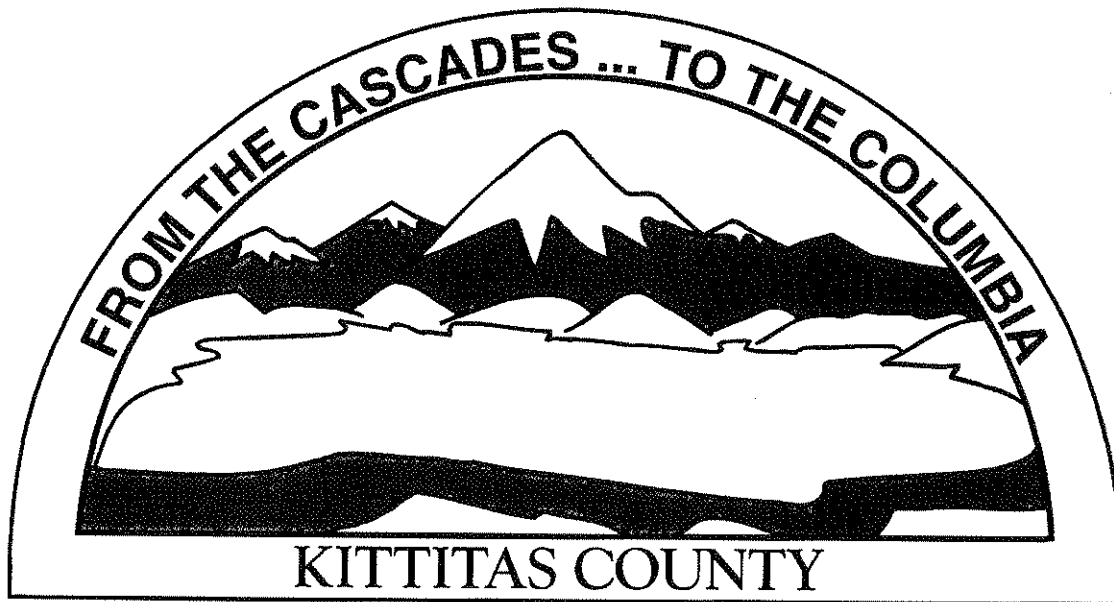


Financial Section



KITTITAS COUNTY, WASHINGTON

Management's Discussion and Analysis

Kittitas County's discussion and analysis offers readers of the County's financial statements, for the year ended December 31, 2007, a narrative overview and analysis for the financial activities of the County. We encourage readers to consider the information presented here in conjunction with additional information included in the financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The total assets of Kittitas County exceeded its liabilities at December 31, 2007 by over \$62.9 million. Net Assets invested in capital assets (net of depreciation and related debt) account for 42% of this amount, with a value of almost \$26 million. Of the remaining net assets, \$36.3 may be used to meet the government's ongoing obligation to citizens and creditors, without legal restriction.
- As of December 31, 2007 Kittitas County's government activities reported combined ending net assets of \$57 million. Of that amount, \$23.7 million is invested in capital assets and \$354,849 are restricted funds.
- Fund Balance for the General Fund at December 31, 2007 was \$8.9 million.
- Fund Balance for the County Road Fund at December 31, 2007 was \$9.5 million.
- The County's total long term debt at December 31, 2007 was \$5.9 million, with a remaining capacity for non-voted debt at \$53.4 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Kittitas County's basic financial statements. The basic financial statements are comprised of three components:

- 1) Government-Wide Financial Statements
- 2) Fund Financial Statements
- 3) Notes to the Financial Statements

Government-Wide Financial Statements

There are two government-wide financial statements, which are designed to provide readers with a broad overview of Kittitas County's finances in a manner similar to a private-sector business. Both the government-wide financial statements distinguish functions of Kittitas County that are principally supported by taxes and intergovernmental revenues (referred to as

“governmental activities”) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as “business-type activities”). The government activities of the County include a full range of local government services provided to the public, such as law enforcement, jail and probation services, community development services, public health, road maintenance and construction, airport, and superior and district courts. Also included are property assessment and collections, elections, licensing and permits and county fair.

The business-type activity is Solid Waste, operating the two transfer stations and landfill.

The statement of net assets presents information on all Kittitas County’s assets and liabilities, with the difference between the two reported as net assets. This statement serves as a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decrease in net assets may service as a useful indicator of whether the financial position of the County is improving or deteriorating. However, this is just one indicator of financial health of the County. Other indicators include the condition of the County’s infrastructure systems (roads and bridges, etc), changes in property tax base, and general economic conditions within the County.

The statement of activities presents information showing how the County’s net assets changed during 2007. Because it separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding. All changes in net assets are reported using the accrual basis of accounting, similar to the method used by most private-sector companies. The accrual basis of accounting requires that revenues be reported when they are earned and expenses are reported when the goods and services are received, regardless of the timing of the cash flow. Items such as uncollected taxes, unpaid vendor invoices for items received in 2007, and earned but unused employee leave, will be included in the statement of activities as revenue and expense, even though the cash associated with these items will not be received or distributed in 2007.

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. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds in Kittitas County can be divided into three categories:

- 1) Government Funds
- 2) Proprietary Funds
- 3) Fiduciary Funds

Government Funds are used to account for most, if not all, of a government’s tax-supported activities. Proprietary Funds are used to account for a government’s business type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activity. Fiduciary Funds are used to account for

resources that are held by the government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the County's own programs.

Government Funds

The Governmental Fund Balance sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance present separate columns of financial data for the General Fund and County Road Fund both to be considered a major fund. A major fund is based on criteria established by GASB Statement 34. The statement defines a major fund as a fund whose assets, liabilities, revenues or expenditures comprise 1) at least 10% of the total dollar amount of the same category within either all government or all enterprise funds, as appropriate, and 2) at least 5% of the total dollar amount of all governmental and enterprise funds combined for the same category. Figures from the remaining governmental funds are combined into a single, aggregated presentation.

Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements use of accrual accounting, governmental fund financial statements focus on near-term inflows and outflows of spendable resources on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term finance requirements in comparison to near-term resources available.

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare 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 financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenses and changes in fund balances provide reconciliation to the governmental activities column in the government-wide statements, in order to facilitate this comparison.

The County maintains budgetary control over its operating funds. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget. Budgets for governmental funds are established in accordance with state law, and are adopted on a fund level. Capital outlays are approved on an item by item basis or project basis. A budgetary comparison statement for the General Fund and County Road are included in the basic financial statements.

Proprietary Funds

There are two types of proprietary funds. The first type an Enterprise Fund is used to report the same functions presented as a business-type activity in the government-wide financial statements. Kittitas County has one Enterprise fund, Solid Waste. The second type is an Internal Service fund, used to accumulate and allocate costs internally among the County's various functions. The revenues and expense of the internal service funds that are duplicated into other

funds through allocations are eliminated in the government-wide statements, with the remaining balances included in the governmental activities column.

Proprietary fund statements follow the government fund statements in this report. They provide the same type of information as the government-wide financial statements, only in more detail, since both apply to the accrual basis of accounting. In comparing the Proprietary Fund Statement of Net Assets to the business-type column on the Government-Wide Statement of Net Assets, you will notice that the total assets agree, and therefore need no reconciliation. In comparing the total assets and total liabilities between the two statements, you will notice slightly different amounts. This is because the "internal balances" line on the government-wide statement combines the "due from other funds" and "due to other funds" from the proprietary fund statement in a single line in the asset section of the government-wide statement.

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 statement because the resources of those funds are not available to support Kittitas County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Kittitas County has two types of fiduciary funds: Private Purpose Trust and Agency funds, which are clearing accounts for assets held by Kittitas County in its role as custodian until the funds are allocated to the private parties, organizations or government agencies to which they belong. The basic fiduciary fund financial statements can be found following the proprietary fund financial statements.

Notes to the Financial Statements

The Notes to the Financial Statements 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 immediately following the basic financial statements in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

In accordance with GASB Statement 34, Kittitas County is not required to restate prior periods for the purposes of providing comparative information.

Statement of Net Assets

The following is a summary of the Statement of Net Assets as of December 31, 2007, with 2006 comparative balances.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Assets:						
Current Assets	36,875,284	\$30,915,317	3,542,489	\$3,073,597	40,417,774	\$33,998,915
Capital Assets	26,561,729	25,760,367	3,528,359	3,614,427	30,090,088	29,374,794
Total Assets	63,437,013	\$56,675,684	\$7,070,848	\$6,688,024	\$70,507,862	\$63,373,709
Liabilities						
Other liabilities	1,634,555	\$1,484,778	19,238	\$ 118,213	\$1,653,793	\$1,602,991
Long-term liabilities	4,732,550	5,097,888	1,201,997	1,264,257	5,934,547	6,362,145
Total Liabilities	6,367,105	\$6,582,666	\$1,221,235	\$1,382,470	\$7,588,340	\$7,965,136
Net Assets						
Investment in Capital Assets	23,785,894	\$22,493,815	2,403,358	\$2,414,426	\$26,189,251	\$24,908,241
Reserved	354,849	349,422	0	0	354,849	349,422
Unreserved	32,929,165	27,249,781	3,446,255	2,891,128	36,375,420	30,140,909
Total Net Asset	\$7,069,908	\$50,093,018	\$5,849,613	\$5,305,554	\$62,919,520	\$55,398,572

Net Assets of the County's governmental funds were \$62.9 million. The County's unrestricted net assets, the part of the net assets that can be used to finance day-to-day operations \$32.9 million.

Statement of Activities

For fiscal year ended December 31, 2007, the revenues from primary governmental funds totaled \$36.5 million. Charges for Services are the largest revenue source at \$9.1 million, while property taxes are the second largest at \$7.9 million.

The expenses for governmental activities totaled \$29.5 million. Public Safety was the county's highest commitment at \$8 million; Transportation is the second highest expense for 2007 with \$7.4 million. The expenses for Public Safety are contributed to the cost of salaries and benefits; intergovernmental services and new equipment.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues						
Charges for Services	\$9,108,251	\$ 8,906,157	\$3,372,077	\$2,957,846	\$12,480,328	\$11,864,004
Operating Grants	7,902,687	7,260,973	0	0	7,902,687	7,260,973
Capital Grants	1,075,746	0	0	0	1,075,746	0
General Revenues	0	0	0	0	0	0
Property Taxes	7,982,493	7,429,517	0	0	7,982,493	7,429,517
Sales Taxes	5,748,087	5,187,720	0	0	5,748,087	5,187,720
Other Taxes	2,644,877	2,931,434	0	0	2,644,877	2,931,434
Unrestricted Grants & Contributions	93,431	0	0	0	93,431	0
Unrestricted Investment Earnings	1,956,040	1,609,405	124,427	115,390	2,080,467	1,724,795
Gain on Disposal Capital Assets	56,721	33,608	0	0	56,721	33,608
Total Revenues	\$36,568,333	\$33,358,814	\$3,496,504	\$3,073,236	\$40,064,837	\$36,432,051

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Expenses:						
General Government	\$5,674,627	\$5,892,835			\$5,674,627	\$5,892,835
Judicial	2,294,480	2,169,034	0	0	2,294,480	2,169,034
Public Safety	8,002,395	6,946,030	0	0	8,002,395	6,946,030
Physical Environment	298,935	281,247	0	0	298,935	281,247
Transportation	7,478,554	10,496,268	0	0	7,478,554	10,496,268
Economic Environment	1,285,506	1,037,891	0	0	1,285,506	1,037,891
Mental & Public Health	2,758,181	2,444,566	0	0	2,758,181	2,444,566
Culture & Recreation	1,632,021	1,901,704	0	0	1,632,021	1,901,704
Interest on Long Term Debt	166,747	120,892	0	0	166,747	120,892
Garbage & Solid Waste	0	0	2,952,445	2,755,837	2,952,445	2,755,837
Total Expenses	\$29,591,446	\$31,290,467	\$2,952,445	\$2,755,837	\$32,543,890	\$34,046,305
Excess (Deficiency) before Special Items and Transfers						
Special Item-Gain on Disposal Capital Assets	0	0		0	0	0
Transfers	0	0		0	0	0
Increase (decrease) to net assets						
	\$6,976,888	\$2,068,347	\$544,060	\$317,399	\$7,520,948	\$2,385,746
Net Assets as of January 1	\$50,093,018	\$48,024,671	\$5,305,555	\$4,988,156	\$55,398,573	\$53,012,827
Net Assets as of December 31	\$57,069,906	\$50,093,018	\$5,849,615	\$5,305,555	\$62,919,521	\$55,398,573

Some beginning balances from 2007 do not balance with the ending balance of 2006; see Notes to the Financial Statement, Note 19.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Governmental Funds Balance Sheet Analysis

The General Fund, Airport and the County Road funds are the 3 major funds in 2007. Together these funds account for 71% of the total government assets and 70% of the total government fund balance. As of December 31, 2007, the county's government funds reported combined fund balances nearly \$27.1 million. Of this total amount, \$26.7 million is unreserved and available for spending within the designated funds.

Governmental Funds Revenues/Expenditure Analysis

The net change in fund balance for the General Fund in 2007 was \$1.7 million. The net change in the County Road fund was a \$1.8 million. Governmental funds had an overall net change in fund balance of \$5.3 million for 2007. The positive fund balances are due to conservative spending and funds being set aside for unexpected expenses.

Enterprise Funds Net Assets Analysis

The net assets of the Solid Waste fund as of December 31, 2007 were \$5.8 million, with \$2.98 million is unrestricted funds. The internal service funds have net assets in the amount of \$8.6 million.

Enterprise Funds Revenue/Expenditure Analysis

The Solid Waste fund collected \$3.38 million in revenues and had an operating expense of \$2.9 million showing a net gain of \$432,361. The changes in net assets for 2007 after non-operating revenues and expenses is \$544,060.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund Changes in Budget

The following table shows the changes between the original and final General Fund budget as of December 31, 2007 with comparable totals for 2006 final budget.

General Fund Changes in Budget For the Year Ended December 31, 2007				
	2007 Original Budget	2007 Final Budget	Changes Favorable (Unfavorable)	2006 Final Budget
Revenues				
Taxes	8,120,700	8,127,735	7,035	7,722,003
Licenses & Permits	1,147,200	1,678,339	531,139	1,583,600
Intergovernmental	2,374,324	2,615,997	241,673	2,491,654
Charges for Services	2,010,280	2,027,780	17,500	1,909,911
Fines & Forfeits	1,441,900	1,441,900	0	1,446,246
Miscellaneous	1,064,674	1,103,962	39,288	942,498
Total Revenues	\$16,159,078	\$16,995,713	\$836,635	\$16,095,912
Expenditures				
General Governmental	5,710,832	6,144,848	434,016	5,582,833
Judicial	2,397,441	2,397,441	0	2,134,194
Security of Persons & Property	6,430,339	6,738,838	308,499	6,251,492
Physical Environment	95,662	100,662	5,000	99,675
Transportation	3,717	3,717	0	3,717
Economic Environment	973,992	1,208,821	234,829	892,203
Culture & Recreation	1,076,739	1,332,083	255,344	1,187,600
Debt Service	449,819	449,819	0	357,966
Capital Outlay	912,979	2,022,564	1,109,585	1,255,242
Total Expenditures	\$18,051,520	\$20,398,793	\$2,347,273	\$17,764,922
Excess (Deficit) Revenues over Expenditures	(1,892,442)	(3,403,080)	(1,510,638)	(1,669,010)
Other Financing Sources (Uses)	395,847	395,847	0	278,510
Sale of Fixed Assets	1,500	1,500	0	400
Transfers In	310,487	1,293,921	983,434	505,999
Transfers Out	(294,347)	(294,347)	0	(311,473)
Total Other Financing Sources (Uses)	\$413,487	\$1,396,921	983,434	473,436
Net Change in Fund Balance	(1,478,995)	(2,006,159)	(527,204)	(1,195,574)
Fund Balance, January 1	4,035,296	4,562,500	527,204	3,366,546
Fund Balance, December 31	\$2,556,341	\$2,556,341	0	\$2,170,972

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 biggest supplemental budget increases were as follows:

Community Development Services - \$136,492 for computer hardware and software and \$235,129 for new positions and the costs associated with them and the cost of advertising for planning functions.

Facilities Maintenance - \$598,255 for operations and improvements.

County Fair - \$630,442 for land purchases and operations

General Fund Budget to Actual

The amended General Fund revenue budget was approximately \$16.9 million and total revenues received \$20.1 million, or 19% above budget. The specific changes to report are taxes, licensing & permits and miscellaneous revenues. The taxes consist of the real and personal property taxes, timber harvest taxes, sales and use taxes, and excise taxes. Both the real and personal property taxes and sales and use tax collected higher taxes than the budgeted amount.

The General Fund budgeted expenses vs. actual came in at 12% under budget. The biggest unspent budget was Capital Outlay, due to anticipation of property purchase that didn't occur until January 2008.

General Fund Changes Budget vs. Actual				
	2007			2006
	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Actual
Revenues				
Taxes	8,127,735	9,750,240	1,622,505	9,212,673
Licenses & Permits	1,678,339	2,091,382	413,043	1,807,461
Intergovernmental	2,615,997	2,481,261	(134,736)	3,096,941
Charges for Services	2,027,780	2,419,214	391,434	2,260,212
Fines & Forfeits	1,441,900	1,584,200	142,300	1,422,409
Miscellaneous	1,103,962	1,864,709	760,747	1,510,483
Total Revenues	\$16,995,713	\$20,191,006	\$3,195,292	\$19,310,179
Expenditures				
General Governmental	6,144,848	5,820,867	210,301	5,178,409
Judicial	2,397,441	2,187,140	323,981	2,055,863
Security of Persons & Property	6,738,838	6,339,222	399,616	5,979,331
Physical Environment	100,662	85,195	15,467	82,380
Transportation	3,717	3,717	-	3,717
Economic Environment	1,208,821	1,216,431	(7,610)	882,229
Culture & Recreation	1,332,083	1,430,387	(98,304)	1,127,493
Debt Service	449,819	334,506	115,313	357,964
Capital Outlay	2,022,564	867,558	1,155,006	1,088,785
Total Expenditures	\$20,398,793	\$18,285,023	\$2,113,770	\$16,756,171
Excess (Deficit) Revenues over Expenditures	\$(3,403,080)	\$1,905,982	\$5,309,062	\$2,554,008

General Fund Changes Budget vs. Actual Continued

Other Financing Sources (Uses)				
Proceeds Capital Leases	395,847	-	(395,847)	0
Sale of Fixed Assets	1,500	3,552	2,052	16,026
Transfers In	1,293,921	137,208	(1,156,713)	92,632
Transfers Out	(294,347)	(289,589)	4,758	(286,290)
Total Other Financing Sources (Uses)	\$1,396,921	\$(148,829)	\$(1,545,750)	\$(177,633)
Net Change in Fund Balance	\$(2,006,159)	\$1,757,153	\$3,763,312	\$2,376,375
Fund Balance, January 1	4,562,500	7,150,020	2,587,520	4,773,644
Fund Balance, December 31	\$2,556,341	\$8,907,173	\$6,350,832	\$7,150,020

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Kittitas County's total investment in capital assets, including construction in progress, for its government and business type activities as of December 31, 2007, amounts to over \$30 million, (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, infrastructure, and construction in progress on buildings and systems. The major capital asset events during 2007 were Equipment & Machinery purchases. The 2007 ending balance for Equipment & Machinery is \$3,849,603.

Additional information on Kittitas County's capital assets can be found in Note 6 in the Notes to the Financial Statements.

Long-Term Debt

Kittitas County has a total outstanding bond debt as of December 31, 2007 of approximately \$1.5 million. Of this amount \$455,000 is for the RID-96-1 backed by an assessment to the property owners, the balance is for two revenue bonds for the County Fairgrounds.

Additional information on Kittitas County's Long Term Debt can be found in Note 10 in the Notes to the Financial Statements.

Kittitas County has an assigned rating of "A" from the Standard & Poor's rating based on the Fair bond issued May 1, 2001 and affirmed "A" underlining rating effective November 5, 2008.

ECONOMIC FACTORS

There have been a series of voter initiatives over the last several years, as well as State of Washington and Federal legal changes that will have an impact on the future finances of the County.

The Board of County Commissioners has elected over the past several years to increase property taxes by zero percent plus new construction. The additional revenue from new construction has not covered the additional expenditures required in union contracts and supply costs. This policy decision has resulted in a small reduction in Kittitas County cash reserves and may need to be revised in the 2009 tax rate decision.

Kittitas County has experienced a growth in the Upper County with the development of the Suncadia resort. Suncadia is a 6,400 acre luxury all season mountain resort, adjoining the Cle Elum River corridor with 1,200 acres of pristine forest, adjacent to the 2.2 million acre Wenatchee National Forest. Housing will be a mix of single family homes, clustered chalet-type recreational homes, condominiums and townhouses for a maximum of 3,745 residential units. The Lodge at Suncadia, a full-service luxury condominium lodge hotel and conference center has 254 units, three golf courses and a retail village. It is anticipated to add as many as 3,000 full time residents to the population of Kittitas County. Increased revenue will be generated beginning with building materials, wages and finally with tax assessment. County services will need to expand to support the public as phases of the project are completed.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of Kittitas County's finances for all those interested in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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