
General government	\$ 856,184
Judicial Services	50,051
Public safety	2,900,713
Transportation	15,078,593
Health & Human service	157,890
Economic environment	21,719
Culture & recreation	984,740
Total	\$ 20,049,890

	Beginning Balance	Increase	Decrease	Ending Balance
Business-type activities				
Assets not being depreciated				
Land	\$ 2,021,221	\$ -	\$ -	\$ 2,021,221
Construction in Progress	20,342,442	3,738,689	88,063	23,993,068
Total	22,363,663	3,738,689	88,063	26,014,289
Asset being depreciated				
Building	29,712,343	-	-	29,712,343
Building Improvement	60,605,579	292,537	-	60,898,116
Equipment & Machinery	3,721,436	22,194	-	3,743,630
Total	94,039,358	314,731	-	94,354,089
Grand Total	116,403,021	4,053,420	88,063	120,368,378
Less accumulated depreciation				
Building	17,585,652	1,193,806	-	18,779,458
Building Improvement	19,592,533	2,161,183	-	21,753,716
Equipment & Machinery	3,604,492	41,649	-	3,646,141
Total	40,782,677	3,396,638	-	44,179,315
Business-type activities capital assets, net	\$ 75,620,344	\$ 656,782	\$ 88,063	\$ 76,189,063

G. Leases

Operating leases

County does not have any non-cancelable operating leases.

Capital leases

The county has entered into lease agreements for financing computer and mailing equipment. See Note 5

H. Commitments

The County has spent over \$22.7 million as of the end of the year for the construction of its new administrative building.

NOTE 5. 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, 2005, the debt limits for the County was as follows:

	Without a Vote	With a Vote	
		2.50%	5.00%
Legal Limit	\$ 290,776,237	\$ 484,627,062	\$ 969,254,124
Applicable Outstanding Debt	110,218,135	110,218,135	110,218,135
Margin Available	\$ 180,558,102	\$ 374,408,927	\$ 859,035,989

A. General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$128,360,000. During the year, general obligation bonds totaling \$18,995,000 were issued to refinance some of the existing debt and finance the new administrative building.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are generally 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

Issued Name & Purpose	Amount Authorized	Interest Rate(s)	Amount Outstanding
1996 Refunding	9,875,000	3.6/5.7%	7,675,000
1999 - Open space purchase	5,100,000	4.0/4.9%	3,760,000
1999B - Purchase of 911 equipment	10,680,000	4.25/5.30%	2,840,000
2000 - Addition to the Jail	20,000,000	4.3/5.5%	2,865,000
2001 - Refunding	11,215,000	4.0/5.0%	7,540,000
2002A - Special Event & Convention Cer	11,395,000	4.3/5.375%	11,395,000
2002B - 911 Center	10,840,000	3.5/4.0%	2,390,000
2003 - Public Works Annex	10,250,000	2.0/4.875%	9,410,000
2003B - Administrative Building	17,805,000	2.0/4.75%	17,105,000
2004 - Gen. Govt. - Refunding	20,664,719	3.0/5.0%	19,247,027
2005 - Bus.-type - Refunding	535,281	3.0/5.0%	432,973
2005 - Refunding	18,995,000	3.25/5.0%	18,995,000
Total	\$147,355,000		\$ 103,655,000

Annual debt service requirements to maturity for county's long-term debt obligations are as follows:

General Obligation

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	6,963,290	4,844,375	101,710	15,660
2007	4,784,572	4,482,325	110,428	11,591
2008	5,132,760	4,281,062	107,240	7,174
2009	5,316,405	4,064,944	113,595	3,692
2010	5,255,000	3,827,444	-	-
2011 - 2015	21,195,000	15,964,714	-	-
2016 - 2020	23,460,000	10,872,734	-	-
2021 - 2025	22,945,000	5,261,243	-	-
2026 - 2030	8,170,000	823,842	-	-
Total	\$ 103,222,027	\$ 54,422,683	\$ 432,973	\$ 38,117

During 2005, the County advance refunded a 1999B and 2000 general obligation bond issues with one general obligation refunding. The County issued \$18,995,000 of general obligation refunding bond to provide resources to purchase government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the general long-term debt account group. This advanced refunding was undertaken to reduce total debt service payments over the next 20 years by \$1,719,389 and to obtain an economic gain of \$934,695.

As of December 31, 2005 the County had \$75,000 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.

Special Assessments

Year Ending December 31	Governmental Activities	
	Principal	Interest
2006	\$ -	\$ 4,010
2007	-	4,010
2008	-	4,010
2009	-	4,010
2010	-	4,010
2011 - 2014	75,000	9,627
Total	\$ 75,000	\$ 29,677

B. Revenue bonds

The County also issues bonds where the county pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

Issued Name & Purpose	Original Issued Amt.	Interest Rate(s)	Amount Outstanding
Sewer 1996	20,515,000	4.40/5.75%	14,265,000
Sewer 1999	11,010,000	4.00/5.10%	8,115,000
Sewer Refunding 2001	13,075,000	3.50/5.625%	13,075,000
D.O.E. Loan #L99900039	160,000	0.00%	12,407
D.O.E. Loan #L0400026	14,188,000	1.50%	10,173,093
PWTF Loan #PW-01-791-036	2,605,000	0.50%	2,413,053
Total	\$ 61,553,000		\$ 48,053,553

Annual debt service requirements for revenue bonds are as follows:

Revenue Bond		
Year Ending December 31	Business-type Activities	
	Principal	Interest
2006	2,141,449	2,162,883
2007	15,661,645	1,206,272
2008	2,441,475	1,137,448
2009	2,516,453	1,064,410
2010	2,596,582	981,219
2011 - 2015	14,435,283	3,427,348
2016 - 2020	8,109,850	750,287
2021 - 2025	150,816	754
Total	\$ 48,053,553	\$ 10,730,621

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

Capital Leases

The county has entered into lease agreements as lessee for financing the acquisition of a phone system, and a mailing system for the county. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Machinery & equipment	\$ 742,478
Less: Accumulated depreciation	(624,503)
Total	<u>\$ 117,975</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005, were as follows:

Year Ending Dec. 31	Governmental Activities
2006	59,228
2007	58,000
Total minimum lease payments	<u>117,228</u>
Less: amount representing interest	(46)
PV of minimum lease payments	<u>\$ 117,182</u>

Notes Payable

The County has a Note Payable of \$5.375 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.

E. Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bond payables:					
General obligation bonds	\$ 110,299,719	\$ 18,995,000	\$ 26,072,692	\$ 103,222,027	\$ 6,963,290
Special assessment debt	135,000	-	60,000	75,000	-
Total bond payable	110,434,719	18,995,000	26,132,692	103,297,027	6,963,290
Capital leases	176,845	-	59,663	117,182	59,228
Internal services lease	-	-	-	-	-
Compensated absences	3,843,607	3,908,087	3,638,785	4,112,909	388,722
Internal services comp.	122,104	193,188	163,276	152,016	9,823
Notes Payable	5,574,000	-	199,000	5,375,000	100,000
Other liabilities	1,044,811	115,000	88,859	1,070,952	88,859
Governmental-activities Long-term liabilities	<u>\$ 121,196,086</u>	<u>\$ 23,211,275</u>	<u>\$ 30,282,275</u>	<u>\$ 114,125,086</u>	<u>\$ 7,609,922</u>
Business-type activities					
Bond payable:					
General obligation bonds	\$ 535,281	\$ -	\$ 102,308	\$ 432,973	\$ 101,710
Revenue bonds	37,615,000	-	2,160,000	35,455,000	2,141,449
Total bond payable	38,150,281	-	2,262,308	35,887,973	2,243,159
Other liabilities	8,751,282	3,892,651	45,380	12,598,553	591,030
Compensated absences	355,571	425,713	389,720	391,564	54,762
Business-type activities Long-term liabilities	<u>\$ 47,257,134</u>	<u>\$ 4,318,364</u>	<u>\$ 2,697,408</u>	<u>\$ 48,878,090</u>	<u>\$ 2,888,951</u>
Total	<u>\$ 168,453,220</u>	<u>\$ 27,529,639</u>	<u>\$ 32,979,683</u>	<u>\$ 163,003,176</u>	<u>\$ 10,498,873</u>

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. 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 6. 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 following 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 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. Plan 3 members become eligible for retirement if they have: at least 10 years of service; or five years including twelve months that were earned after the age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 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 year 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 1,169 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2004:

Retirees and Beneficiaries Receiving Benefits	66,846
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	21,031
Active Plan Members Vested	103,039
Active Plan Members Nonvested	53,217
Total	244,133

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. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. 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, 2005, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	2.44%	2.44%	2.44%**
Employee	6.00%	1.18%	***

*The employer rates include the employer administrative expense fee currently set at 0.19%.
 ** Plan 3 defined benefit portion only.
 *** Variable from 5.0% minimum to 15.0% maximum based on the rate selected by the PERS 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
2005	\$ 77,395	\$ 708,080	\$ 86,049
2004	\$ 63,952	\$ 569,668	\$ 86,049
2003	\$ 66,159	\$ 527,839	\$ 54,930

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. 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. 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. 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. Effective January 1, 2003 firefighter emergency medical technicians (EMTs) may transfer PERS Plan 1 or Plan 2 service credit to LEOFF Plan 2 if, while employed for the city, town, county or district, the EMT's job was relocated to a fire department from another city, town, county or district. 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. 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 369 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2004:

Retirees and Beneficiaries Receiving Benefits	8,542
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	528
Active Plan Members Vested	12,079
Active Plan Members Nonvested	3,523
Total	24,672

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 Department of Retirement Systems in accordance with 41.45 RCW. All employers are required to contribute at the level required by the state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 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 methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as percentage of current-year covered payroll, as of December 31, 2005, were as follows:

Employer*	0.19%	4.39%**
Employee	0.00%	6.99%
State	N/a	2.79%

*The employer rates include the employer administrative expense fee currently set at 0.19%.

** The employer rate for ports and universities is 7.18%

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
2005	\$ 441	\$ 316,589
2004	\$ 608	\$ 223,988
2003	\$ 605	\$ 200,857

NOTE 7. POST-EMPLOYMENT BENEFITS

In addition to the retirement described in Note 6 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 43 participants eligible to receive these benefits. In 2005, expenditures of \$565,947 were recognized for post-employment health benefit. The program is funded on a "pay as you go" basis.

NOTE 8. 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>
PEBSO	\$ 12,773,502
Aetna	4,593,206
Hartford	3,740,242
ICMA	174,895
Total	<u>\$ 21,281,845</u>

NOTE 9. 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, 2003, the County's estimated total undiscounted outstanding liability for the workers' compensation program is approximately \$2,119,116. 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.

Starting July 2004, Kitsap County started administering its own workers compensation program.

Workers Compensation	Year ended	
	31-Dec-04	31-Dec-05
Unpaid claims, beginning of fiscal year	\$ 1,486,363	\$ 1,486,363
Incurred claims (including IBNRs)	800,000	800,000
Claim payments	(167,247)	(167,247)
Unpaid claims, end of fiscal year	\$ 2,119,116	\$ 2,119,116

General Liability	Year ended	
	31-Dec-04	31-Dec-05
Unpaid claims, beginning of fiscal year	\$ 1,875,843	\$ 2,569,655
Incurred claims (including IBNRs)	716,000	(68,405)
Claim payments	(22,188)	(53,109)
Unpaid claims, end of fiscal year	\$ 2,569,655	\$ 2,448,141

General liability

The County has \$20,000,000 per occurrence liability protection with a \$100,000 deductible with Washington County Risk Pool (WCRP). The County is responsible for the first \$100,000; 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 \$100,000 per occurrence deductible and insured for up to \$50 million per occurrence through an independent insurance carrier. The earthquake 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 a \$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 10. OTHER INFORMATION

A. Contingent Liabilities

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 material adverse effect on the financial condition of the County.

As of the December 31, 2005, the County acts as guarantor of several Kitsap County Consolidated Housing Authority's bond issues. There is an outstanding balance of \$29.898 million as of December 31, 2005.

The County has also agreed to provide a similar guaranty for a \$5.4 million bond to KCCHA to acquire and rehabilitate a motel facility into a 32 one-bedroom apartments and commercial space as part of low cost housing program for the elderly.

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.

B. Subsequent Events

The County moved into its new administration building on June 19, 2006 with a total construction cost of about \$25 million dollars.

The County is in the process of selling an \$18.3 million bond to finance multiple projects.

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