



## FINANCIAL SECTION

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## Washington State Auditor Troy Kelley

### INDEPENDENT AUDITOR'S REPORT

June 24, 2013

Board of Commissioners  
Kitsap County  
Port Orchard, Washington

### ***REPORT ON FINANCIAL STATEMENTS***

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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***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 and the aggregate remaining fund information of Kitsap County, Washington, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General , County Roads, Real Estate Excise Tax and Mental Health Medicaid funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Matters of Emphasis***

As described in Note 1, during the year ended December 31, 2012, the County has implemented the Governmental Accounting Standards Board Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements and Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 16 and information on postemployment benefits other than pensions on page 93 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements as a whole. The accompanying information listed as combining financial statements and supplementary information on pages 94 through 224 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in

the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 Section and Statistical Section 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 do not express an opinion or provide any assurance on it.

### ***OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we will also issue our report dated June 24, 2013, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report will be issued under separate cover in the County's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2012*

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As management of Kitsap County, we offer readers of Kitsap County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2012. 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 section II of this report. All amounts, unless otherwise indicated, are expressed in millions of dollars.

### **Financial Highlights**

- The assets of Kitsap County exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$512.35 (net position). Of this amount, \$116.11 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position decreased by \$ 3.79 with a \$4.96 decrease on the Governmental side and a \$1.17 increase on the Business-Type side. The Governmental side saw an increase of \$1.20 apart from two Special Items and one Extraordinary item. These Special items included a \$1.98 loss on transfer of assets to the Village Greens Metro Parks District as well as an addition \$2.58 loss associated with debt assumed by the county in 2009. In addition, an Extraordinary loss of \$1.08 was reported due to transfer of assets to the City of Port Orchard as a result of annexations. Further details of these items can be found in the notes to the financial statements, see Note 20.
- As of the close of the current fiscal year, Kitsap County's governmental funds reported combined ending fund balances of \$86.78, an increase of \$6.37 from the prior year. Approximately \$18.02 of this amount is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$18.02, or 24.08 percent of the total general fund expenditures. \$3.23 of this balance was from funds formerly reported as special revenue funds that no longer qualified under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
- Kitsap County's total general obligation debt decreased by \$7.32 (8 percent) during the current fiscal year. This represented 2012 principle payments.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to Kitsap County's basic financial statements. Kitsap County's 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.

# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2012*

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**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of Kitsap County's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of 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 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 position 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 result in cash flows in 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 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 and surface water operations.

The government-wide financial statements can be found on pages 17 -18 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 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

# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2012*

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changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Kitsap County maintains ninety-three six 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 Medicaid fund, all of which are considered major funds.

Kitsap County implemented GASB Statement No. 63 in 2012. As a result, the statements formerly titled the State of Net assets are now referred to as Statements of Net Position. In addition to reporting on assets and liabilities, there are two additional sections titled Deferred Outflows and Deferred Inflows. The section formerly title Net Assets is now Net Position.

Data from the other eighty-nine governmental funds is 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 all its funds, with the exception of those listed in the notes to the financial statements, see Note D1. A budgetary comparison statement has been provided for each of the major funds to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 19 – 28 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 and Surface Water Utility activities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. Kitsap County uses internal service funds to account for its management information systems, self-insurance activities, elections activities, and fleet of equipment. 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 and Surface Water Utility, 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 29 – 31 of this report.



# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2012*

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***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 page 32 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 – 92 of this report.

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 94 – 219 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 \$512.35 at the close of the most recent fiscal year. The County's fiscal condition remains stable.

The largest portion of Kitsap County's net position (73.9 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, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2012*

<b>Kitsap County's Net Position</b>						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2012	2011	2012	2011	2012
<b>Assets:</b>						
Current & other assets	\$ 142.26	\$ 139.26	\$ 95.31	\$ 91.68	\$ 237.57	\$ 230.94
Capital assets	409.18	399.68	87.75	91.63	496.93	491.31
<b>Total assets</b>	<b>551.44</b>	<b>538.94</b>	<b>183.06</b>	<b>183.31</b>	<b>734.50</b>	<b>722.25</b>
Deferred outflows						
<b>Liabilities</b>						
Other liabilities	35.11	50.18	6.97	5.97	42.08	56.15
Long-term liabilities	117.89	93.15	58.65	58.46	176.54	151.62
<b>Total liabilities</b>	<b>\$153.00</b>	<b>143.33</b>	<b>65.62</b>	<b>64.43</b>	<b>218.62</b>	<b>207.78</b>
Deferred inflows		2.14				2.15
<b>Net position</b>						
Invested in capital	330.25	325.89	53.85	53.33	384.10	379.22
Restricted	15.98	13.68	3.34	3.34	19.32	17.02
Unrestricted	52.20	53.90	60.24	62.21	112.44	116.11
<b>Total net position</b>	<b>\$ 398.43</b>	<b>\$ 393.47</b>	<b>\$ 117.43</b>	<b>\$ 118.88</b>	<b>\$ 515.86</b>	<b>\$ 512.35</b>

An additional portion of Kitsap County's net position (3.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$116.11) 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 position decreased by \$3.79 during the current fiscal year. However, when excluding the special and extraordinary items detailed on page 3 and in Note 20 of the notes to the financial statements, the County actually had increases of \$2.37. The major reason was profitability of the utility operations.

Refer to the Notes to the Financial Statements (Note 6) for a more in depth discussion of capital assets.

The government's restricted net position decreased by 11.95% (from \$19.33 to \$17.02). This was caused by an overall reduction in outstanding debt. Unrestricted net position increased by 3.3% (from \$112.44 to \$116.11).

**Governmental activities.** Governmental activities decreased the County's net position by \$4.96. The key elements of this net change are as follows:

# Kitsap County, Washington

## Management's Discussion and Analysis For the Year Ended December 31, 2012

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2012	2011	2012	2011	2012
Revenues:						
Program revenues						
Charges for services	\$ 22.96	\$ 23.66	\$ 35.50	\$ 35.59	\$ 58.46	\$ 59.25
Operating grants	67.95	66.45	1.03	0.99	68.98	67.44
Capital grants	3.27	2.56	0.78	1.92	4.05	4.48
General revenues						
Property taxes	55.25	56.25	-	-	55.25	56.25
Sales taxes	26.99	27.01	-	-	26.99	27.01
Other taxes	9.99	11.06	-	-	9.99	11.06
Investment earnings	1.70	1.68	0.86	0.65	2.56	2.33
Other income	3.77	3.43	-	-	3.77	3.43
Total revenues	<u>191.88</u>	<u>192.10</u>	<u>38.17</u>	<u>39.15</u>	<u>230.05</u>	<u>231.25</u>
Expenses						
General government	25.55	24.93	-	-	25.55	24.93
Judicial services	13.87	13.33	-	-	13.87	13.33
Public safety	49.38	49.14	-	-	49.38	49.14
Physical environment	3.04	3.29	-	-	3.04	3.29
Transportation	37.02	38.06	-	-	37.02	38.06
Health & human services	43.62	43.97	-	-	43.62	43.97
Economic environment	6.52	6.75	-	-	6.52	6.75
Culture & recreation	6.77	6.91	-	-	6.77	6.91
Interest on LT debt	5.60	5.40	-	-	5.60	5.40
Utilities	-	-	37.19	37.63	37.19	37.63
Total expenses	<u>191.37</u>	<u>191.78</u>	<u>37.19</u>	<u>37.63</u>	<u>228.56</u>	<u>229.41</u>
Incr (decr) in net position before	0.51	0.32	0.98	1.52	1.49	1.84
Special Items, Transfers & Extraordinary items						
Special items	(1.19)	(4.56)			(1.19)	(4.56)
Transfers	0.34	0.35	(0.34)	(0.35)	-	-
Extraordinary item	-	(1.08)				(1.08)
Incr (decr) in net position	<u>(0.34)</u>	<u>(4.97)</u>	<u>0.64</u>	<u>1.17</u>	<u>0.30</u>	<u>(3.80)</u>
Beginning Net position	398.78	398.44	116.78	117.42	515.56	515.86
Prior period adjustments		(0.01)		0.29		0.29
Ending Net position	<u>\$ 398.44</u>	<u>\$ 393.47</u>	<u>\$ 117.42</u>	<u>\$ 118.88</u>	<u>\$ 515.87</u>	<u>\$ 512.35</u>

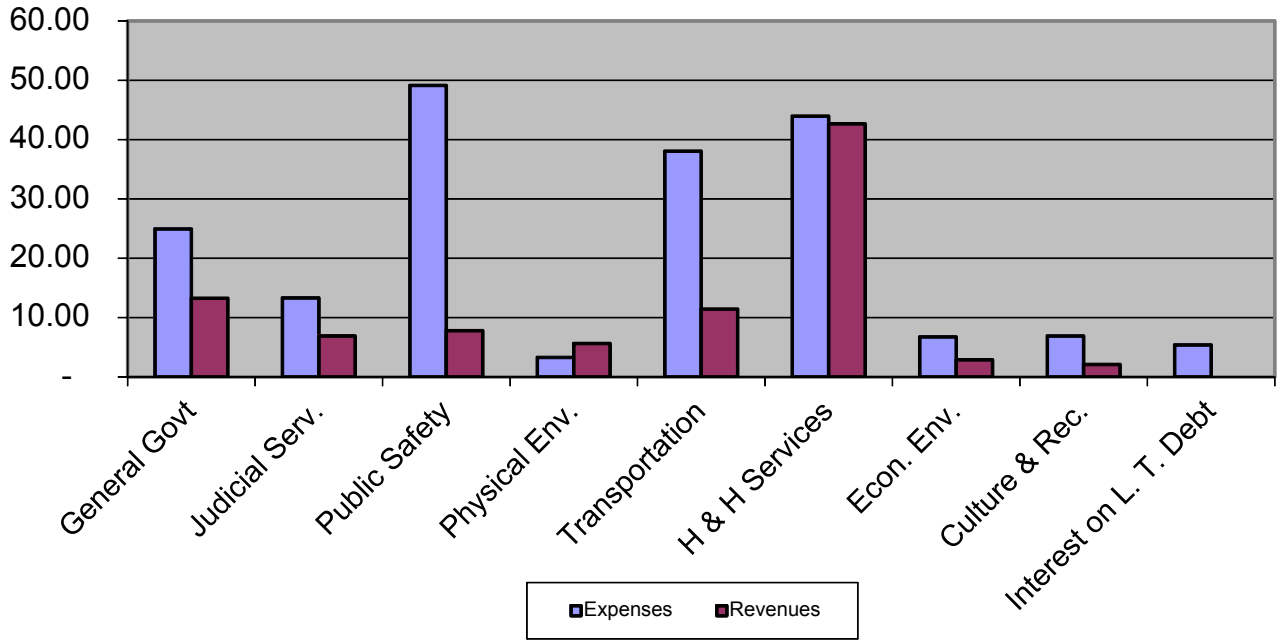
- Transferred assets with net value of \$1.98 to the Village Greens Metro Parks District, thus recorded as a loss.
- Recognized and additional loss of \$2.58 on debt of Housing Kitsap, assumed by the county in 2009.
- Recognized a loss of \$1.08 for assets being transferred to the City of Port Orchard as the result of annexation.

# Kitsap County, Washington

## Management's Discussion and Analysis For the Year Ended December 31, 2012

### Expenses and Program Revenues - Governmental

#### Activities

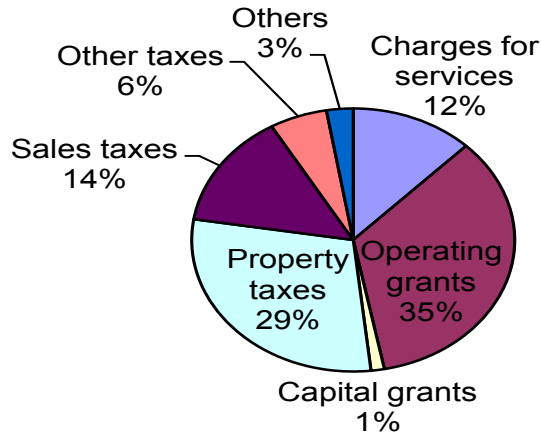


# Kitsap County, Washington

## Management's Discussion and Analysis For the Year Ended December 31, 2012

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### Revenues by Source – Governmental Activities



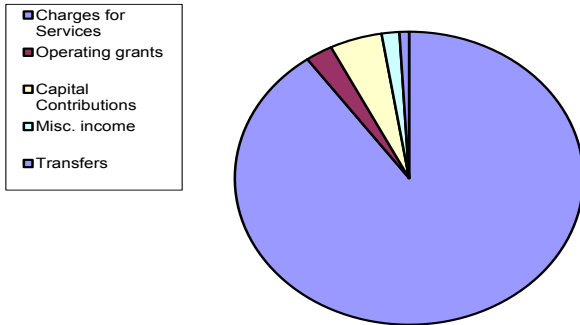
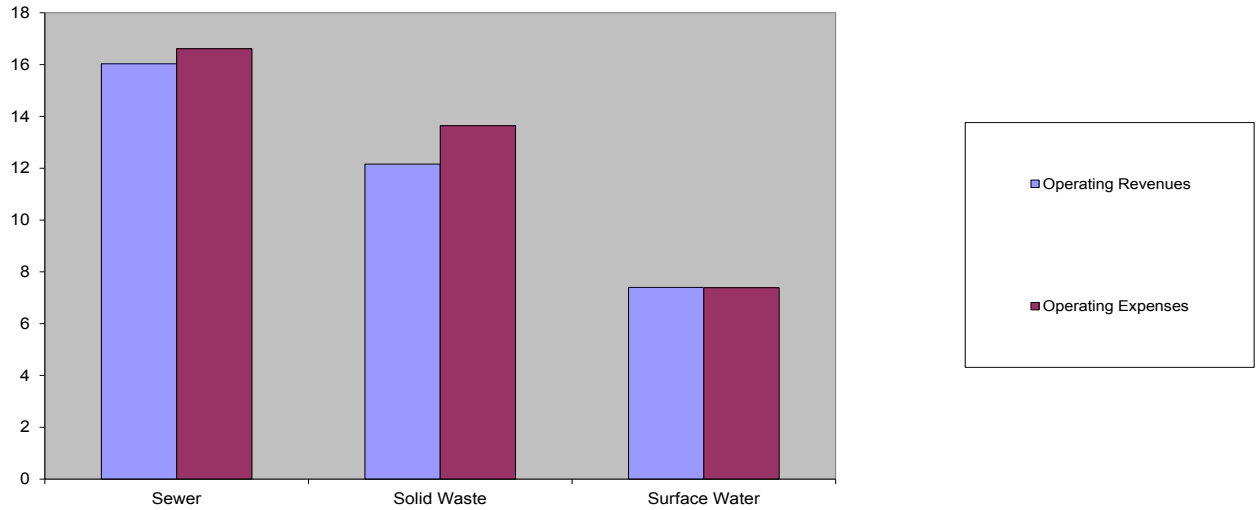
*Business-type activities.* Business-type activities increased the County's net assets by \$1.17. The primary element of this increase was:

- Profitability of the Sanitary Sewer operation

# Kitsap County, Washington

## Management's Discussion and Analysis For the Year Ended December 31, 2012

### 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.

# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2012*

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**Governmental funds.** The focus of 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 County's financial requirements. In particular, unassigned 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 \$86.78, an increase of \$6.37 in comparison with the prior year.

The general fund is the chief operating fund of Kitsap County. At the end of the current fiscal year, unassigned fund balance of the general fund was \$18.02, while the total fund balance increased to \$18.46. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 24.07 percent of the total general fund expenditures.

Apart from the change noted in the previous paragraph, the fund balance of Kitsap County's general fund increased by \$4.79 during the current fiscal year. The key factor was the cost cutting measures taken by the County to reverse declining fund balances. A portion of the increase is due to the inclusion of fund balances of a number of funds formerly reported as special revenue funds now reported in the general fund, as a result of implementation of GASB 54. These funds accounted for an increase of \$1.50 added to the general fund's balance.

County Roads fund balance increased by \$5.23 primarily due to fewer capital projects in 2012.

Real Estate Excise Tax fund balance decreased from \$3.70 in 2011 to \$2.49 in 2012. This was due to continued drops in the Real Estate Excise Tax collected.

Mental Health Medicaid fund had a balance of \$1.69 in 2012 down from \$1.79 in 2011. This was due to a decrease of state funding for the program.

Debt service funds have a total fund balance of \$10.51, all of which is reserved for the payment of debt service. This is a decrease of \$.55 from 2011.

**Proprietary funds.** Kitsap County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The Sewer fund's total net position was \$72.15 in 2012, up \$1.87 from 2011. This increase was caused by operating income as operating revenues exceeded operating expenses.

Solid Waste fund's total net position was \$24.93 for 2012, down \$.76 from 2011, as operating expenses exceeded operating revenues.

# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2012*

Surface Water fund's total net position was \$21.80 for 2012 up \$.34 from 2011. This was all due to operating income exceeding operating expenses.

### **General Fund Budgetary Highlights**

Actual general fund revenues exceeded final budgeted revenues by \$3 during fiscal year 2012. The biggest reasons for this were property taxes exceeding budget by \$.69, sales taxes exceeding budget by \$.72 and other taxes exceeded budget by \$.98.

Budget amendments and supplemental appropriations are typically made during the year to prevent budget overruns and to increase appropriations for unanticipated expenditures after adoption of the original budget.

During the year there was a \$.87 increase in appropriations between the original and final amended budget, however, the actual expenditures of the general fund came in well under the final budget total of \$76.04, with a total of \$74.82.

### **Capital Assets**

At the end of fiscal year 2012, Kitsap County's investment in capital assets for its governmental activities was \$771.59 as reflected in the following schedule, which represents a net increase of \$7.63 or 1.0 percent from last year. See Note 6 to the financial statements for further details on Capital Assets.

#### Change in Capital Assets (millions)

	Governmental Activities		Business-type Activities		Total	
	2011	2012	2011	2012	2011	2012
Land	\$ 58.44	\$ 58.42	\$ 2.47	\$ 2.89	\$ 60.91	\$ 61.31
Infrastructure	472.90	482.61	-	-	472.90	482.61
Building	125.75	129.19	46.31	56.30	172.06	185.49
Building Improv	28.77	33.47	76.90	83.41	105.67	116.88
Machinery & Equipment	54.35	57.05	7.46	9.61	61.81	66.66
Construction in progress	23.75	10.85	25.36	14.84	49.11	25.69
Total	763.96	771.59	158.50	167.05	922.46	938.64
Less: accumulated depreciation	354.78	371.92	70.75	75.42	425.53	447.34
Net capital assets	\$ 409.18	\$ 399.67	\$ 87.75	\$ 91.63	\$ 496.93	\$ 491.30



# Kitsap County, Washington

## Management's Discussion and Analysis For the Year Ended December 31, 2012

### Governmental activities

Following are the major additions to Capital Assets for Governmental Activities:

- Various infrastructure projects were completed during the year at a cost of \$9.63
- Various infrastructure land purchase totaled \$2.95
- Addition of Poplars property \$5.40
- Courthouse renovation project completed \$3.21
- Artificial turf installed at Gordon Field \$1.50

### Business-type activities.

Following are the major activities in this area in 2012:

- Completed Headworks project \$15.29
- Completed Ridgetop Regional pond expansion \$1.79

### **Long-term Liabilities**

At year-end, the County had \$177.68 in long-term liabilities versus \$186.58 last year, a net decrease of \$8.9 and 4.8 percent.

### Long-term liabilities, at Year-End

	2011	Additions	Reductions	2012
<b>Government activities:</b>				
Bonds Payable	\$ 91.96	\$ -	\$ 7.32	\$ 84.64
Compensated absences	4.97	2.65	2.95	4.67
Internal Services debt	0.29	0.22	0.17	0.34
Notes Payable	24.01	0.49	2.44	22.06
Net OPEB Obligation	3.14	0.61	-	3.75
Other items	0.47	-	0.05	0.42
Total	\$ 124.84	\$ 3.97	\$ 12.93	\$ 115.88
<b>Enterprise activities:</b>				
Bonds Payable	\$ 50.62	\$ -	\$ 1.97	\$ 48.65
Compensated absences	0.57	0.39	0.36	0.60
Other items	10.55	2.92	1.09	12.38
Total	\$ 61.74	\$ 3.31	\$ 3.42	\$ 61.63
Total Debt	\$ 186.58	\$ 7.28	\$ 16.35	\$ 177.51

# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2012*

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See Notes 10 and 12 for more information on Long-term debt. There were no major long-term debt additions for 2012.

Refer to the Notes to the Financial Statements to obtain more details on these issues (Notes 10 and 12).

The Standard and Poor's Corporation and Moody's Investors Service provided a bond rating of AA- and Aa3 respectively for Kitsap County's debt as of April 2013. 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 \$360.73 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 5, 10 and 12).

### **ECONOMIC FACTORS**

The economy of the County is based mostly on government services. The largest employer by far is Kitsap Naval Base with over 30,500 employees including military personnel. Kitsap County has the only shipyard on the West Coast capable of overhauling nuclear aircraft carriers. Harrison Medical Center is next, employing over 2,379, Kitsap County is third employing over 1,160.

### **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 Dave Schureman, Financial Services Manager  
Kitsap County Auditor's Office  
619 Division Street, MS-31  
Port Orchard, Washington, 98366.  
Telephone (360) 337-7132 or visit the County's web site at [www.kitsapgov.com](http://www.kitsapgov.com)

# KITSAP COUNTY, WASHINGTON

## Statement of Net Position December 31, 2012

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Unit PFD</b>
<b>ASSETS</b>				
Cash and Cash equivalents	\$ 84,338,999	\$ 8,156,479	\$ 92,495,478	103,494
Deposits with fiscal agents	58,889	-	58,889	-
Investments	15,449,044	76,986,299	92,435,343	783,243
Receivables(net)				
Property taxes	3,476,047	-	3,476,047	-
Special assessments	13,914	25,608	39,522	-
Accounts	125,828	2,551,682	2,677,510	-
Others	-	-	-	-
Due from agency agency fund	39,412	-	39,412	-
Internal balances	661,298	(661,298)	-	-
Due from other governments	5,941,240	578,586	6,519,826	-
Prepayments	357,925	-	357,925	-
Inventories	1,618,677	215,872	1,834,549	-
Restricted assets:				
Cash and cash equivalents	1,304,493	3,342,181	4,646,674	-
Deposits with fiscal agents	15,000	-	15,000	-
Investments	4,162,820	67	4,162,887	-
Notes/Contracts	11,258,518	-	11,258,518	-
Special Assessment Receivable-Deferred		483,696	483,696	-
Long-term Receivable from Comp. Unit	9,260,000	-	9,260,000	-
Long-term Receivable from KCCHA	1,181,099	-	1,181,099	-
Capital assets, net (Note1)				
Land	58,419,033	2,889,181	61,308,214	-
Infrastructure	198,490,538	-	198,490,538	-
Buildings	92,506,755	25,039,996	117,546,751	-
Improvements & Other Buildings	20,419,407	45,592,480	66,011,887	-
Machinery & Equipment	18,988,866	3,271,231	22,260,097	-
Construction In Progress	10,852,540	14,841,666	25,694,206	-
Total assets	<u>538,940,343</u>	<u>183,313,726</u>	<u>722,254,069</u>	<u>886,737</u>
<b>DEFERRED OUTFLOWS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	3,918,232	1,991,501	5,909,733	-
Due to agency fund	4,659	-	4,659	-
Due to other governments	896,056	77,632	973,688	-
Other liabilities	14,176,637	414,535	14,591,172	-
Debt interest payable		321,022	321,022	-
Unearned revenue	8,451,998	-	8,451,998	-
Non current Liabilities (Note 2):				
Due within one year	22,735,301	3,323,872	26,059,173	550,000
Due in more than one year	93,147,235	58,301,465	151,448,700	8,710,000
Total liabilities	<u>143,330,117</u>	<u>64,430,027</u>	<u>207,760,144</u>	<u>9,260,000</u>
<b>DEFERRED INFLOWS</b>				
Golf course service consession arrangement	<u>2,143,466</u>	<u>-</u>	<u>2,143,466</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	325,882,139	53,332,424	379,214,563	-
Restricted:				
Capital Projects	3,167,731	-	3,167,731	-
Debt service	10,514,252	3,342,247	13,856,499	-
Unrestricted	53,902,638	62,209,027	116,111,665	(8,373,263)
Total net position	<u>\$ 393,466,760</u>	<u>\$ 118,883,698</u>	<u>\$ 512,350,458</u>	<u>\$ (8,373,263)</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, 2012

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	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities								
General Government	\$ 24,933,897	\$ 8,639,429	\$ 4,620,926	\$ -	\$ (11,673,543)	\$ -	\$ (11,673,543)	\$ -
Judicial Services	13,330,564	5,007,465	1,898,661	-	(6,424,438)	-	(6,424,438)	-
Public Safety	49,145,096	1,052,741	6,740,259	-	(41,352,096)	-	(41,352,096)	-
Physical Environment	3,288,644	4,224,010	1,415,466	-	2,350,832	-	2,350,832	-
Transportation	38,056,151	3,011,779	5,855,760	2,555,916	(26,632,696)	-	(26,632,696)	-
Health & Human Services	43,974,168	182,195	42,490,372	-	(1,301,601)	-	(1,301,601)	-
Economic Environment	6,747,209	91,157	2,778,995	-	(3,877,057)	-	(3,877,057)	-
Culture & Recreation	6,907,510	1,449,125	657,108	-	(4,801,277)	-	(4,801,277)	-
Interest on Long-term Debt	5,399,145	-	-	-	(5,399,145)	-	(5,399,145)	-
Total Governmental Activities	<u>191,782,385</u>	<u>23,657,901</u>	<u>66,457,546</u>	<u>2,555,916</u>	<u>(99,111,021)</u>	<u>0</u>	<u>(99,111,021)</u>	<u>-</u>
Business-type Activities								
Solid Waste	13,637,201	12,163,609	549,960	-	-	(923,632)	(923,632)	-
Sewer Utility	16,612,738	16,028,698	-	1,924,691	-	1,340,651	1,340,651	-
Surface Water	7,388,367	7,394,146	448,544	-	-	454,323	454,323	-
Total business-type activities	<u>37,638,306</u>	<u>35,586,453</u>	<u>998,504</u>	<u>1,924,691</u>	<u>-</u>	<u>871,342</u>	<u>871,342</u>	<u>-</u>
Total Primary Government	<u>\$ 229,420,691</u>	<u>\$ 59,244,354</u>	<u>\$ 67,456,050</u>	<u>\$ 4,480,607</u>	<u>(99,111,021)</u>	<u>871,342</u>	<u>(98,239,679)</u>	<u>-</u>
Component Units:								
Public Facility District(PFD)	603,286	-	-	-	-	-	-	(603,286)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					56,248,976	-	56,248,976	-
Property taxes, levied for debt service					-	-	-	-
Sales & use taxes					27,008,483	-	27,008,483	1,088,478
Other taxes					11,062,277	-	11,062,277	-
Investment earnings					1,682,543	648,948	2,331,491	5,721
Miscellaneous					3,428,433	-	3,428,433	385
Special item - gain(loss) transfer of property to village greens					(1,976,993)	-	(1,976,993)	-
Special item - gain(loss) additional assumption of debt for 2009 issue					(2,578,338)	-	(2,578,338)	-
Transfers					349,011	(349,011)	-	-
Extraordinary item - (loss) transfer of assets due to annexations					(1,081,496)	-	(1,081,496)	-
Total general revenues, special items, and transfers					<u>94,142,896</u>	<u>299,937</u>	<u>94,442,833</u>	<u>1,094,585</u>
Change in net assets					(4,968,125)	1,171,279	(3,796,846)	491,299
Net position - beginning					398,440,326	117,427,001	515,867,327	(8,864,562)
Prior Period Adjustments					(5,440)	285,417	279,977	-
Net position - ending					<u>\$ 393,466,760</u>	<u>\$ 118,883,698</u>	<u>\$ 512,350,457</u>	<u>\$ (8,373,263)</u>

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

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Balance Sheet  
 Governmental Funds  
 December 31, 2012

	Special Revenue Funds		
	General Fund	County Roads	Real Estate Excise Tax
<b>ASSETS</b>			
Cash and Cash equivalents	\$ 16,935,847	\$ 28,201,973	\$ (96,940)
Deposits with fiscal agents	-	-	58,889
Investments	427,297	2,661,161	2,539,219
Receivables(net)			
Property Taxes	2,130,071	1,261,779	-
Special assessments	-	1,622	-
Accounts	86,310	-	-
Notes/Contracts	-	6,696	4,597,500
Others	-	-	-
Due from other funds	2,098,918	488,403	-
Due from other governments	1,000,645	1,176,565	-
Interfund loan receivable	1,150,000	-	-
Prepayments	248,617	-	-
Advance to other funds	194,418	-	-
<b>Total assets</b>	<b>\$ 24,272,123</b>	<b>\$ 33,798,198</b>	<b>\$ 7,098,668</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	823,423	491,046	301
Due to other funds	406,330	644,932	-
Due to other governments	-	-	-
Other liabilities	2,445,448	499,425	-
Advance from other fund	-	-	-
Revenues collected in advance	5,569	3,277	7,480
Deferred revenue	2,130,227	1,263,401	4,597,500
Interfund loan payable	-	-	-
<b>Total liabilities</b>	<b>5,810,997</b>	<b>2,902,081</b>	<b>4,605,281</b>
<b>Fund balances</b>			
Nonspendable	443,035	-	-
Restricted	-	-	2,493,387
Committed	-	30,896,117	-
Assigned	-	-	-
Unassigned	18,018,091	-	-
<b>Total fund balance</b>	<b>18,461,125</b>	<b>30,896,117</b>	<b>2,493,387</b>
<b>Total liabilities &amp; fund balances</b>	<b>\$ 24,272,123</b>	<b>\$ 33,798,198</b>	<b>\$ 7,098,668</b>

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

Balance Sheet

Governmental Funds

December 31, 2012

Special  
Revenue  
Fund

Mental Health Medicaid Fund	Other Governmental Funds	Total Governmental Funds
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ASSETS

Cash and Cash equivalents	\$ 669,935	\$ 13,434,255	\$ 59,145,070
Deposits with fiscal agents	-	15,000	73,889
Investments	1,403,435	12,580,753	19,611,864
Receivables(net)			
Property Taxes	-	84,197	3,476,047
Special assessments	-	12,291	13,914
Accounts	-	39,518	125,828
Notes/Contracts	-	15,914,322	20,518,518
Others	-	-	-
Due from other funds	2,516	540,631	3,130,467
Due from other governments	-	3,641,216	5,818,425
Interfund loan receivable	-	-	1,150,000
Prepayments	-	-	248,617
Advance to other funds	-	-	194,418
<b>Total assets</b>	<b>\$ 2,075,885</b>	<b>\$ 46,262,184</b>	<b>\$ 113,507,058</b>

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	359,879	1,976,770	3,651,420
Due to other funds	2,743	2,027,306	3,081,310
Due to other governments	-	896,056	896,056
Other liabilities	27,398	692,735	3,665,006
Advance from other fund	-	194,418	194,418
Revenues collected in advance	-	20,489	36,815
Deferred revenues	-	6,057,481	14,048,609
Interfund loan payable	-	1,150,000	1,150,000
<b>Total liabilities</b>	<b>390,019</b>	<b>13,015,256</b>	<b>26,723,634</b>

Fund Balances

Nonspendable	-	9,260,000	9,703,035
Restricted	1,685,866	22,549,049	26,728,302
Committed	-	1,437,879	32,333,996
Assigned	-	-	-
Unassigned	-	-	18,018,091
<b>Total fund balances</b>	<b>1,685,866</b>	<b>33,246,928</b>	<b>86,783,424</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,075,885</b>	<b>\$ 46,262,184</b>	<b>\$ 113,507,058</b>

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 POSITION  
 December 31, 2012

Fund balances of governmental funds - page 20 \$ 86,782,887

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	771,594,380	
Depreciation	(371,917,241)	
Capital asset net of depreciation		399,677,139

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

Bond payable	84,644,091	
Compensated absences	4,665,175	
Bond Anticipation Note	15,323,033	
Notes payable	6,740,966	
OPEB Liability	3,749,917	
PWTF Loans	425,279	
Long-term debt		(115,548,461)

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

Taxes/Assessments receivable		3,489,961
KCCHA receivable		1,181,099

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	29,078,531	
Liabilities	(11,285,666)	
Uses Other than Operations	91,270	
Asset less liabilities		17,884,135

Net assets of governmental activities - page 17 \$ 393,466,760

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



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**Statement of Revenue, Expenditures, and Changes in Fund Balances**

Governmental Funds

For the Year Ended December 31, 2012

	Special Revenue Funds		
	General Fund	County Roads	Real Estate Excise Tax
<b>REVENUES:</b>			
Property taxes	\$ 30,653,810	\$ 23,368,830	\$ -
Retail sales & use taxes	20,162,176	-	-
Other taxes	5,761,810	27,181	2,831,630
Licenses and permits	167,908	191,997	-
Intergovernmental	9,559,076	8,411,676	-
Charges for services	8,619,518	1,155,603	-
Fines & forfeits	2,426,747	-	-
Investment earnings	820,068	19,098	252,668
Miscellaneous	992,086	4,835	122,500
<b>Total revenues</b>	<b>79,163,200</b>	<b>33,179,221</b>	<b>3,206,798</b>
<b>EXPENDITURES:</b>			
Current:			
General government	23,076,401	-	-
Judicial Services	12,977,349	-	-
Public safety	34,890,745	-	-
Physical Environment	32,807	-	-
Transportation	-	25,176,203	-
Health & Human Services	-	-	-
Economic Environment	-	-	-
Culture & recreation	3,848,360	-	-
Debt service	-		
Principal	-	47,253	122,500
Interest and other charges	-	2,363	232,876
Capital outlay	42,863	3,993,593	-
<b>Total expenditures</b>	<b>74,868,526</b>	<b>29,219,411</b>	<b>355,376</b>
Excess(deficiency) of revenues over expenditures	<b>4,294,673</b>	<b>3,959,810</b>	<b>2,851,422</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from BANS	-	-	-
Proceeds from GO Bonds	-	-	-
Proceeds from Refunding Bonds	-	-	-
Payment to bond refunding escrow agent			
Sale of capital asset			
Transfers in	3,719,273	1,620,000	-
Transfers out	(3,225,707)	(352,209)	(4,061,506)
Premiums on bonds	-	-	-
<b>Total other financing sources &amp; uses</b>	<b>493,567</b>	<b>1,267,791</b>	<b>(4,061,506)</b>
<b>SPECIAL ITEMS:</b>			
Sales of pledged assets			
Net change in fund balance	4,788,240	5,227,601	(1,210,084)
Fund balances-beginning	13,672,885	25,668,516	3,703,471
Prior period adjustments	-	-	-
<b>Fund balances</b>	<b>\$ 18,461,125</b>	<b>\$ 30,896,117</b>	<b>\$ 2,493,387</b>

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, 2012

	Special Revenue		
	Fund		
	Mental Health Medicaid Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Property taxes	\$ -	\$ 2,226,337	\$ 56,248,976
Retail sales & use taxes	-	6,846,307	27,008,483
Other taxes	-	2,441,657	11,062,277
Licenses and permits	-	2,421,785	2,781,690
Intergovernmental	22,747,823	27,984,075	68,702,651
Charges for services	-	4,830,188	14,605,309
Fines & forfeits	-	678,920	3,105,667
Investment earnings	10,064	580,644	1,682,543
Miscellaneous	-	2,295,098	3,414,519
<b>Total revenues</b>	<b>22,757,887</b>	<b>50,305,010</b>	<b>188,612,115</b>
<b>EXPENDITURES:</b>			
Current:			
General government	-	2,177,969	25,254,370
Judicial Services	-	335,101	13,312,451
Public safety	-	9,621,312	44,512,057
Physical Environment	-	3,255,837	3,288,644
Transportation	-	38,443	25,214,645
Health & Human Services	22,861,834	20,971,943	43,833,777
Economic Environment	-	6,743,289	6,743,289
Culture & recreation	-	1,746,282	5,594,642
Debt service			
Principal	-	9,634,506	9,804,260
Interest and other charges	-	4,839,686	5,074,924
Capital outlay	-	369,205	4,405,661
<b>Total expenditures</b>	<b>22,861,834</b>	<b>59,733,574</b>	<b>187,038,721</b>
Excess(deficiency) of revenues over expenditures	<b>(103,947)</b>	<b>(9,428,564)</b>	<b>1,573,394</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from BANS	-	491,906	491,906
Proceeds from GO Bonds	-	-	-
Proceeds from Refunding Bonds	-	-	-
Payment to bond refunding escrow agent	-	-	-
Sale of capital asset	-	566,865	566,865
Transfers in	-	12,845,048	18,184,322
Transfers out	-	(10,493,225)	(18,132,647)
Premiums on bonds	-	-	-
<b>Total other financing sources &amp; uses</b>	<b>-</b>	<b>3,410,594</b>	<b>1,110,446</b>
<b>SPECIAL ITEMS:</b>			
Sales of pledged assets	-	3,688,193	3,688,193
Net change in fund balance	<b>(103,946)</b>	<b>(2,329,777)</b>	<b>6,372,033</b>
Fund balances-beginning	1,789,813	35,582,148	80,416,833
Prior period adjustments	-	(5,440)	(5,440)
<b>Fund balances-ending</b>	<b>\$ 1,685,866</b>	<b>\$ 33,246,928</b>	<b>\$ 86,783,424</b>

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, 2012

Net change in fund balances-total governmental funds - page 23 \$ 6,372,033

Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of activities 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	4,405,661
Depreciation	(20,060,216)

#### Capital Asset Transactions

Proceeds from the sale of capital assets not recognized in the Statement of Activity	(566,865)
--	-----------

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

Proceeds from BANS	(491,906)
Special Item - loss on transfer of assets to Village Green Metro Parks District	(1,976,993)
Receipts from sales of non-county contracted assets	(3,688,193)
Special Item - loss assumed debt	(2,578,338)
Other debt issuance costs amortized	(324,211)
Bond principal	9,804,260
Recording of Net OPEB Obligation	(608,180)
Extraordinary items- assets transferred to City of Pt Orchard due to avnnexations	(1,081,496)

Revenues in statement of activities that do not provide current financial resources are not reported as revenues in the funds.	240,786
--	---------

Property taxes receivable	3,476,047
Special Assessments	13,914

#### Internal services Activities

Net Transfers	56,539
Depreciation already included above	2,193,252
Net profit	(154,219)

Change in net assets of governmental activities - page 18 \$ (4,968,125)

# KITSAP COUNTY, WASHINGTON

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

### General Fund

Year Ended December 31, 2012

2012

	Original Budget	Final Budget	Actual	Variance With Final Budget	Budget to GAAP Basis Differences	Actual GAAP Basis
<b>REVENUES:</b>						
Property taxes	\$ 29,953,816	29,953,816	\$ 30,653,810	\$ 699,994	\$ -	\$ 30,653,810
Retail sales & use taxes	19,442,308	19,442,308	20,162,176	719,868	-	20,162,176
Other taxes	4,778,195	4,778,195	5,759,254	981,059	2,556	5,761,810
Licenses and permits	102,150	153,150	167,908	14,758	-	167,908
Intergovernmental	8,992,832	9,042,358	9,556,732	514,374	2,345	9,559,076
Charges for services	8,367,296	8,397,236	8,619,518	222,282	-	8,619,518
Fines & forfeits	2,452,543	2,452,543	2,393,573	(58,970)	33,174	2,426,747
Investment Earnings	737,850	737,850	817,004	79,154	3,064	820,068
Miscellaneous	1,159,600	1,164,600	992,086	(172,514)	-	992,086
	<u>75,986,590</u>	<u>76,122,056</u>	<u>79,122,061</u>	<u>3,000,005</u>	<u>41,139</u>	<u>79,163,200</u>
<b>EXPENDITURES:</b>						
Current:						
Administrative Services	\$ 703,511	\$ 712,087	\$ 707,084	\$ 5,003	\$ -	707,084
Assessor	2,165,080	2,165,080	2,129,338	35,742	-	2,129,338
Auditor	1,588,732	1,620,923	1,584,099	36,824	-	1,584,099
Commissioners	1,245,056	1,230,270	1,129,731	100,539	-	1,129,731
General Administration	6,046,192	5,844,829	6,198,871	(354,042)	-	6,198,871
Personnel & Human resources	1,136,135	1,170,366	1,139,842	30,524	-	1,139,842
Prosecuting attorney	7,853,269	7,853,269	7,742,902	110,367	-	7,742,902
Facilities Maintenance	1,770,845	1,770,845	1,709,901	60,944	-	1,709,901
Treasurer	808,817	808,817	734,634	74,183	-	734,634
Total general government	<u>23,317,637</u>	<u>\$ 23,176,486</u>	<u>23,076,401</u>	<u>100,085</u>	<u>-</u>	<u>23,076,401</u>
Judicial Services						
Clerk	\$ 5,540,407	\$ 5,850,407	\$ 5,839,413	\$ 10,994	\$ -	5,839,413
District court	2,510,956	2,510,956	2,480,969	29,987	-	2,480,969
Superior court	2,310,344	2,371,275	2,369,602	1,673	-	2,369,602
Juvenile	2,381,623	2,388,588	2,287,365	101,223	-	2,287,365
Total Judicial services	<u>12,743,330</u>	<u>13,121,226</u>	<u>12,977,349</u>	<u>143,877</u>	<u>-</u>	<u>12,977,349</u>
Public safety						
Sheriff	\$ 17,299,569	\$ 17,535,331	\$ 17,525,927	\$ 9,404	\$ 597	17,526,524
Jail	11,826,793	12,226,793	12,064,068	162,725	-	12,064,068
Juvenile	4,559,728	4,552,763	4,375,394	177,369	-	4,375,394
Coroner	929,394	931,394	924,758	6,636	-	924,758
Personnel & Human Resources	-	-	1	(1)	-	1
Total Public Safety	<u>34,615,484</u>	<u>35,246,281</u>	<u>34,890,148</u>	<u>356,133</u>	<u>597</u>	<u>34,890,745</u>
Physical Environment					32,807	32,807
Culture & recreation						
Parks	\$ 3,301,310	\$ 3,305,810	\$ 3,213,239	\$ 92,571	\$ 11,556	3,224,794
Cooperative Extension	371,862	385,293	371,859	13,434	-	371,859
Personnel & Human Resources	270,455	270,455	251,707	18,748	-	251,707
Total Culture & Recreation	<u>3,943,627</u>	<u>3,961,558</u>	<u>3,836,804</u>	<u>124,754</u>	<u>11,556</u>	<u>3,848,360</u>
Interest and other charges	4,271	4,271	-	4,271	-	-
Capital outlay	544,783	531,783	42,863	488,920	-	42,863
Total expenditures	<u>75,169,132</u>	<u>76,041,605</u>	<u>74,823,566</u>	<u>1,218,039</u>	<u>44,960</u>	<u>74,868,526</u>
Excess(deficiency) of revenues over expenditures	817,458	80,451	4,298,495	4,218,044	(3,821)	4,294,674
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	2,660,257	2,660,257	2,337,441	(322,816)	1,504,225	3,719,273
Transfers out	(3,424,569)	(3,442,718)	(3,348,100)	94,618	-	(3,225,707)
Total other financing sources & uses	<u>(764,312)</u>	<u>(782,461)</u>	<u>(1,010,658)</u>	<u>(228,197)</u>	<u>1,504,225</u>	<u>493,567</u>
Net change in fund balance	<u>53,146</u>	<u>(702,010)</u>	<u>3,287,837</u>	<u>3,989,847</u>	<u>1,500,403</u>	<u>4,788,240</u>
Fund balances-beginning	11,942,823	11,942,823	11,942,823	-	1,730,062	13,672,885
Prior period adjustments						
Fund balances-ending	<u>11,995,969</u>	<u>11,240,813</u>	<u>15,230,660</u>	<u>3,989,847</u>	<u>3,230,465</u>	<u>18,461,125</u>

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

# 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, 2012

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 24,017,110	\$ 24,017,110	\$ 23,368,830	\$ (648,280)
Other taxes	30,000	30,000	27,181	(2,819)
Licenses and permits	120,000	120,000	191,997	71,997
Intergovernmental	5,555,776	5,555,776	8,411,676	2,855,900
Charges for services	390,947	390,947	1,155,603	764,656
Investment earnings	10,000	10,000	19,098	9,098
Miscellaneous	5,000	5,000	4,835	(165)
Total revenues	<u>30,128,833</u>	<u>30,128,833</u>	<u>33,179,221</u>	<u>3,050,388</u>
<b>EXPENDITURES:</b>				
Current:				
Transportation	26,618,166	26,618,166	25,176,203	1,441,963
Debt service				
Principal	78,913	78,913	47,253	31,660
Interest and other charges	6,041	6,041	2,363	3,678
Capital outlay	6,452,000	6,452,000	3,993,593	2,458,407
Total expenditures	<u>33,155,120</u>	<u>33,155,120</u>	<u>29,219,411</u>	<u>3,935,709</u>
Excess(deficiency) of revenues over expenditures	<u>(3,026,287)</u>	<u>(3,026,287)</u>	<u>3,959,810</u>	<u>6,986,097</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,827,000	1,827,000	1,620,000	(207,000)
Transfers out	<u>(372,541)</u>	<u>(372,541)</u>	<u>(352,209)</u>	<u>20,332</u>
Total other financing sources & uses	<u>1,454,459</u>	<u>1,454,459</u>	<u>1,267,791</u>	<u>(186,668)</u>
Net change in fund balance	<u>(1,571,828)</u>	<u>(1,571,828)</u>	<u>5,227,601</u>	<u>6,799,429</u>
Fund balances-beginning	25,668,515	25,668,515	25,668,516	1
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 24,096,687</u>	<u>\$ 24,096,687</u>	<u>\$ 30,896,117</u>	<u>\$ 6,799,430</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  
For the Year Ended December 31, 2012

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Other taxes	\$ 1,849,622	\$ 1,849,622	\$ 2,831,630	982,008
Investment earnings	301,723	301,723	252,668	(49,055)
Miscellaneous	122,502	122,502	122,500	(2)
Total revenues	<u>2,273,847</u>	<u>2,273,847</u>	<u>3,206,798</u>	<u>932,951</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	-
Debt service	-	-	-	-
Principal	110,000	110,000	122,500	(12,500)
Interest and other charges	243,735	243,735	232,876	10,859
Capital Outlay	-	-	-	-
Total expenditures	<u>353,735</u>	<u>353,735</u>	<u>355,376</u>	<u>(1,641)</u>
Excess(deficiency) of revenues over expenditures	<u>1,920,112</u>	<u>1,920,112</u>	<u>2,851,422</u>	<u>931,310</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
GO Bond proceeds	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(4,061,506)	(4,061,506)	(4,061,506)	-
Premiums on bonds	-	-	-	-
Total other financing sources & uses	<u>(4,061,506)</u>	<u>(4,061,506)</u>	<u>(4,061,506)</u>	<u>-</u>
Net change in fund balance	<u>(2,141,394)</u>	<u>(2,141,394)</u>	<u>(1,210,084)</u>	<u>931,310</u>
Fund balances-beginning	3,703,471	3,703,471	3,703,471	(0)
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 1,562,077</u>	<u>\$ 1,562,077</u>	<u>\$ 2,493,387</u>	<u>\$ 931,310</u>

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

# KITSAP COUNTY, WASHINGTON

## Mental Health Medicaid 187

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended December 31, 2012

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 24,109,000	\$ 24,109,000	\$ 22,747,823	\$ (1,361,177)
Investment earnings	-	-	10,064	10,064
Miscellaneous	-	-	-	-
Total revenues	<u>24,109,000</u>	<u>24,109,000</u>	<u>22,757,887</u>	<u>(1,351,113)</u>
<b>EXPENDITURES:</b>				
Current:				
Health & Human Services	24,109,000	24,109,000	22,861,834	1,247,166
Total expenditures	<u>24,109,000</u>	<u>24,109,000</u>	<u>22,861,834</u>	<u>1,247,166</u>
Excess(deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(103,947)</u>	<u>(103,947)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	-	-	-	-
Total other financing sources & uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>(103,947)</u>	<u>(103,947)</u>
Fund balances-beginning	1,789,814	1,789,814	1,789,813	(1)
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 1,789,814</u>	<u>\$ 1,789,814</u>	<u>\$ 1,685,866</u>	<u>\$ (103,948)</u>

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



# KITSAP COUNTY, WASHINGTON

## Statement of Net Position

Proprietary Funds

December 31, 2012

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal Services Funds
<b>ASSETS</b>					
Current assets:					
Cash and Cash equivalents	\$ 2,761,760	\$ 1,838,548	\$ 3,556,171	\$ 8,156,479	\$ 26,498,422
Deposits with fiscal agents	-	-	-	-	-
Investments	48,222,732	22,380,425	6,383,142	76,986,299	-
Receivables(net)	-	-	-	-	-
Special assessments	25,608	-	-	25,608	-
Accounts	1,613,032	849,518	89,132	2,551,682	-
Due from other funds	156,167	101,156	53,846	311,169	729,309
Due from other governments	-	153,439	425,147	578,586	122,815
Prepayments	-	-	-	-	109,308
Inventories	215,872	-	-	215,872	1,618,677
Restricted assets:					
Cash and cash equivalents	3,342,181	-	-	3,342,181	-
Deposits with fiscal agents	-	-	-	-	-
Investments	67	-	-	67	-
Total current assets	56,337,419	25,323,086	10,507,438	92,167,943	29,078,531
Noncurrent assets:					
Special Assessment Receivable-De	483,696	-	-	483,696	-
Capital assets, net (Note1)	-	-	-	-	-
Land	1,040,362	472,444	1,376,375	2,889,181	-
Buildings	55,493,065	802,991	5,479	56,301,535	-
Improvements & Other Buildings	71,100,068	1,651,625	10,658,869	83,410,562	-
Machinery & Equipments	9,308,715	101,187	199,832	9,609,734	32,011,861
Construction In Progress	10,678,304	63,519	4,099,843	14,841,666	-
Less accumulated depreciation	(70,202,746)	(1,667,720)	(3,547,658)	(75,418,124)	(20,436,768)
Total noncurrent assets	77,901,464	1,424,046	12,792,740	92,118,250	11,575,093
Total assets	134,238,883	26,747,132	23,300,178	184,286,193	40,653,624
<b>DEFERRED OUTFLOWS</b>					
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accrued exp	698,299	838,176	455,026	1,991,501	266,812
Due to other funds	92,097	112,534	767,836	972,467	82,415
Due to other governments	8,814	27,380	41,438	77,632	-
Other liabilities	232,778	78,017	103,740	414,535	10,533,598
Debt interest payable	321,022	-	-	321,022	-
Current portion of long term liabilitie	3,270,683	39,326	13,863	3,323,872	-
Total current liabilities	4,623,693	1,095,433	1,381,903	7,101,029	10,882,825
Non current Liabilities (Note 2):					
Due in more than one year	57,466,244	720,454	114,767	58,301,465	402,841
Total noncurrent liabilities	57,466,244	720,454	114,767	58,301,465	402,841
Total liabilities	62,089,937	1,815,887	1,496,670	65,402,494	11,285,666
<b>DEFERRED INFLOWS</b>					
<b>NET POSITION</b>					
Invested in capital assets, net of relat	39,115,638	1,424,046	12,792,740	53,332,424	11,575,093
Restricted:	-	-	-	-	-
Debt service	3,342,248	-	-	3,342,248	-
Unrestricted	29,691,060	23,507,199	9,010,768	62,209,027	17,792,865
Total net position	\$ 72,148,946	\$ 24,931,245	\$ 21,803,508	\$ 118,883,699	\$ 29,367,958

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 Position

### Proprietary Funds

For the Year Ended December 31, 2012

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal Service Funds
<b>Operating revenues:</b>					
Charges for services	\$ 16,028,407	\$ 12,156,221	\$ 7,392,545	\$ 35,577,173	\$ 17,824,854
Miscellaneous	291	7,388	1,601	9,280	89,158
Total operating revenues	16,028,698	12,163,609	7,394,146	35,586,453	17,914,012
<b>Operating expenses:</b>					
Personal services	5,236,102	1,852,862	2,427,160	9,516,124	6,332,243
Contractual services	1,316,493	1,227,138	3,012,474	5,556,105	1,619,011
Utilities	1,247,665	9,869,354	82,415	11,199,434	43,638
Repair and maintenance	103,483	70,683	221,357	395,523	1,045,597
Other supplies and expenses	2,299,913	502,196	1,157,992	3,960,101	4,798,423
Insurance claims and expenses	24,617	8,350	75,955	108,922	2,282,803
Depreciation	4,152,317	106,618	411,014	4,669,949	2,193,252
Total operating expenses	14,380,590	13,637,201	7,388,367	35,406,158	18,314,967
Operating income	1,648,108	(1,473,592)	5,779	180,295	(400,955)
<b>Nonoperating revenue (expenses)</b>					
Interest and investment revenue	382,233	167,672	99,043	648,948	-
Miscellaneous revenue	-	549,960	448,544	998,504	-
Interest expense	(2,232,148)	-	-	(2,232,148)	-
Miscellaneous expense	-	-	-	-	-
Total nonoperating expenses	(1,849,915)	717,632	547,587	(584,696)	-
Income (loss) before contributions & transfers	(201,807)	(755,960)	553,366	(404,401)	(400,955)
Capital contributions	1,924,691	-	-	1,924,691	153,580
Transfers in	-	-	-	-	146,617
Transfers out	(136,903)	-	(212,108)	(349,011)	(53,461)
Change in net position	1,585,981	(755,960)	341,258	1,171,279	(154,219)
Total net position - beginning	70,277,548	25,687,205	21,462,250	117,427,003	29,522,177
Prior Period Adjustments	285,417	-	-	285,417	-
Total net position - ending	\$ 72,148,945	\$ 24,931,243	\$ 21,803,509	\$ 118,883,697	\$ 29,367,958

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, 2012

	Business-type Activities - Enterprise Funds				Governmental Activities Internal service Funds
	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 16,152,775	\$ 12,137,089	\$ 9,660,770	\$ 37,950,634	\$ 19,424,652
Payments to suppliers	(6,096,381)	(11,763,009)	(4,766,791)	(22,626,181)	(10,167,324)
Payments to employees	(5,234,577)	(1,845,662)	(2,412,663)	(9,492,902)	(6,289,214)
Net cash provided by operating activities	4,821,817	(1,471,582)	2,481,316	5,831,551	2,968,114
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Operating grants received	-	486,672	384,546	871,218	-
Transfers in	-	-	-	-	146,617
Transfers out	(136,903)	-	(212,108)	(349,011)	(53,461)
Net cash provided by noncapital activities	(136,903)	486,672	172,438	522,207	93,156
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Capital contributions	1,427,847	-	-	1,427,847	-
Proceeds from sales of bonds	2,921,100	-	-	2,921,100	-
Purchases of capital assets	(4,772,803)	(47,011)	(2,846,286)	(7,666,100)	(3,390,946)
Principal paid on capital debt	(2,892,329)	-	-	(2,892,329)	-
Interest paid on capital debt	(2,401,982)	-	-	(2,401,982)	-
Net cash from related financing activities	(5,718,167)	(47,011)	(2,846,286)	(8,611,464)	(3,390,946)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments	5,900,000	1,650,000	5,950,000	13,500,000	-
Purchase of Investment	(7,139,008)	(267,672)	(4,427,853)	(11,834,533)	-
Interest and dividends	382,233	167,672	99,043	648,948	-
Net cash provided by investing activities	(856,775)	1,550,000	1,621,190	2,314,415	-
Net (decrease) in cash and cash equivalents	(1,890,028)	518,079	1,428,658	56,709	(329,676)
Balances - beginning of the year	7,993,969	1,320,469	2,127,513	11,441,951	26,828,098
Balances - end of the year	\$ 6,103,941	\$ 1,838,548	\$ 3,556,171	\$ 11,498,661	\$ 26,498,422
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 1,648,108	\$ (1,473,592)	5,779	\$ 180,295	(400,955)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	4,152,317	106,618	411,014	4,669,949	2,193,252
Change in assets and liabilities:					
Receivables, net	(109,659)	69,155	13,439	(27,065)	-
Due from other funds	233,736	(95,675)	2,253,185	2,391,246	1,354,677
Due from other governments	-	-	-	-	155,960
Inventories	27,762	-	-	27,762	(7,863)
Prepaid	-	-	-	-	(196,858)
Accounts and other payables	(1,181,007)	21,620	200,748	(958,639)	(166,667)
Due to other funds	21,638	(30,985)	(290,832)	(300,179)	(1,211,833)
Due to other governments	5,030	-	(135,943)	(130,913)	-
Employee benefits	1,525	7,200	14,497	23,222	43,029
Accrued expenses	22,367	(75,923)	9,429	(44,127)	1,205,372
Net cash provided by operating activities	\$ 4,821,817	\$ (1,471,582)	\$ 2,481,316	\$ 5,831,551	\$ 2,968,114

### Noncash investing, capital and financing Activities

Contribution of capital assets	496,844	496,844	153,581
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The notes to the financial statements are an integral part of this statement.

# KITSAP COUNTY, WASHINGTON

## Statement of Fiduciary Net Position

December 31, 2012

	Agency Funds
<b>ASSETS</b>	
Cash	\$ 24,266,777
Deposits with Fiscal Agents	200,000
Investments	190,038,526
Taxes Receivable	10,842,379
Other Current Receivables	325,662
Due From Other Funds	4,659
Due From Other Governments	79,632
Total Assets	<u>\$ 225,757,634</u>
<b>LIABILITIES</b>	
Warrants Payable	\$ 2,871,108
Accounts Payable	-
Sales Tax Payable	-
Other Accrued Liabilities	-
Due to Other Funds	39,412
Due to Other Governments	500
Interfund loans	-
Custodial Account	222,846,613
Total Liabilities	<u>\$ 225,757,634</u>

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

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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## **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 commissioner form of government. The accompanying financial statements present the government and entities for which the government is considered to be financially accountable. The voters of Kitsap County elected the three-member board on a partisan basis to serve overlapping 4-year terms. The Board of County Commissioners is the legislative body and 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. As required by generally accepted accounting principles the financial statements present Kitsap County, the primary government, and its component units. The component units discussed below are included in the County reporting entity because of the significance of their operational or financial relationships with the County.

**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 a legally separate entity. The PFD was responsible for the construction of the Kitsap Conference Center at Bremerton Harborside (City of Bremerton) and the County's Event Center, using sales tax revenues. The 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 PFD projects through an \$11.395 million bond issue and the PFD pledged its tax revenues to the County through an interlocal government agreement. The debt is reported on the County's books. The component unit does not issue separate financial statements, therefore, we have included these statements in our basic Financial Statement section.

**Blended component units.** The Industrial Development Corporation of Kitsap County was created and approved by the Kitsap County Board of County Commissioners on May 17, 1999 to construct and maintain industrial facilities throughout Kitsap County. All three County Commissioners are on its board of directors, therefore, the County is financially responsible for the operation of the corporation. IDC sold \$2 million in 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 amounts sufficient to pay the principal and premium, if any, interest on the bonds, and certain

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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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 during the current year; therefore there is nothing to report.

## **B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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 financial 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 are 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

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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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. The County considers property taxes as available if they are collected within 60 days after year end. 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 to be susceptible to accrual as revenue of the current period. All other revenue items are considered measurable and available only when cash is received by the County.

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 or elected to be accounted for in another fund.

The **county road 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 Medicaid** fund is used to account for Medicaid grant funds received by the mental health program and the spending of those funds.

The County reports the following major proprietary funds:

The **solid waste fund** is used to account for the costs of providing solid waste services to the residents of Kitsap County.

The **sanitary sewer fund** is used to account for the costs of providing sewage disposal services to the residents of Kitsap County.

The **surface water utility** is used to account for costs of providing surface water utilities to the residents of Kitsap County.

Additionally, the County reports the following fund types:

**Internal service funds** provide Information and Computer services, Self-Insurance program, Elections Services, Employer Benefits, Building Repair and Replacement and Equipment Rental and Repair services to other departments or agencies of the County on a cost reimbursement basis.



# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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The **fiduciary funds** for Kitsap County are as follows:

Agency funds are used to account for the funds held in a custodial nature for other governmental entities, the vast majority in the form of cash and investments. The entities include school districts, the public utility district, recreation districts, the public health district, the library district, cities and towns, ports, water districts, fire districts and sewer districts.

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 costs 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 sewer, collection fees for solid waste, use charges for surface water. 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.

## D. Budgetary Information

### 1. Scope of Budget

Annual appropriated budgets are adopted for all of the Governmental funds of the County on the modified accrual basis of accounting except those funds listed below:

- GMA Transportation Impact Fees Fund-CK
- McCormick Village Traffic Impact Fees
- Model Toxic Control Act Fund
- KC Capital Project 2001 Fund

Budgets were not adopted for these funds in 2012 because no expenditures were anticipated in 2012.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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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. Budgets for these types of funds are adopted every year throughout the lives of the debt issues or 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 appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned).

Encumbrances accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

## 2. Amending the Budget

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 laws of the State of Washington, any unexpended appropriation balances lapse at the close of the fiscal year.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

The budgets are integrated into the accounting system. The budgetary data, as presented in the financial statements for all funds with 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 the General fund and Special Revenue funds present actual expenditures in accordance with the accounting principles generally accepted in

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

the United States on a basis consistent with the legally adopted budgets as amended.

## Budget revisions

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

Fund Description	Original Budget	Budget Change	Final Budget
General Fund	\$ 78,593,701	890,622	\$ 79,484,323
Non Major Funds	\$ 74,205,521	10,250,587	\$ 84,456,108
		\$ 11,141,209	

### 3. Excess of expenditures over appropriations

For the year ended December 31, 2012 expenditures did not exceed appropriations in any of the general fund departments.

### 4. Deficit Balance

At December 31, 2012, the following fund reported a deficit balance of fund net position, which is a violation of state statute:

Fund #104      Department of Emergency Management      \$47,673

The Department of Emergency Management's year end deficit should be reversed in 2013.

## **E. Assets, Liabilities and Equity**

### 1. Cash and Cash Equivalents

It is the County's policy to invest all temporary cash surpluses. At December 31, 2012, the Treasurer was holding \$ 109.35 million in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is credited to the General fund.

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.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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## 2. 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 Note 4, *Deposits and Investments*).

## 3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (see Note 5, *Property Tax*). 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, 2012, no special assessments receivables 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.

## 4. Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund loans receivable/payable* or *advances to/from other funds*. All other outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*. A separate schedule of interfund loans receivable and payable is furnished in Note 14, *Interfund Balances and Transfers*.

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 available for appropriation and are not expendable available financial resources.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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## 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.

The County pays annual insurance premiums for various insurance policies it purchases during the year. The portion of these premiums that covers future periods are recorded as prepaid insurance.

The County entered into a 25-year land lease with Washington State Military Department in 2008. The new Coroner Facility was constructed on the leased property. Upon execution of the contract, the entire cost of the lease was paid to the lessor. Prepaid rent is being expensed annually over the life of the lease.

## 6. Restricted Assets and Liabilities

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 net 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. Capital Assets (See Note 6, *Capital Assets*)

Capital assets include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), and are reported in applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as items with an initial, individual cost of more than \$5,000 for capital assets and \$25,000 for infrastructure assets (amounts 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.

Costs for additions and improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs are not capitalized.

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2012

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. The total interest expense incurred by the County during the current fiscal year is \$2,232,148. Of this amount, \$47,705 was included as part of the cost of capital assets under construction in connection sewer projects and \$7,625 was capitalized as part of the cost of a project that was completed during 2012.

Property, plant and equipment of Kitsap County are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	20 - 45
Other Improvements	20 - 45
Road System	7 - 25
Bridges	40
Sidewalks	30
Machinery	6 - 12
Pipes	50
Sheriff Vehicles	6
Non Sheriff Vehicles	6 - 10
Office Equipment	10
Computer Equipment	4 - 6
Trucks and Trailers	7 - 15

8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Vacation pay, which may be accumulated up to 45 days (360 hours), is payable upon resignation, retirement or death.

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

10. Long-Term Debt (See Note 10, Long Term Debt)

11. Unearned Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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## 12. Fund Balance Classification

The County implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011. Fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned or unassigned.

The County uses restricted resources first, then unrestricted resources as needed, when both restricted and unrestricted resources are available for use. When expenditures are incurred that can be paid from unrestricted resources, the County uses committed fund balance first, then assigned fund balance, then unassigned fund balance.

- *Nonspendable Fund Balance* includes items that cannot be spent because the related assets are not in spendable form or must be maintained intact. This includes nonspendable resources such as advances and prepaid amounts in the general fund and the long-term portion of notes receivable in a debt service fund.
- *Restricted Fund Balance* represents resources that have constraints placed upon their use either by external parties or imposed by law through a constitutional provision or enabling legislation.
- *Committed Fund Balance* includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the Kitsap County Board of Commissioners, the County's highest level of decision making authority. This formal action is the passage of law by the Board of County Commissioners, creating, modifying, or rescinding an appropriation.
- *Assigned Fund Balance* represents amounts that are constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. Use of assigned fund balance may be established by the Board of County Commissioners or an official designated by the Board, for this purpose. The County had no Assigned Fund Balance in 2012.
- *Unassigned fund balance* is the residual amount of the General Fund not included in the four categories described above. Any deficit fund balances within governmental fund types are also reported as unassigned.

When the County implemented GASB 54 in 2011, the fund balances of all special revenue funds were analyzed, and it was determined that thirteen funds previously classified as special revenue funds did not meet the new definition. The fund balances of these funds were reported as unassigned and included in the General Fund's fund balance.

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2012

As a result of 2012 analysis of the County's special revenue funds, thirteen funds did not meet the special revenue fund definition of GASB 54 and their fund balances were reported as unassigned fund balance in the General Fund.

The following shows the composition of the General Fund's fund balance as of December 31, 2012:

Funds	Unassigned Fund Balance	Total Fund Balance
General Fund (prior to inclusion of other funds)	\$ 14,802,044	\$ 15,230,661
Disqualified funds		
Human Resources Board	66,270	66,270
Special Purpose Path	72,754	72,754
1% for Art Program	50,953	50,953
Cumulative Reserve Fund	2,100,863	2,100,863
Drug Forfeiture Enforcement	41,711	41,711
Wetland Mitigation	39,053	39,053
Bucklin Ridge Park	1,217	1,217
Clear Creek Education	2	2
Kingston Commuter Parking	38,866	38,866
Kitsap County Grants	54	54
Indianola Forest	270,644	270,644
McCormick Village Traffic	382,534	382,534
McCormick Village Park	165,544	165,544
General Fund (after inclusion of other funds)	\$ 18,032,509	\$ 18,461,126

The composition of the fund balances of the County's governmental funds for the fiscal year ended December 31, 2012 is presented on the following pages:



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# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

	General	County Roads	Real Estate Excise Tax	Mental Health Medicaid
<b>Nonspendable:</b>				
Advances	\$ 180,000			
Prepaid Items	248,617			
Note Receivable				
Total Nonspendable	428,617			
<b>Restricted:</b>				
Transportation		-		
General Government			2,493,387	
Health & Human Services				1,685,866
Public Safety				
Judicial Services				
Physical Environment				
Culture & Recreation				
Economic Environment	-			
Debt service				
Total Restricted	-	-	2,493,387	1,685,866
<b>Committed:</b>				
Transportation		30,896,117		
General Government				
Public Safety				
Physical Environment				
Culture & Recreation				
Economic Environment				
Total Committed	-	30,896,117	-	-
<b>Unassigned:</b>				
	18,032,509			
Total Fund Balance	\$ 18,461,125	\$ 30,896,117	\$ 2,493,387	\$ 1,685,866

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

Cencom	Emergency Services	Law Library	KPREP Fund	Election Reserve	Auditor's Document Preservation
				116,628	375,039
2,554,580		168,689	38,245		
2,554,580	-	168,689	38,245	116,628	375,039
-	-	-	-	-	-
	(47,673)				
\$ 2,554,580	\$ (47,673)	\$ 168,689	\$ 38,245	\$ 116,628	\$ 375,039

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

	Housing Affordability	Westnet Fund	Boating Safety Program	Noxious Weed Control
Nonspendable:				
Advances				
Prepaid Items				
Note Receivable				
Total Nonspendable				
Restricted:				
Transportation				
General Government	2,447,797			
Health & Human Services				
Public Safety		476,741	208,446	
Judicial Services				
Physical Environment				222,842
Culture & Recreation				
Economic Environment				
Debt service				
Total Restricted	2,447,797	476,741	208,446	222,842
Committed:				
Transportation				
General Government				
Public Safety		359,646		
Physical Environment				
Culture & Recreation				
Economic Environment				
Total Committed	-	359,646	-	-
Unassigned:				
Total Fund Balance	\$ 2,447,797	\$ 836,387	\$ 208,446	\$ 222,842

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

Treasurer's M&O	Electronic Technology	Veterans Relief	Expert Witness	Conservation Futures	Community Service
892,505	180,197	230,716	35,416	1,011,709	
892,505	180,197	230,716	35,416	1,011,709	-
					78,133
-	-	-	-	-	78,133
\$ 892,505	\$ 180,197	\$ 230,716	\$ 35,416	\$ 1,011,709	\$ 78,133

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

	County Stadium	County Fair	Prisoner Commissary	SIU Revenue
Nonspendable:				
Advances				
Prepaid Items				
Note Receivable				
Total Nonspendable				
Restricted:				
Transportation				
General Government				
Health & Human Services				
Public Safety			55,176	549,873
Judicial Services				
Physical Environment				
Culture & Recreation	108,273			
Economic Environment				
Debt service				
Total Restricted	108,273	-	55,176	549,873
Committed:				
Transportation				
General Government				
Public Safety				
Physical Environment				
Culture & Recreation		46,900		
Economic Environment				
Total Committed	-	46,900	-	-
Unassigned:				
Total Fund Balance	\$ 108,273	\$ 46,900	\$ 55,176	\$ 549,873

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

Kitsap S.A.I.V.S	Anti- Profiteering	Family Court	Trial Court	Public Defense	Pooling Fees
37,351	9,832				383,250
		65,502	187,944	138,076	
37,351	9,832	65,502	187,944	138,076	383,250
-	-	-	-	-	-
\$ 37,351	\$ 9,832	\$ 65,502	\$ 187,944	\$ 138,076	\$ 383,250

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

	GMA Park Impact Fees	GMA Trans. Impact Fee Central Kitsap	County Parks Acq & Dev	Pt No Pt Lighthouse
Nonspendable:				
Advances				
Prepaid Items				
Note Receivable				
Total Nonspendable				
Restricted:				
Transportation		7,513		
General Government				
Health & Human Services				
Public Safety				
Judicial Services				
Physical Environment				
Culture & Recreation	75,186			48,346
Economic Environment				
Debt service				
Total Restricted	75,186	7,513	-	48,346
Committed:				
Transportation				
General Government				
Public Safety				
Physical Environment				
Culture & Recreation			381,484	
Economic Environment				
Total Committed	-	-	381,484	-
Unassigned:				
Total Fund Balance	\$ 75,186	\$ 7,513	\$ 381,484	\$ 48,346



# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

Crime Prevention	Regional Septic Loan	Recovery Center	Dispute Resolution	CDBG Entitlement	HOME Entitlement
		1,659,214	10,958		
	97			7,261	18,125
-	97	1,659,214	10,958	7,261	18,125
84,112					
84,112	-	-	-	-	-
\$ 84,112	\$ 97	\$ 1,659,214	\$ 10,958	\$ 7,261	\$ 18,125

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

	Kitsap Abatement	Community Development	Jail & Juvenile	Service Area 1 Road Impact
<b>Nonspendable:</b>				
Advances				
Prepaid Items				
Note Receivable				
Total Nonspendable				
<b>Restricted:</b>				
Transportation				107,663
General Government				
Health & Human Services				
Public Safety			865,650	
Judicial Services				
Physical Environment		-		
Culture & Recreation				
Economic Environment				
Debt service				
Total Restricted	-	-	865,650	107,663
<b>Committed:</b>				
Transportation				
General Government				
Public Safety				
Physical Environment	145,725			
Culture & Recreation				
Economic Environment		18,497		
Total Committed	145,725	18,497	-	-
<b>Unassigned:</b>				
Total Fund Balance	\$ 145,725	\$ 18,497	\$ 865,650	\$ 107,663

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

Service Area 2 Road Impact	Service Area 3 Road Impact	Service Area 4 Road Impact	Regional Service Area Roads	PEG Fund	Mental Health
221,156	20,577	126,506	207,220		1,200,352
221,156	20,577	126,506	207,220	-	1,200,352
				129,649	
-	-	-	-	129,649	-
\$ 221,156	\$ 20,577	\$ 126,506	\$ 207,220	\$ 129,649	\$ 1,200,352

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

	Developmental Disabilities	Youth Services/ Juvenile Services	Substance Abuse	Mental Health Non-Medicaid
Nonspendable:				
Advances				
Prepaid Items				
Note Receivable				
Total Nonspendable				
Restricted:				
Transportation				
General Government				
Health & Human Services	1,242,569		268,314	835,416
Public Safety		9,119		
Judicial Services				
Physical Environment				
Culture & Recreation				
Economic Environment				
Debt service				
Total Restricted	1,242,569	9,119	268,314	835,416
Committed:				
Transportation				
General Government				
Public Safety				
Physical Environment				
Culture & Recreation				
Economic Environment				
Total Committed	-	-	-	-
Unassigned:				
Total Fund Balance	\$ 1,242,569	\$ 9,119	\$ 268,314	\$ 835,416

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

Commuter Trip Reduction	Area Agency On Aging	Employment & Training	KRCC	ARRA EECBG	Debt Service
					9,260,000
					9,260,000
-					
	593,168	124,082			
				31,421	
					1,254,252
-	593,168	124,082	-	31,421	1,254,252
108,922					
			84,810		
108,922	-	-	84,810	-	-
\$ 108,922	\$ 593,168	\$ 124,082	\$ 84,810	\$ 31,421	\$ 10,514,252

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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	<u>Capital Projects</u>
Nonspendable:	
Advances	
Prepaid Items	
Note Receivable	
Total Nonspendable	
Restricted:	
Transportation	63,558
General Government	1,763
Health & Human Services	
Public Safety	41,742
Judicial Services	
Physical Environment	797,215
Culture & Recreation	2,263,453
Economic Environment	-
Debt service	
Total Restricted	3,167,731
Committed:	
Transportation	
General Government	
Public Safety	
Physical Environment	
Culture & Recreation	
Economic Environment	
Total Committed	-
Unassigned:	
Total Fund Balance	\$ 3,167,731

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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## 13. Service Concession Arrangements

The County implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, in 2012. See Note 17, *Service Concession Arrangements* for more information.

## 14. Deferred Outflows, Deferred Inflows and Net Position

The County implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in 2012. See Note 20, *Other Note Disclosures, A. Accounting and Reporting Changes* for more information.

## **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 Position

The governmental funds' balance sheet includes reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position.

### 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 reconciliation between net changes in fund balances - total governmental funds and changes in net position 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. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

There have been no material violations of finance-related legal or contractual provisions.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

## **NOTE 4. DEPOSITS AND INVESTMENTS**

The County's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

As allowed by the state statute, all investments of the County's funds are obligations of the U.S. Government, U.S. agency issues, the Washington State Local Government Investment Pool (LGIP), certificates of deposit, municipal obligations or money market deposits with Washington state banks and savings and loan institutions. All temporary investments are stated at fair value. Other property and investments are shown on the statement of net position at cost.

All securities purchased by the County are held by a third-party custody provider in the County's name. In April, 2012, that custody provider became Bank of New York Mellon.

At year-end, the County held the following investment balances. The credit exposure as a percentage of total investments is listed. Included are floating rate note securities that adjust weekly, monthly or quarterly to rates resembling current market.

As of December 31, 2012, the County had the following investments:

Investment Type	Rating	Weighted Average Maturities	%	Amortized Cost	Fair Value of County's Investments	Fair Value of Investments Held by County as Agent for Other Local Governments	Total Fair Value
FHLB	AAA/AA+	2.58	13.4%	\$ 53.23	\$ 25.23	\$ 28.46	\$ 53.69
FFCB	AAA/AA+	2.78	8.8%	\$ 35.02	\$ 16.46	\$ 18.57	\$ 35.03
FHLMC	AAA/AA+	2.45	12.2%	\$ 48.28	\$ 22.76	\$ 25.66	\$ 48.42
FNMA	AAA/AA+	2.56	17.9%	\$ 71.12	\$ 33.59	\$ 37.88	\$ 71.47
Money Mkt Svgs	NR	0.50	4.2%	\$ 16.48	\$ 7.75	\$ 8.73	\$ 16.48
WA ST LGIP	NR	0.50	35.7%	\$ 141.52	\$ 66.51	\$ 75.01	\$ 141.52
Certificate of Deposit	NR	0.50	1.3%	\$ 5.00	\$ 2.35	\$ 2.65	\$ 5.00
Municipal Securities	A1*	1.61	6.6%	\$ 26.12	\$ 12.31	\$ 13.89	\$ 26.20
		Years	100%	\$ 396.77	\$ 186.97	\$ 210.84	\$ 397.81

Both Cost and Fair Value include accrued interest of \$0.96; amortized cost and total fair value stated in millions.

The portfolio contains a variety of municipal issuers within the State of Washington. The rating on each issue is at least A1 by Moody's and if rated by S&P is at least A+ or better.

**Interest Rate Risk.** In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the final maturity of its investments to less than five years.



# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

**Credit Risk.** It is the government's policy to limit its investment types to the top rated by nationally recognized statistical rating organizations, the Washington State Investment Pool and money market accounts either covered by the FDIC or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. The County did not hold any mortgage-backed securities or commercial paper of any type.

**Custodial Credit Risk** is the risk that in the event of a failure of the counterparty to complete an investment transaction the County would not be able to recover the value of the investment or collateral securities. County policy dictates that all investment instruments other than non-negotiable certificates of deposit, bank money market deposits, and funds placed with Washington LGIP be transacted on a delivery-versus-payment basis. The County does not have custodial risk as all investments and deposits are either insured or held by a third party custody provider in the County's name.

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.

All cash, certificates of deposits, and money market accounts are entirely covered by federal deposit insurance or the collateralization program administered by the Washington Public Deposit Protection Commission.

## **NOTE 5. PROPERTY TAX**

The County treasurer acts as an agent to collect property tax levied in the County for all taxing authorities.

Property Tax Calendar	
January 1	Tax is levied and becomes 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 is established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. The balance of taxes receivable includes related interest and penalties. No allowance for uncollectible taxes

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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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's regular levy for the year 2012 was \$1.0936 per \$1,000 on an assessed valuation of \$27,132,483,757 for a total regular levy of \$29,698,685.

The County's road levy for the year 2012 was \$1.5206 per \$1,000 on an assessed valuation of \$16,760,880,790 for total road levy of \$25,519,857.

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 Assessments 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.

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2012

### **NOTE 6. CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2012 was as follows:

Governmental activities	Beginning Balance 1/1/2012	Increases	Decreases	Ending Balance 12/31/2012
Capital assets, not being depreciated:				
Land	\$ 58,439,816	\$ 1,956,210	\$ 1,976,993	\$ 58,419,033
Land - Infrastructure	67,160,034	2,950,310	659,115	69,451,228
Construction in progress	23,745,265	6,407,969	19,300,694	10,852,540
<b>Total capital assets, not being depreciated</b>	<b>\$ 149,345,114</b>	<b>\$ 11,314,488</b>	<b>\$ 21,936,802</b>	<b>\$ 138,722,801</b>
Capital assets, being depreciated:				
Buildings	\$ 125,746,385	\$ 3,534,169	\$ 86,059	\$ 129,194,495
Building Improvements	28,769,414	4,708,817	10,651	33,467,580
Machinery and equipment	54,351,248	4,367,974	1,670,689	57,048,533
Infrastructure	405,742,721	9,630,908	2,212,658	413,160,971
<b>Total capital assets being depreciated</b>	<b>\$ 614,609,767</b>	<b>\$ 22,241,868</b>	<b>\$ 3,980,056</b>	<b>\$ 632,871,580</b>
Less accumulated depreciation for:				
Buildings	\$ 33,807,294	\$ 2,880,446		\$ 36,687,740
Building Improvements	11,614,520	1,440,612	6,959	13,048,173
Machinery and equipment	34,807,825	4,373,631	1,121,789	38,059,667
Infrastructure	274,546,409	11,365,528	1,790,276	284,121,661
<b>Total accumulated depreciation</b>	<b>\$ 354,776,049</b>	<b>\$ 20,060,216</b>	<b>\$ 2,919,024</b>	<b>\$ 371,917,241</b>
<b>Total capital assets, being depreciated, net</b>	<b>\$ 259,833,718</b>	<b>\$ 2,181,652</b>	<b>\$ 1,061,032</b>	<b>\$ 260,954,339</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 409,178,832</b>	<b>\$ 13,496,140</b>	<b>\$ 22,997,833</b>	<b>\$ 399,677,139</b>

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2012

Business-type activities	Beginning Balance 1/1/2012	Increase	Decrease	Ending Balance 12/31/2012
Capital assets, not being depreciated				
Land	\$ 2,465,721	\$ 506,580	\$ 83,120	\$ 2,889,181
Construction in progress	25,354,837	6,615,511	17,128,682	14,841,666
<b>Total capital assets, not being depreciated</b>	<b>\$ 27,820,558</b>	<b>\$ 7,122,091</b>	<b>\$ 17,211,802</b>	<b>\$ 17,730,847</b>
Capital assets, being depreciated				
Buildings	\$ 46,309,798	\$ 9,991,738	\$ -	\$ 56,301,536
Building Improvements	76,899,482	6,511,081	-	83,410,563
Equipment & Machinery	7,466,180	2,143,554	-	9,609,734
<b>Total capital assets being depreciated</b>	<b>\$ 130,675,460</b>	<b>\$ 18,646,373</b>	<b>\$ -</b>	<b>\$ 149,321,833</b>
Less accumulated depreciation for:				
Buildings	\$ 29,531,255	\$ 1,730,284	\$ -	\$ 31,261,539
Building Improvements	35,331,776	2,486,306	-	37,818,082
Machinery and equipment	5,885,143	453,360	-	6,338,503
<b>Total accumulated depreciation</b>	<b>\$ 70,748,174</b>	<b>\$ 4,669,950</b>	<b>\$ -</b>	<b>\$ 75,418,124</b>
<b>Total business-type assets, being depreciated, net</b>	<b>\$ 59,927,286</b>	<b>\$ 13,976,423</b>	<b>\$ -</b>	<b>\$ 73,903,709</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 87,747,844</b>	<b>\$ 21,098,514</b>	<b>\$ 17,211,802</b>	<b>\$ 91,634,556</b>

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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

Governmental Activities:	
General government	\$ 1,718,560
Judicial Services	18,113
Public safety	4,024,858
Transportation	12,841,506
Health & Human service	140,391
Economic environment	3,920
Culture & recreation	1,312,868
Total Depreciation - Governmental Activities	\$ 20,060,216

Business-Type Activities:	
Utilities	\$ 4,669,950
Total Depreciation - Business Type Activities	\$ 4,669,950

## Construction commitments

The County had no active construction projects as of December 31, 2012.

## **NOTE 7. 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 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; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

### **Public Employees' Retirement System (PERS) Plans 1, 2, and 3**

#### Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts;

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2012

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employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members 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 exercised an option to transfer their membership to Plan 3. PERS members 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 Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement 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 monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2012

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benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65; or.

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2012

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- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were \$95.2 million, and plan refunds paid out were \$66.2 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.



# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2012

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PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries. A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if

# Kitsap County, Washington

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applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	261,705

## Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS 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 at 7.5 percent for state government elected officials. 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. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements 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, 2012, are as follows:

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

\* The employer rates include the employer administrative expense fee currently set at 0.16%.

\*\* The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.

\*\*\* Plan 3 defined benefit portion only.

\*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.

\*\*\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	9.71%	9.71%	9.71%**
Employer-Local Government*	7.21%	7.21%	7.21%**
Employee-State Agency	9.76%	9.10%	7.50%***
Employee-Local Government	12.26%	11.60%	7.50%***

\* The employer rates include the employer administrative expense fee currently set at 0.16%.

\*\* Plan 3 defined benefit portion only.

\*\*\*Minimum rate.

Both Kitsap County and the employees made the required contributions. The County's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	\$ 142,413	\$ 3,145,886	\$ 694,608
2011	\$ 127,928	\$ 2,597,672	\$ 555,682
2010	\$ 133,163	\$ 2,340,792	\$ 522,077

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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## Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

### Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members 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 by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The FAS 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. A cost-of-living allowance is granted (based on the Consumer Price Index).

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax. LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries. Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	9,947
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Nonvested	3,113
Total	27,658

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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## Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. 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. For DRS' fiscal year 2012, the state contributed \$52.8 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24%**
Employee	0.00%	8.46%
State	N/A	3.38%

\*The employer rates include the employer administrative expense fee currently set at 0.16%.

\*\* The employer rate for ports and universities is 8.62%.

Both Kitsap County and the employees made the required contributions. The County's required contributions for the years ended December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2012	\$ 0	\$ 474,611
2011	\$ 111	\$ 456,254
2010	\$ 157	\$ 480,094

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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## Public Safety Employees' Retirement System (PSERS) Plan 2

### Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

- Full-time employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A *covered employer* is one that participates in PSERS. Covered employers include the following:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Tacoma and Spokane; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service.



# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2012

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PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS Plan 2 members can receive service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PSERS members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	15
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	1
Active Plan Members Vested	167
Active Plan Members Nonvested	4,020
Total	4,203

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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## Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	PSERS Plan 2
Employer*	8.87%
Employee	6.36%

\*The employer rate includes an employer administrative expense fee of 0.16%.

Both the County and the employees made the required contributions. The County's required contributions for the years ended December 31 were as follows:

	PSERS Plan 2
2012	\$ 346,727
2011	\$ 332,799
2010	\$ 313,450

## **NOTE 8. 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. Kitsap County uses its Risk Management Fund, an internal service fund, to finance and administer the County's property/casualty and workers' compensation self insurance programs. The County contracts with a Third Party Administrator to process medical and dental claims made against its workers' compensation program. Unemployment risk is accounted for in the funds with loss experience as losses are incurred.

RCW 48.62 authorizes the governing body of any governmental entity to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Kitsap County was a member of the Washington Counties Risk Pool until September 2010, when it made the determination to withdraw from the risk pool in order to have more control over decisions made with respect to risk management activities.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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The County purchases excess liability policies to insure its general, automobile and employment liability risks, including public officials' errors and omissions. Kitsap County self-insures its general liability and workers' compensation risk up to \$500,000 per occurrence.

## General liability

The County purchased an excess insurance policy with a \$20,000,000 limit for liability protection and a \$500,000 self-insured retention. The County is responsible for the first \$500,000 of each claim and the insurer covers up to \$20,000,000 per occurrence. The County has never had a claim in excess of the policy limits. This policy also covers auto liability, employment liability, and public officials' liability. As of December 31, 2012 the County's estimated total undiscounted outstanding liability for general liability is \$6,085,972.

## Property insurance

The County has a \$50,000 per occurrence deductible and is insured for up to \$50 million per occurrence through an independent insurance carrier. The earthquake coverage 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 \$1,000,000 in coverage. The County also purchases Scheduled Position Bonds, which provides certain elected officials with bond coverage as required by the State statute.

## Workers compensation

The County assumes risk for workers' compensation as allowed by the State statute up to \$500,000 per occurrence. The County purchases an excess workers' compensation policy that provides statutory limits coverage. Interfund premiums are based on each department's loss experience and number and class of employees. As of December 31, 2012, the County's estimated total undiscounted outstanding liability for the workers' compensation program is \$2,659,365. Reserve funding is targeted at 70 percent or better to ensure adequate resources are available to cover losses within the self-insured retention level.

## Unemployment Risk

The County has elected to retain the risk for unemployment compensation payable to former County employees. The State of Washington Employment Security Department bills the County for the unemployment compensation benefits paid to former employees. Expenditures are then recognized in various county funds.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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## Self Insured Claims Activity

Following is a summary of the changes in the self-insurance fund liabilities for estimated claim settlements for the years ended December 31, 2012 and 2011:

Workers Compensation	Year ended	
	12/31/2011	12/31/2012
Unpaid claims, beginning of fiscal year	\$ 2,056,545	\$ 2,252,566
Incurred claims (including IBNRs)	1,083,560	1,404,648
Claim payments	(887,539)	(997,849)
Unpaid claims, end of fiscal year	\$ 2,252,566	\$ 2,659,365

General Liability	Year ended	
	12/31/2011	12/31/2012
Unpaid claims, beginning of fiscal year	\$ 4,458,615	\$ 5,116,306
Incurred claims (including IBNRs)	1,333,048	1,117,224
Claim payments	(675,357)	(147,558)
Unpaid claims, end of fiscal year	\$ 5,116,306	\$ 6,085,972

## **NOTE 9. SHORT-TERM DEBT**

During the year, the County did not obtain any short-term loans.

## **NOTE 10. 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 are 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.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

As of December 31, 2012 the debt limits for the County were as follows:

	Without a Vote	With a Vote	
		2.50%	5.00%
Legal Limit	\$ 406,987,256	\$ 678,312,094	\$ 1,356,624,188
Applicable Outstanding Debt	107,133,369	107,133,369	107,133,369
Margin Available	\$ 299,853,887	\$ 571,178,725	\$ 1,249,490,819

## A. General Obligation Bonds

The government issues general obligation and revenue bonds to provide funds for the purchase of assets and the acquisition and construction of major capital facilities. Bonded indebtedness has also been entered into to advance refund several general obligation and revenue bonds. General obligation bonds have been issued for both governmental and business-type activities and are being repaid from the applicable resources. The revenue bonds are being repaid by proprietary fund revenues.

General obligation bonds currently outstanding are as follows:

Issued Name and Purpose	Maturity Range	Interest Rate %	Original Amount	Amount of Installment
2003B - Administrative Building	12/1/13 - 12/1/28	3.875 - 4.75	\$ 17,805,000	585,000 - 1,465,000
2004 - Gen. Govt. - Refunding	7/1/13 - 7/1/29	4.00 - 5.0	20,664,719	540,000 - 1,075,000
2005 - Refunding	7/1/13 - 7/1/25	5.0	18,995,000	1,075,000 - 1,500,000
2006 - Improve Bldgs & Parks	7/1/13 - 7/1/31	4.4 - 5.0	18,085,000	505,000 - 985,000
2009B - KCCHA Notes	4/30/13	3 mth Libor + 160-200	3,622,975	1,589,091
2010 - Refunding; Coroner's Bldg & CKCC; BAN (Prop.Acq.)	12/1/13 - 12/1/30	3.0 - 4.0	9,220,000	190,000 - 530,000
2011 - Refunding	12/1/13 - 12/1/27	2.0 - 4.0	20,370,000	500,000 - 1,550,000
2001 - Rds PWTF Ln # PW-01-691-037 - Anderson Hill	7/1/13 - 7/1/21	0.5	897,812	47,253
2003 - KCCHA Real Estate Contract	6/1/13 - 6/1/34		5,583,889	127,500 - 327,500
2009 - BAN Line of Credit (KCCHA Loans)	4/30/13	1.77	\$ 40,500,000	15,323,033
Total			\$ 155,744,396	

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2012

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2013	6,614,091	3,531,413
2014	4,710,000	3,325,824
2015	4,905,000	3,152,624
2016	5,100,000	2,965,174
2017	5,325,000	2,774,299
2018-2022	28,230,000	10,396,566
2023-2027	23,435,000	4,340,005
2028-2031	6,325,000	592,730
Total	\$ 84,644,091	\$ 31,078,635

### Notes Payable

The County has a note payable of \$4.60 million due to the Kitsap County Consolidated Housing Authority from the purchase of part of the Norm Dicks Government Center. The County has since sold a portion of the property to the Kitsap County Health District. The County signed a \$4.72 million note with the Kitsap County Health District, which will be used to repay the Kitsap County Consolidated Housing Authority.

The County has a note payable of \$2.14 million due to the Rolling Hills Golf Course Partnership from the purchase of the Rolling Hills Golf Course in March 2011. Principal and interest payments are due annually for 20 years, beginning in October 2012.

The annual debt service requirement to maturity for the notes payable is as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2013	187,721	366,543
2014	196,648	357,452
2015	205,831	347,903
2016	217,787	337,213
2017	230,034	325,216
2018-2022	1,345,436	1,422,189
2023-2027	1,757,679	1,006,196
2028-2032	2,104,830	458,795
2033-2034	495,000	33,126
Total	6,740,966	\$ 4,654,633

The County has a Bond Anticipation Note Payable (BAN) of \$15.32 million due to Bank of America. This is in conjunction with debt it assumed from Housing Kitsap, formerly known as the Kitsap County Consolidated Housing Authority. As part of the debt assumption agreement, Housing Kitsap's properties were pledged for sale to pay off the BAN. As these properties sell, proceeds are applied to the principal balance of the BAN.

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2012

During 2012, in addition to proceeds from sales of the properties, the County paid \$600,000 towards the principal balance of the BAN and the City of Bremerton contributed \$1,660,292 towards the principal balance.

The BAN has a four year term and will mature in 2013, at which time the County will issue General Obligation Bonds to pay off the balance.

### B. Revenue bonds

The revenue bonds and other loans currently outstanding are as follows:

Issued Name and Purpose	Maturity Range	Interest Rate %	Original Amount	Amount of Installment
Sewer Refunding 2001	7/1/12 - 7/1/16	5.25 - 5.625	\$ 13,075,000	1,305,000 - 1,620,000
Sewer Refunding 2010A	12/1/12 - 12/1/18	3.0 - 4.0	5,775,000	665,000 - 805,000
Sewer 2010B	12/1/28 - 12/1/40	6.714 - 7.364	37,120,000	1,090,000 - 4,100,000
Sewer 2010C	12/1/28	6.696	1,110,000	1,110,000
D.O.E. Loan # L0400026	5/1/12 - 5/1/25	1.5	14,188,000	249,402 - 303,064
PWTF Loan # PW-01-691-036	7/1/12 - 7/1/21	0.5	2,605,000	150,816
PWTF Loan # PR-08-951-108	7/1/12 - 7/1/13	0.5	1,000,000	270,833
PWTF Loan # PC-12-951-040	6/1/13-6/1/32	1.00	5,205,000	146,054
Total			\$ 80,078,000	

Debt service requirements for the revenue bonds and loans are as follows:

Year Ending December 31	Revenue Bonds	
	Principal	Interest
2013	2,055,000	2,190,829
2014	2,155,000	2,094,929
2015	2,260,000	1,994,029
2016	2,365,000	1,886,066
2017	780,000	1,768,866
2018-2022	805,000	8,559,531
2023-2027	0	8,527,331
2028-2032	11,910,000	7,599,254
2033-2037	14,885,000	4,609,939
2038-2040	11,435,000	983,836
Total	\$ 48,650,000	\$ 40,214,610

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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Year Ending December 31	Ecology & PWTf Loans	
	Principal	Interest
2013	1,075,946	139,798
2014	812,789	128,553
2015	820,581	118,546
2016	828,491	108,421
2017	836,520	98,177
2018-2022	4,156,536	332,918
2023-2027	2,223,131	92,285
2028-2032	730,275	21,908
Total	\$ 11,484,270	\$ 1,040,605

## C. Pollution Remediation Obligation

In 2011, the Solid Waste fund recorded a liability of \$742,805 which represents the County's share of cleanup costs of the Hansville Landfill. The liability was adjusted to \$657,370 in 2012 as a result of recalculation of the costs. The Washington State Department of Ecology identified the County and Waste Management, Inc. as Potentially Liable Parties (PLPs) for remediation of the site. See Note 19, *Pollution Remediation Obligation* for additional information.

## D. 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 (45 days). All outstanding vacation leave is payable upon resignation, retirement, or death.

## **NOTE 11. LEASES**

### Operating leases

The County does not have any non-cancelable operating leases.

### Capital Leases

The County does not have any non-cancelable capital leases.



# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

## **NOTE 12. CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
General obligation bonds	\$ 91,961,771	\$ -	\$ 7,317,680	\$ 84,644,091	\$ 6,614,091
Total bonds payable	91,961,771	-	7,317,680	84,644,091	6,614,091
Compensated absences	4,967,446	2,649,912	2,952,184	4,665,175	529,795
Internal services comp.	291,046	218,162	175,132	334,075	33,408
Notes payable	24,011,419	491,906	2,439,327	22,063,999	15,510,754
Net OPEB obligation	3,141,736	608,181	-	3,749,917	-
Other liabilities	472,533	-	47,253	425,279	47,253
Governmental-activities Long-term liabilities	<u>\$ 124,845,950</u>	<u>\$ 3,968,161</u>	<u>\$ 12,931,575</u>	<u>\$ 115,882,536</u>	<u>\$ 22,735,301</u>
<u>Business-type activities</u>					
Bonds payable:					
Revenue bonds	50,620,000	-	1,970,000	48,650,000	2,055,000
Unamortized premium/ discount	324,001	-	79,795	244,205	79,795
Total bonds payable	50,944,001	-	2,049,795	48,894,205	2,134,795
Other liabilities	10,228,304	2,921,100	1,007,764	12,141,640	1,105,031
Compensated absences	566,270	389,196	365,973	589,493	84,046
Business-type activities Long-term liabilities	<u>\$ 61,738,575</u>	<u>\$ 3,310,296</u>	<u>\$ 3,423,533</u>	<u>\$ 61,625,338</u>	<u>\$ 3,323,872</u>
 Total	 <u>\$ 186,584,525</u>	 <u>\$ 7,278,457</u>	 <u>\$ 16,355,108</u>	 <u>\$ 177,507,874</u>	 <u>\$ 26,059,173</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. At year end \$334,075 of internal service funds' compensated absences are included in the above amounts. The general fund generally liquidates the claims, judgments, compensated absences and OPEB obligations from governmental activities.

All bond issues comply with arbitrage regulations as verified by an outside consultant, BLX Group. Five-year reports are prepared as required.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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## **NOTE 13. CONTINGENCIES AND LITIGATIONS**

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 a material adverse effect on the financial condition of the County.

The County acts as guarantor of one Kitsap County Consolidated Housing Authority's bond issues with an outstanding balance of \$16.88 million as of December 31, 2012.

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.

## **NOTE 14. INTER-FUND BALANCES AND TRANSFERS**

### 1. Advances To/From other funds

The general fund advance balance is the outstanding long-term loan between the CDBG, Home Entitlement, Youth Commission, JTPA funds and the general fund. In each case the Advances from the General fund provide for operating costs to these grant funded programs while they await reimbursements from federal and state agencies.

Advances From	Advances To		
	Non Major Funds	Fiduciary Funds	Total
General Fund	\$ 180,000	\$ -	\$ 180,000
Total	\$ 180,000	\$ -	\$ 180,000

### 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; b) transactions are recorded in the accounting system; and c) payments between funds are made.

# Kitsap County, Washington

## Notes to Financial Statements

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DUE FROM OTHER FUNDS										
Due to Other Funds	General Fund	County Roads	Ment Hlth Medicaid	Non Major	Solid Waste	Sewer Utility	Surface Storm	Internal Service	Agency Funds	Total
General Fd	-	3,058	-	27,004	-	341	-	371,268	4,659	406,330
County Rds	133,805	-	-	225,132	1,183	772	29,770	254,270	-	644,932
Mental Hlth	2,743	-	-	-	-	-	-	-	-	2,743
Non Major	1,744,153	40,412	2,516	140,298	-	38,000	-	61,927	-	2,027,306
Solid Waste	31,948	3,259	-	12,508	-	51,375	11,356	2,088	-	112,534
Sewer Utility	57,653	7,550	-	-	1,166	-	12,721	13,007	-	92,097
Surface Strm	65,170	422,902	-	96,277	98,807	65,679	-	19,001	-	767,836
Internal Serv.	63,446	11,222	-	-	-	-	-	7,745	-	82,413
Agency	-	-	-	39,412	-	-	-	-	-	39,412
Total	2,098,918	488,403	2,516	540,631	101,156	156,167	53,847	729,306	4,659	4,175,603

### 3. Transfers

Transfers are used to a) move revenues from funds with collection authorization to the debt service funds as debt principal and interest payments become due; b) move unrestricted revenues to finance various programs that the County must account for in other funds.

TRANSFERS-FUND FINANCIAL STATEMENTS							
IN	General	County	Real Estate	Non	Internal	Agency	Total
OUT	Fund	Roads	Excise Tax	Major	Service	Fund	
General Fund	-	-	-	3,079,090	146,617	-	3,225,707
County Roads	-	-	-	352,209	-	-	352,209
REET	-	-	-	4,061,506	-	-	4,061,506
Mental Health	-	-	-	-	-	-	-
Nonmajor	3,719,273	1,620,000	-	4,424,771	-	204,181	9,968,225
Solid Waste	-	-	-	-	-	-	-
Surface Stormwater	-	-	-	212,108	-	-	212,108
Sewer	-	-	-	136,903	-	-	136,903
Nonmajor Ent	-	-	-	-	-	-	-
Int. Serv	-	-	-	53,461	-	-	53,461
Total	3,719,273	1,620,000	-	12,320,048	146,617	204,181	18,010,119

### **NOTE 15. RECEIVABLES AND PAYABLES**

#### Federal grants and assistance awards

Federal grants and assistance awards made on the basis of entitlement periods are reported as “due from other governments” (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 governments” (inter-governmental receivables) and “capital contributions” in the year during which the related expenditure occurs. All other federal and state reimbursement type grants are reported as “due from other governments” (inter-governmental

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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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.

## Public Facility District receivable

The County has a \$9.26 million long-term receivable due from the Public Facility District, one of its component units. The County sold G.O. bonds and gave the proceeds to the PFD and the PFD pledged its sales tax revenue to repay the County. The debt is carried on the County's books and the note is reflected on the PFD books as well.

## **NOTE 16. 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). The amounts are 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's 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 as of December 31, 2012, are as follows:

Investment company	Fair Value
Nationwide	\$ 13,039,095
ING	6,307,211
Hartford	6,983,342
ICMA	893,195
Total	\$ 27,222,842

# Kitsap County, Washington

Notes to Financial Statements

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## **NOTE 17. SERVICE CONCESSION ARRANGEMENTS**

The County implemented GASB Statement No. 63, *Accounting and Financial Reporting for Service Concession Arrangements*.

In March 2011, the County purchased a golf course property consisting of approximately 104 acres encompassing the golf course, clubhouse, outbuildings and storage sheds, and various property and equipment items necessary to operate the golf course and clubhouse. The purchase was financed through a note payable to the seller, the terms of which are annual payments of \$200,000 for a period of 20 years. The note bears interest at 6.5% and the note balance was \$2,143,466 as of December 31, 2012.

The cost of the golf course was \$2,200,400 of which \$2,112,855 was capitalized. The County reports the golf course and related equipment as a capital asset which had a net book value of \$2,048,870 at year-end.

The County entered into lease agreement with The Rolling Hills Golf Course, LLC (RHGC) in 2011. Under the agreement RHGC will operate and collect user fees and other revenue from the Rolling Hills Golf Course, Pro Shop and Restaurant facility. The initial term of the lease is five years with three renewal options for subsequent renewal terms of five years each, for a potential total of 20 years.

Beginning in October 2012 and annually thereafter, RHGC will pay the County installment payments of \$200,000 over the course of the arrangement; the present value of these installment payments is estimated to be \$2,200,000. Deferred inflows related to the golf course are \$2,143,466 as of December 31, 2012.

In addition to the annual installment payments, RHGC will begin making Lease Reserve Payments of \$10,000 per year beginning in year six through year ten of the lease, then \$20,000 per year beginning in year 11 through year 20 of the lease or until such time as the reserve balance reaches \$200,000. The purpose of the lease reserve payments is to establish a reserve from which the County may draw, should RHGC default on an annual lease payment. If RHGC does not default on an annual lease payment, the reserve balance will be credited against RHGC's annual lease payment for the final year of the lease.

RHGC is required to operate and maintain the golf course and pro shop, restaurant, bar and banquet room in accordance with the Rolling Hills Golf Course Lease Agreement.

## **NOTE 18. OTHER POST-EMPLOYMENT BENEFITS**

### Plan Description

As required by the Revised Code of Washington (RCW) Chapter 41.26, the County provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined

# Kitsap County, Washington

## Notes to Financial Statements

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benefit multi-employer healthcare plan. The members necessary hospital, medical , and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan or any other similar source are covered. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical plan benefit provisions. Financial reporting for the LEOFF retiree healthcare plan is included in the County's Comprehensive Annual Financial Report. As of December 31, 2012 there were 44 active participants in this closed plan.

Funding Policy

Funding for LEOFF retiree healthcare costs is provided entirely by the County as required by RCW. The County's funding policy is based upon pay-as-you-go financing requirements.

### Annual OPEB Cost and Net OPEB Obligation

The Annual Required Contribution (ARC) represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2008. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB. The net OPEB obligation of \$3,749,917 is included as a noncurrent liability on the Statement of Net Position. The actuarial valuation was performed on December 31, 2012.

OTHER POST EMPLOYMENT BENEFITS OBLIGATION	YEAR ENDING
Determination of Annual Required Contribution:	12/31/2012
Normal Cost at year end	\$ -
Amortization of UAAL*	1,176,993
Annual Required Contribution (ARC)	\$ 1,176,993
Determination of Net OPEB Obligation:	
Annual Required Contribution	\$ 1,176,993
Interest on prior year Net OPEB Obligation	141,378
Adjustment to ARC	(292,539)
Annual OPEB Cost	\$ 1,025,832
Contributions	417,652
Increase in Net OPEB Obligations	\$ 608,180
Net OPEB Obligation - beginning of year	\$ 3,141,737
Increase in Net OPEB Obligations	\$ 608,180
Net OPEB Obligation - end of year	\$ 3,749,917
*Unfunded Actuarial Accrued Liability	

# Kitsap County, Washington

## Notes to Financial Statements

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The County's annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations were as follows:

Year Ended	Annual Cost	Contribution	Percentage of Annual OPEB cost contributed	Net OPEB Obligations
2008	\$ 1,328,020	\$ 489,157	37%	1,597,464
2009	\$ 1,072,127	\$ 450,113	42%	2,219,478
2010	\$ 984,620	\$ 472,936	48%	2,731,162
2011	\$ 885,327	\$ 474,752	54%	3,141,737
2012	\$ 1,025,832	\$ 417,652	41%	3,749,917

### Funding Status

As of December 31, 2012 the most recent alternative method measurement date, the plan was 0% funded. The accrued liability for benefits was \$12,640,369 and the actuarial value of assets was \$0 resulting in a UAAL of \$12,640,369. Historically Kitsap County has used a pay-as-you-go approach to funding. If Kitsap County were to contribute the ARC to the plan every year, a liability would not be recorded. If the ARC is not fully funded in a given year, a liability is reported for the unpaid portion of the ARC.

### Actuarial Methods and Assumptions

The County's annual other post employment benefit (OPEB) cost is calculated based upon the Annual Required Contribution (ARC), an amount determined using the alternative method permitted under GASB No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the actuarial liability. Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the June 30, 2009 actuarial valuation issued by the Office of State Actuary (OSA). Healthcare costs and trends were determined by Millman and used by OSA in the state-wide LEOFF 1 medical performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial assumption for the valuation included a return on investment of 3.0%. The healthcare cost inflation trend was computed at 7% and the plan is amortized as a level amount over 15 years. The healthcare cost inflation rates were the only assumed inflation rates considered.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

The Schedule of Funding Progress for this postemployment defined benefit plan is detailed in the Required Supplementary Information section of this report immediately following the notes to the financial statements. This schedule presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing relative to the actuarial accrued liability for the benefits over time.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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## **NOTE 19. POLLUTION REMEDIATION OBLIGATION**

In accordance with Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which became effective for fiscal periods beginning after December 15, 2007, liabilities for environmental cleanup obligations were recorded in the Solid Waste fund.

### **Hansville Landfill**

The current closure cost estimate for the Hansville Landfill site was revised to \$1,878,200 in October 2012, for the years 2013 - 2034. The Solid Waste Fund recognized a liability of \$657,370 for its share (35%) of the estimated costs remaining to be recognized as determined by the Washington State Department of Ecology.

The Solid Waste Fund is using the local government financial test as the financial mechanism to assure the total cost of remedial activities at the Hansville Landfill, including Waste Management of Washington, Inc.'s share. The estimated costs are based on current costs of samplings and are updated annually, and the liability is adjusted accordingly.

In 2011, Kitsap County together with Waste Management of Washington Inc., were identified as Potentially Liable Parties (PLPs) for remediation of contamination at the Hansville Landfill under the Model Toxics Control Act (MTCA). A Cleanup Action Plan (CAP) providing for Natural Attenuation with Enhanced Monitoring and Institutional Controls has been approved by the Washington State Department of Ecology. The landfill is full and has been closed since 1989.

## **NOTE 20. OTHER NOTE DISCLOSURES**

### **A. Accounting and Reporting Changes**

The County implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which redefined the Entity-wide Statement of Net Assets, now titled Statement of Net Position. It also similarly retitled the Proprietary Funds Statement of Net Assets to Statement of Net Position.

A service concession arrangement at Rolling Hills Golf Course previously reported as unearned revenue is classified as a Deferred Inflow for 2012 under GASB Statement No. 63.

### **B. Special Items**

As reported in the 2009 Comprehensive Annual Financial Report, Kitsap County agreed to assume debt issues of the Kitsap County Consolidated Housing Authority (KCCHA). As result of this agreement certain KCCHA properties were pledged to be sold to pay off these debt issues. The sales of these properties occurring in 2012 were reported as a



# Kitsap County, Washington

Notes to Financial Statements

December 31, 2012

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Special Item totaling \$3.69 million in the Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental funds.

In addition, the estimated proceeds of KCCHA assets pledged to payoff off the assumed debt appear to be short of paying off the debt by about \$12.91 million. We previously recognized a loss of \$10.33 million in 2009. Therefore, we recognized an additional loss of \$2.58 million in 2012. This loss was reported on the Statement of Activities as reduction to Total Assets, on the Special Item line – assumption of debt.

The County also reported a loss of \$1.98 million on the transfer of property from Kitsap County to the Village Greens Metropolitan Parks District. This transfer was per previous agreement between the two governments.

## C. Extraordinary Item

The City of Port Orchard annexed several areas formerly a part of unincorporated areas of Kitsap County, requiring the county to transfer certain assets such as right of way, roads, bridges and sidewalks. Since these assets had a capitalized value of \$2,871,773 and accumulated depreciation of \$1,790,277, we recognized a loss \$1,081,496 on these transfers.

## D. Subsequent Events

1. On April 25, 2013, the County issued limited tax general obligation bonds (LTGO) in the aggregate principal amount not to exceed \$53.5 million to provide funds to refund all or a portion of
  - Kitsap County LTGO Bond Anticipation Note 2009
  - Kitsap County LTGO Bond 2009B
  - Kitsap County LTGO Bonds Series 2003B
  - Kitsap County LTGO and Refunding Bonds 2004
  - Kitsap County Consolidated Housing Authority Revenue Bonds 2003.
2. In June, 2013, the Kitsap Mall was sold and the County anticipates receiving \$635,000 in real estate excise taxes from the sale.

## E. Prior Period Adjustments

Department of Community Development and Parks Capital Improvements Fund reported prior period adjustments of \$4,844 and \$10,283 respectively to correct 2011 grant revenue accruals.

The Sewer Construction Fund reported a prior period adjustment of \$285,417 to capitalize prior years' interest expense to a capital asset completed in 2012 and to add interest to construction in progress for assets that were incomplete as of the end of the year.