

**KITSAP COUNTY CONSOLIDATED HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 1998**

NOTE 5 - PENSION PLAN (Continued)

after reaching age 66 a cost-of-living allowance is granted based on years of service credit and is capped at three percent annually.

Plan 2 members may retire at age 65 with five years of service, or at 55 with 20 years of service, with an allowance of two percent per year of service of the average final compensation. Plan 2 retirements prior to 65 are actuarially reduced. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at three percent annually.

Funding Policy Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates needed to fully amortize the total costs of the plan. Employee contribution rates for Plan 1 are established by statute at six percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 are set by the director of the Department of Retirement Systems based on recommendations by the Office of the State Actuary to continue to fully fund the plan. All employers are required to contribute at the level established by state law. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 1997 and the Housing Authority's required contributions for the years ended December 31, 1997 and 1996 were:

	Required Contribution Rates Pers Plan 1	Required Contribution Rates Pers Plan 2	Dollar Contributions Pers Plan 1	Dollar Contributions Pers Plan 2
Contributors				
Employer	7.32%	7.32%		
Employee	6.00%	4.65%		
Contribution Year				
1997			\$6,402	\$60,981
1996			\$5,442	\$50,204

Both the Housing Authority and the employees made the required contributions. The employer rates do not include the employer administrative expense fee currently set at 0.18%.

NOTE 6 - LONG TERM OBLIGATIONS

General long-term debt arises from commitments that are not current liabilities because they do not require the use of current financial resources. The Housing Authority owes on a variety of notes and bonds, and has also during fiscal year 1998, recorded a major *advance refunding* transaction affecting five of the Enterprise Funds.

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NOTE 6 - LONG TERM OBLIGATIONS (Continued)

Proprietary Fund Types: Enterprise Funds Long-Term Debt

Bonds and Notes The proprietary fund types report long-term debt as liabilities on their respective financial statements. The following are schedules of outstanding bonds and notes as of June 30, 1998 for the Enterprise Funds:

Revenue Bonds-Name of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Bond Issuance	Bonds Outstanding June 30
Pooled Housing Refunding, Series A Kingston Ridge, Park Place, Treetops I, Tree tops II, Port Orchard Valley	1-Apr-98	1-Dec-28	5.73%	\$ 26,335,000	\$ 26,335,000
Viking's Crest	15-May-94	15-May-24	6.22%	6,800,000	4,385,000
Fjord Gardens Refunding	27-Oct-95	1-Nov-00	4.89%	1,665,000	305,000
Poulsbo Community Refunding	18-Apr-96	1-Apr-16	6.28%	1,020,000	960,000
Orchard Bluff	1-Aug-96	1-Aug-06	6.65%	1,455,000	1,435,000
Rhododendron	24-May-96	1-Jun-26	6.73%	1,265,000	1,235,000
				\$ 38,540,000	\$ 34,655,000
Total Face Value of Revenue Bonds					\$ 34,655,000
Less: Bond Discount					(741,340)
Less: Deferred Costs on Refunding					(2,124,389)
Less: Revenue Bonds Due Within One Year					(612,230)
					\$ 31,177,041

Description of Note	Loan Date	Maturity Date	Interest Rate	Original Amount	Outstanding June 30
U.S.D.A.-RD Mortgage-Fjord Manor	1-Aug-88	19-Aug-38	8.50%	1,348,604	1,322,985
U.S.D.A.-RD Mortgage-Fjord Manor	19-Aug-88	19-Aug-38	9.50%	30,840	30,520
Seafirst Bank-Port Orchard Appliances (#59)	1-Feb-94	1-Feb-99	6.00%	36,072	5,425
Seafirst Bank-Park Place Appliances (#59)	1-Feb-94	1-Feb-99	6.00%	43,086	6,476
State of Washington-Mobile Home Park	4-Sep-96	31-Dec-46	1.00%	1,800,000	1,772,075
U.S.D.A.-RD Mortgage-Rhododendron	30-May-96	1-Jul-29	6.75%	571,558	561,474
					\$ 3,698,955
Total Notes Payable					\$ 3,698,955
Less: Amounts Due Within One Year					(49,775)
					\$ 3,649,180

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NOTE 6 - LONG TERM OBLIGATIONS (Continued)

Advance Refunding – Enterprise Funds On April 16, 1998, the Kitsap County Consolidated Housing Authority issued \$26,335,000 par value Pooled Housing Refunding Revenue Bonds, Series 1998A, that are serial and term in form, with an average interest rate of 5.73% to advance refund \$23,110,000 of outstanding bonds with an average interest rate of 7.57%. The net proceeds of a \$25,269,023 million (after payment of \$475,870 in underwriting fees, insurance, and other issuance costs and bond discount of \$590,107) were used to purchase escrow securities of \$25,210,650 and increase sinking fund reserves by \$58,373 for the new issues. The investments representing certain direct, noncallable United States government obligations and other eligible securities allowed by RCW 35.82.070(6) State of Washington, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded revenue bonds which ranged from 1990 Series A and C Senior Lien Bonds to 1990 Series B and D Junior Lien Bonds, are considered to be defeased, and accordingly neither the assets of the respective trust account nor the liabilities for the defeased bonds are reflected in the Housing Authority's financial statements. This was a pooled refunding involving five Enterprise Fund projects: Kingston Ridge, Park Place, Tree Tops I, Tree Tops II, Port Orchard Valley.

The purpose of the refunding was to obtain an economic gain through interest cost savings to the Authority over the life of the new bond issue years and to enhance cash flow in the earlier years of the projects. The total calculated economic gain comes to a net present value of \$1,739,179, as represented by the difference between debt service on the 1998A Bonds and debt service on the prior issues discounted to the issue date using the yield on the 1998A Bonds as the discount rate. The advance refunding resulted in the recognition of a deferred costs of \$2,141,873 to be amortized over 23 years. The life of the new bond issue.

Calculation of the net economic gain on the Kitsap County Consolidated Housing Authority Pooled Housing Refunding of Revenue Bonds is as follows:

Total Deferred Costs Associated with Refunding	\$ 2,141,873
Less: Unamortized Bond Issue Costs (Old Issues)	(106,907)
Less: Unamortized Bond Discount (Old Issues)	(531,571)
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Deferred Accounting Loss Associated With New Issue	1,503,395
Economic Gain (Net Present Value of Interest Cost Savings)	1,739,179
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Net Economic Gain on the Refunding of Bonds	\$ 235,784

It is a requirement of GASB-23 that the total deferred refunding costs be amortized over the original remaining life of the old debt or the life of the new debt, whichever is less. In the case of this pooled refunding the life of the old debt is less (23 years versus 30 years for the new issues). The amount is amortized in a "systematic and rational manner" as a component of interest expense. Accordingly, the interest expense is increased because of the periodic amortization.

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NOTE 6 - LONG TERM OBLIGATIONS (Continued)

Government Fund Types: General Long-Term Debt

Bonds and Notes The government fund types report long-term debt entity wide in the General Long Term Debt Account Group. The following are schedules of outstanding bonds and notes as of June 30, 1998 residing in the General and Special Revenue Funds:

Description of Note	Loan Date	Maturity Date	Interest Rate	Original Amount	Balance Outstanding June 30
Key Bank - Line of Credit	15-Jan-97	1-Dec-99	Variable, Based on Prime Rate	Not to Exceed \$5,000,000	\$ 4,100,000
First National Bank Of Port Orchard - Lippert Property	10-Aug-94	10-Jan-15	One Year Treasury Bill Rate at November 10 th	82,900	75,499
Edward Baker - Skylark Property	3-Jul-71	3-Jul-42	5.996%	12,900	7,733
Seasons Mortgage Group - Fjord Vista Condo	1-Jun-98	1-Jun-28	7.00%	65,895	65,841
Seasons Mortgage Group - Fjord Vista Condo	1-Jun-98	1-Jun-28	7.00%	61,120	61,070
Department of Retirement Systems	1-Sep-89	30-Aug-04	0.00%	96,028	19,383
Bank of America – Equipment (#59)	1-Feb-94	1-Feb-99	6.00%	36,300	4,080
Bank of America - Golden Tides II	26-Jul-95	1-Jul-25	8.50%	225,000	221,104
Bank of America - Office Building	12-Sep-89	15-Sep-98	5.50%	67,339	2,375
Bank of America – Automobile	1-Jan-94	1-Feb-00	6.625%	14,999	8,072
Bank of America – Automobile	1-Feb-97	1-Jan-02	6.75%	13,993	10,411
Key Bank – Automobile	8-Apr-98	8-Apr-01	8.00%	14,788	14,057
\$					4,589,625

Line of Credit The Line of Credit consists of two notes with Key Bank, one taxable and one tax-exempt. The combined aggregate outstanding balance may not exceed \$5,000,000. The interest rate is tiered and varies from 56.2% to 89.5% of the Prime Rate. The first \$3,000,000 of the note is guaranteed by Kitsap County. Note proceeds which are subsequently reimbursed as a result of the sale of property or repayment of loans by housing authority clients must be repaid immediately and applied to the line credit.

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NOTE 6 - LONG TERM OBLIGATIONS (Continued)

Proprietary Fund Types: Component Units Long-Term Debt

Bonds and Notes The proprietary fund types report long-term debt as liabilities on their respective financial statements. The following are schedules of outstanding bonds and notes as of December 31, 1997 for the Component Units:

Revenue Bonds-Name of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Bond Issuance	Bonds Outstanding December 31
19th Hole Limited Partnership - Madrona Manor	18-Nov-97	01-Dec-17	8.25%	\$ 190,000	\$ 189,879
					\$ 189,879
Total Face Value of Revenue Bonds					\$ 189,879
Less: Revenue Bonds Due Within One Year					(1,585)
					\$ 188,294

Description of Note	Loan Date	Maturity Date	Interest Rate	Original Amount	Balance Outstanding December 31
Kitsap County, HOME Investment Partnership Program - Golden Tides II	24-Oct-94	30-Jun-46	1.00%	\$ 300,000	\$ 300,000
Washington State Department of Community Development, HOME Investment Partnership Program - Golden Tides II	07-Aug-95	30-Jun-46	1.00%	1,354,136	1,354,136
Kitsap County, HOME Investment Partnership Program - 19th Hole Limited Partnership	06-Oct-97	31-Dec-46	1.00%	350,000	350,000
Washington State Department of Community Development, Housing Trust Fund - 19th Hole Limited Partnership	19-Sep-96	31-Dec-46	1.00%	1,200,000	1,200,000
					\$ 3,204,136

Arbitrage The Housing Authority periodically monitors for the existence of any rebatable arbitrage interest associated with its tax-exempt debt. The rebate is based on the differential between the interest earnings from the investment of bond proceeds as compared to the interest expense associated with the respective bonds. As of June 30, 1998, the Housing authority estimates that no arbitrage rebate exists in conjunction with its debt reserve funds, and therefore no liability exists.

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NOTE 6 - LONG TERM OBLIGATIONS (Continued)

Aggregate Annual Principle Payments on Bonds and Notes

Aggregate annual principle payments on revenue bonds and notes outstanding at June 30, 1998 are as follows:

Enterprise Fund			
Year Ending June 30	Revenue		Total
	Bonds	Notes	
1999	\$ 612,230	\$ 49,775	\$ 662,005
2000	530,000	38,910	568,910
2001	555,000	40,005	595,005
2002	580,000	41,165	621,165
2003	615,000	42,405	657,405
2004	650,000	43,710	693,710
2005	585,000	45,105	630,105
2006	615,000	46,590	661,590
2007	645,000	48,170	693,170
2008	675,000	49,855	724,855
Thereafter	28,592,770	3,253,265	31,846,035
TOTAL	\$ 34,655,000	\$ 3,698,955	\$ 38,353,955

Component Units			
Year Ending December 31	Revenue		Total
	Bonds	Notes	
1999	\$ 1,585	\$	1,585
2000	1,720		1,720
2001	1,870		1,870
2002	2,030		2,030
2003	2,200		2,200
2004	2,390		2,390
2005	2,370		2,370
2006	2,800		2,800
2007	3,030		3,030
2008	3,300		3,300
Thereafter	166,584	3,204,136	3,370,720
TOTAL	\$ 189,879	\$ 3,204,136	\$ 3,394,015