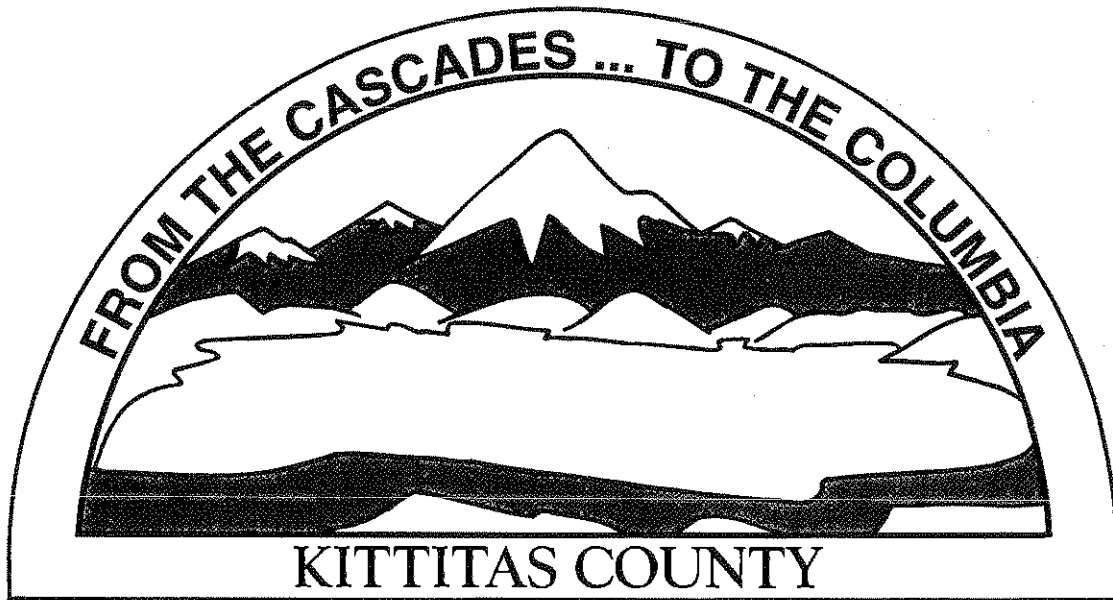


Financial Section



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, 2008, 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, 2008 by over \$109.8 million. Net Assets invested in capital assets (net of depreciation and related debt) account for 66% of this amount, with a value of \$71.9 million. Of the remaining net assets, \$36.9 million may be used to meet the government's ongoing obligation to citizens and creditors, without legal restriction.
- As of December 31, 2008 Kittitas County's government activities reported combined ending net assets of \$103.9 million. Of that amount, \$69.0 million is invested in capital assets and \$411,247 are restricted funds.
- Fund Balance for the General Fund at December 31, 2008 was \$8.0 million.
- Fund Balance for the County Road Fund at December 31, 2008 was \$10.5 million.
- The County's total long term debt at December 31, 2008 was \$5.44 million, with a remaining capacity for non-voted debt at \$69.5 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 2008. 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 2008, 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 2008.

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, 2008, with 2007 comparative balances.

Statement of Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Assets:						
Current Assets	\$38,547,934	\$36,875,284	\$3,918,871	\$3,542,489	\$42,466,804	\$40,417,774
Capital Assets	71,432,611	26,561,729	4,000,648	3,528,359	75,433,259	30,090,088
Total Assets	\$109,980,545	\$63,437,013	\$7,919,518	\$7,070,848	\$117,900,063	\$70,507,862
Liabilities						
Other liabilities	\$1,719,531	\$1,634,555	\$ 202,904	\$19,238	\$1,922,435	\$1,653,793
Long-term liabilities	4,315,732	4,732,550	1,791,742	1,201,997	6,107,473	5,934,547
Total Liabilities	\$6,035,263	\$6,367,105	\$1,994,646	\$1,221,235	\$8,029,909	\$7,588,340
Net Assets						
Investment in Capital Assets	\$69,023,731	\$23,785,894	\$2,950,647	\$2,403,358	\$71,974,377	\$26,189,251
Reserved	411,247	354,849	567,198	0	978,445	354,849
Unreserved	34,510,304	32,929,165	2,407,028	3,446,255	36,917,332	36,375,420
Total Net Asset	\$103,945,281	\$57,069,908	\$5,924,873	\$5,849,613	\$109,870,154	\$62,919,520

Net Assets of the County's governmental funds were \$110.5 million. The County's unrestricted net assets, the part of the net assets that can be used to finance day-to-day operations \$37.5 million.

Statement of Activities

For fiscal year ended December 31, 2008, the revenues from primary governmental funds totaled \$35.5 million. Property taxes are the largest revenue source at \$9.2 million, while Charges for Services are the second largest at \$7.9 million.

The expenses for governmental activities totaled \$30.2 million. Public Safety was the county's highest commitment at \$8.6 million; Transportation is the seconded highest expense for 2008 with \$6.0 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	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for Services	\$7,944,069	\$9,108,251	\$3,092,840	\$3,372,077	\$11,036,909	\$12,480,328
Operating Grants	6,205,663	7,902,687	0	0	6,205,663	7,902,687
Capital Grants	221,471	1,075,746	0	0	221,471	1,075,746
General Revenues:						
Property Taxes	9,236,181	7,982,493	0	0	9,236,181	7,982,493
Sales Taxes	5,925,867	5,748,087	0	0	5,925,867	5,748,087
Other Taxes	2,669,530	2,644,877	0	0	2,669,530	2,644,877
Unrestricted Grants & Contributions	1,948,248	93,431	0	0	1,948,248	93,431
Unrestricted Investment Earnings	1,293,203	1,956,040	139,237	124,427	1,432,440	2,080,467
Gain on Disposal Capital Assets	63,546	56,721	0	0	63,546	56,721
Total Revenues	\$35,507,778	\$36,568,333	\$3,232,077	\$3,496,504	\$38,739,855	\$40,064,837

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Expenses:						
General Government	\$7,166,678	\$5,674,627	0	0	\$7,166,678	\$5,674,627
Judicial	2,018,756	2,294,480	0	0	2,018,756	2,294,480
Public Safety	8,556,265	8,002,395	0	0	8,556,265	8,002,395
Physical Environment	337,835	298,935	0	0	337,835	298,935
Transportation	6,040,349	7,478,554	0	0	6,040,349	7,478,554
Economic Environment	1,334,167	1,285,506	0	0	1,334,167	1,285,506
Mental & Public Health	3,036,772	2,758,181	0	0	3,036,772	2,758,181
Culture & Recreation	1,590,420	1,632,021	0	0	1,590,420	1,632,021
Interest on Long Term Debt	143,195	166,747	0	0	143,195	166,747
Garbage & Solid Waste	0	0	3,256,544	2,952,445	3,256,544	2,952,445
Total Expenses	\$30,224,437	\$29,591,446	\$2,494,738	\$2,952,445	\$33,480,981	\$32,543,890
Excess (Deficiency) before Special Items and Transfers						
Special Item-Gain on Disposal Capital Assets	0	0	0	0	0	0
Transfers	0	0	0	0	0	0
Increase (decrease) to net assets	\$5,283,342	\$6,976,888	\$-24,468	\$ 544,060	\$ 5,258,874	\$7,520,948
Net Assets as of January 1	\$57,069,908	\$50,093,018	\$5,849,614	\$5,305,555	\$62,919,522	\$55,398,573
Prior Year Adjustments	41,592,032	0	99,727	0	41,691,759	0
Net Assets as of December 31	\$103,945,281	\$57,069,906	\$5,924,873	\$5,849,615	\$109,870,154	62,919,521

See the Notes to the Financial Statements, Note 19 on discussion for the Prior Year Adjustments

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Governmental Funds Balance Sheet Analysis

The General Fund and the County Road funds are the 2 major funds in 2008. Together these funds account for 68% of the total government assets and 66% of the total government fund balance. As of December 31, 2008, the county's government funds reported combined fund balances nearly \$28.1 million. Of this total amount, \$27.5 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 2008 was \$-867,243. The net change in the County Road fund was a \$984,458. Governmental funds had an overall net change in fund balance of \$1.04 million for 2008. The changes in fund balances are due to reduced revenues and using fund balances to cover expenses.

Enterprise Funds Net Assets Analysis

The net assets of the Solid Waste fund as of December 31, 2008 were \$5.9 million; with \$2.40 million in unrestricted funds. The internal service funds have net assets in the amount of \$8.9 million.

Enterprise Funds Revenue/Expenditure Analysis

The Solid Waste fund collected \$3.08 million in revenues and had an operating expense of \$3.25 million showing a net loss of \$-172,114. The changes in net assets for 2008 after non-operating revenues and expenses are \$-24,469.

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, 2008.

	2008 Original Budget	2008 Final Budget	Changes Favorable (Unfavorable)
Revenues			
Taxes	8,999,500	9,078,744	79,244
Licenses & Permits	1,832,820	1,847,820	15,000
Intergovernmental	2,390,951	3,056,457	665,506
Charges for Services	2,043,853	2,192,853	149,000
Fines & Forfeits	1,626,350	1,686,600	60,250
Miscellaneous	1,308,503	1,312,892	4,389
Total Revenues	\$18,201,977	\$19,175,366	\$973,389
Expenditures			
General Governmental	7,136,860	7,715,840	578,980
Judicial	2,045,454	2,132,279	86,825
Security of Persons & Property	7,087,470	7,523,761	436,291
Physical Environment	121,246	121,546	300
Transportation	4,717	4,717	-
Economic Environment	1,224,752	1,232,502	7,750
Culture & Recreation	1,242,084	1,351,408	109,324
Debt Service	238,962	238,962	-
Capital Outlay	767,939	1,683,564	915,625
Total Expenditures	\$19,869,484	\$22,004,579	\$2,135,095
Excess (Deficit) Revenues over Expenditures	(1,667,507)	(2,829,213)	(1,161,706)
Other Financing Sources (Uses)	-	-	-
Sale of Fixed Assets	500	500	-
Transfers In	576,312	1,223,310	646,998
Transfers Out	(294,347)	(294,347)	-
Total Other Financing Sources (Uses)	\$282,465	\$929,463	\$646,998
Net Change in Fund Balance	(1,385,042)	(1,899,750)	(514,708)
Fund Balance, January 1	\$5,093,788	5,864,631	770,843
Fund Balance, December 31	\$3,708,746	\$3,964,881	256,135

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:

General Government - \$578,890 for salary increase due to union settlements and grants awarded to the County.

Security of Persons & Property – \$436,291 for salary increase due to union settlements and new positions and the costs associated with them and the cost of advertising for security.

Capital Outlay- \$915,625 for land purchases and facility improvements

General Fund Budget to Actual

The amended General Fund revenue budget was approximately \$19.1 million and total revenues received \$18.9 million, or 1% below budget. The specific changes to report are taxes and licensing & permits. 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 permits were approximately 21% under budget, due to the construction activity and economy downturn.

The General Fund budgeted expenses vs. actual came in at 8% under budget. The biggest unspent budget was Capital Outlay, due to anticipation of property purchase that didn't occur until January 2008.

	2008		
	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues			
Taxes	9,078,744	9,494,824	416,080
Licenses & Permits	1,847,820	1,457,321	(390,499)
Intergovernmental	3,056,457	3,009,586	(46,871)
Charges for Services	2,192,853	2,104,363	(88,490)
Fines & Forfeits	1,686,600	1,600,289	(86,311)
Miscellaneous	1,312,892	1,292,164	(20,728)
Total Revenues	\$19,175,366	\$18,958,546	\$(216,820)
Expenditures			
General Governmental	7,715,840	6,916,973	798,867
Judicial	2,132,279	2,010,359	121,920
Security of Persons & Property	7,523,761	6,970,046	553,715
Physical Environment	121,546	91,562	29,984
Transportation	4,717	3,717	1,000
Economic Environment	1,232,502	1,043,646	188,856
Culture & Recreation	1,351,408	1,297,665	53,743
Debt Service	238,962	302,646	(63,684)
Capital Outlay	1,683,564	1,633,866	49,698
Total Expenditures	\$22,004,579	\$20,270,480	\$1,734,099
Excess (Deficit) Revenues over Expenditures	\$(2,829,213)	\$(1,311,934)	\$1,517,279

Other Financing Sources (Uses):			
Proceeds Capital Leases			
Sale of Fixed Assets	500	3,203	2,703
Transfers In	1,223,310	753,121	(470,189)
Transfers Out	(294,347)	(311,634)	(17,287)
Total Other Financing Sources (Uses)	\$929,463	\$444,691	\$(484,772)
Net Change in Fund Balance	\$(1,899,750)	\$(867,243)	\$1,032,507
Fund Balance, January 1	5,864,631	8,907,173	3,042,542
Fund Balance, December 31	\$3,964,881	\$8,039,930	\$4,075,049

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, 2008, amounts to over \$75 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. Kittitas County has elected to use the modified approach to account for the infrastructure account; Gravel Roads, which eliminates the need to report depreciation expense. The major capital asset events during 2008 were increases Infrastructure. The 2008 ending balance for Infrastructure is \$53.16 million.

Additional information on Kittitas County's capital assets can be found in Note 6 in the Notes to the Financial Statements. The information regarding the Modified Approach for Graveled Roads is in the following Required Supplementary Information Schedule.

Long-Term Debt

Kittitas County has a total outstanding bond debt as of December 31, 2008 of approximately \$1.2 million. Of this amount \$180,000 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 "AA-/Stable" from the Standard & Poor's after a review and report issued on November 10, 2008. The prior rating from Standards & Poor's was affirmed an "A" underlining rating.

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 reduction in Kittitas County cash reserves and may need to be revisited in the 2010 tax rate decision.

Kittitas County has experienced a downfall in the construction business because of the state of the economy. The downturn in building permits has affected the revenue collections; not only in the issuing of permits, but the recording of documents, and Real Estate Excise Tax. The sales tax revenues have also decreased. We started noticing the revenue trends going down in late summer of 2008; the Board of County Commissioners during the 2009 budget process reduced the estimated amounts back to about 2005 levels for permits and sales tax. In February 2009, the permits fell off again, so the Board of County Commissioners met and reduced the permit revenues and did drastic budget cuts. We are watching very carefully the revenues and all departments are watching and limiting travel and other expenses.

The voters did approve a 3/10th sale tax increase for public safety. The collection of the tax started in April 2008. These allowed the hiring of additional staff and the funding can only be used for public safety, including Sheriff, Prosecutor, County Clerk, and Juvenile Departments. The county is also building a new compost facility as we were awarded \$1.2 million grant. Please see Note 19 – Other disclosures.

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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