



FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

June 10, 2009

Board of Commissioners
Kitsap County
Port Orchard, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Kitsap County, Washington, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 the Kitsap County, Washington, as of December 31, 2008, 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 Home Entitlement funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue our report dated June 10, 2009, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 13 and pension trust fund information on page 68 are not a required part of the basic financial statements but are

supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying information listed as Combining and Individual Fund Statements and Schedules on pages 76 through 204 and Supplementary Schedules on pages 205 through 212 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the County. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR



MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion and Analysis

As management of Kitsap County, we offer readers of the Kitsap County's financial statements this narrative overview and analysis of the financial activities of Kitsap County for the fiscal year ended December 31, 2008. 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 at the close of the most recent fiscal year by \$531.06 (net assets). Of this amount, \$137.63 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$5.98, with \$1.22 on the Governmental side and \$4.76 on the Business-Type side. The major causes were the reduction in long term debt and in increase in operating revenues.
- As of the close of the current fiscal year, the Kitsap County governmental funds reported combined ending fund balances of \$85.68, a decrease of \$10.17 from the prior year. Approximately \$72.22 of this amount is available for spending at the government discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$6.58, or 7.93 percent of the total general fund expenditures.
- The Kitsap County's total general obligation debt decreased by \$6.03 (5.5 percent) during the current fiscal year. This represented 2008 principle payments and no new bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Kitsap County's basic financial statements. The Kitsap County basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net assets* presents information on all of the Kitsap County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Kitsap County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some

items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Kitsap County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Kitsap County include general government, public safety, highways and streets, economic development, and culture and recreation. The business-type activities of Kitsap County include solid waste, sewer, surface water, and golf operations.

The government-wide financial statements can be found on pages 14-15 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Kitsap County, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Kitsap County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Kitsap County maintains ninety-four 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 home entitlement, all of which are considered major funds. Data from the other eighty-nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Kitsap County adopts an annual appropriated budget for all its funds. 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 18 – 27 of this report.

Proprietary funds. Kitsap County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Kitsap County uses enterprise funds to account for its Sanitary Sewer operations, Solid Waste activities, Surface Water Utility, and Golf Course activities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Kitsap County various functions. Kitsap County uses internal service funds to account for its management information systems, self-insurance activities, 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 28 – 33 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support Kitsap County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 34 – 35 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 36 – 67 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 69 – 204 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 \$531.06 at

the close of the most recent fiscal year. The County's fiscal condition remains stable and relatively better than last year.

The largest portion of Kitsap County's net assets (71 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets to provide services to citizens; consequently, these assets are not available for future spending. Although Kitsap County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Kitsap County's Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2008	2007	2008	2007	2008
Assets:						
Current & Other Assets	138.63	130.15	65.64	69.58	204.27	199.73
Capital assets	425.29	428.50	73.92	71.76	499.21	500.26
	563.92	558.65	139.56	141.34	703.48	699.99
Liabilities						
Other liabilities	30.04	28.93	4.90	4.42	34.94	33.35
Long-term liabilities	114.02	108.72	29.36	26.86	143.38	135.58
Total liabilities	144.06	137.65	34.26	31.28	178.32	168.93
Net assets						
Invested in capital	327.9	336.65	42.02	42.90	369.92	379.55
Restricted	16.53	13.84	11.8	0.04	28.33	13.88
Unrestricted	75.42	70.51	51.48	67.12	126.90	137.63
Total net asset	\$ 419.85	\$ 421.00	\$ 105.30	\$ 110.06	\$ 525.15	\$ 531.06

An additional portion of the Kitsap County's net assets (2.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$137.63) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Kitsap County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true last fiscal year.

The government's net assets increased by \$5.98 during the current fiscal year. The increase was mostly due to continued investment in fixed assets as well influx of state federal assistance. Refer to the notes to the financial statements (Note 7) for a more in depth discussion of capital assets.

The government's restricted net asset decreased by 51% (from \$28.33 to \$13.88). Most of this change was caused recognition that a large portion of Cash and Investments of the Business-Type Activities was not restricted even though it had been reported as such in past statements. As a result, the unrestricted net assets increased by 8.5% (from \$126.90 to \$137.63).

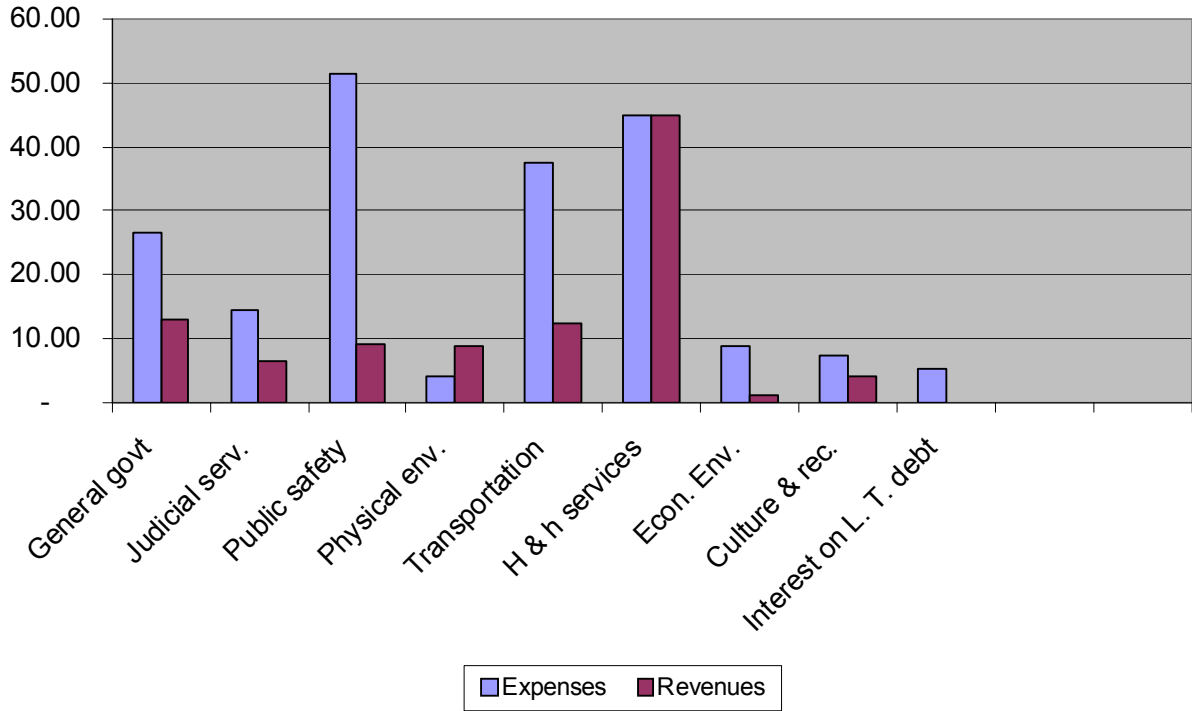
Governmental activities. Governmental activities increased the County's net assets by \$1.21. The key elements of this net change are as follows:

Revenues:	Governmental Activities		Business-type Activities		Total Primary government	
	2007	2008	2007	2008	2007	2008
Program revenues						
Charges for services	\$ 24.47	\$ 24.32	\$ 34.44	\$ 35.36	\$ 58.91	\$ 59.68
Operating grants	69.46	72.12	-	0.83	69.46	72.95
Capital grants	3.54	3.80	1.82	-	5.36	3.80
Fines & forfeits				-	-	-
General revenues						
Property taxes	50.64	51.81		-	50.64	51.81
Sales taxes	32.26	29.64		-	32.26	29.64
Other taxes	11.44	9.77		-	11.44	9.77
Investment earning	6.45	4.74	3.38	2.03	9.83	6.77
Other income	4.15	5.09	0.13	0.84	4.28	5.93
Total revenues	202.41	201.29	39.77	39.06	242.18	240.35
Expenses						
General government	23.57	26.69	-	-	23.57	26.69
Judicial services	14.39	14.61	-	-	14.39	14.61
Public safety	50.52	51.52	-	-	50.52	51.52
Physical environment	4.96	3.98	-	-	4.96	3.98
Transportation	37.48	37.46	-	-	37.48	37.46
Health & human services	40.58	44.88	-	-	40.58	44.88
Economic environment	8.27	8.75	-	-	8.27	8.75
Culture & recreation	8.07	7.29	-	-	8.07	7.29
Interest on LT debt	5.56	5.44	-	-	5.56	5.44
Utilities	-	-	35.53	33.73	35.53	33.73
Others	-	-	0.01	0.03	0.01	0.03
Total expenses	193.40	200.62	35.54	33.76	228.94	234.38
Inc in net assets before transfers	9.01	0.67	4.23	5.30	13.24	5.97
Special items - gain (loss)	-	-	-	-	-	-
Transfers	0.38	0.54	(0.38)	(0.54)	-	-
Increase in net assets	9.39	1.21	3.85	4.76	13.24	5.97
Beginning Net assets	410.47	419.86	101.44	105.30	511.91	525.16
Prior period adjustments	0	-0.07	-	-	-	(0.07)
Ending Net assets	\$419.86	\$421.00	\$105.29	\$110.06	\$525.15	\$531.06

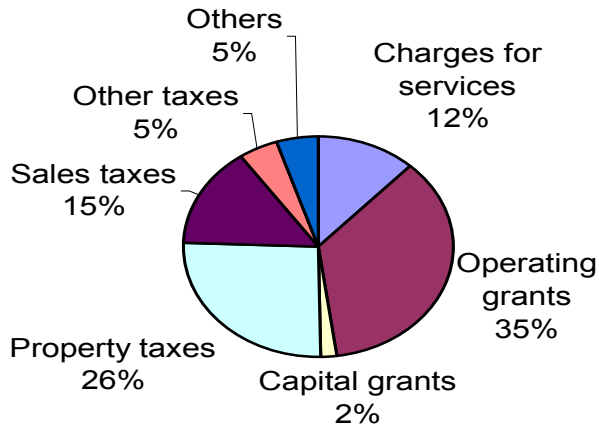
- o Property taxes increased by \$1.17 (2.33 percent) during the year. The extra 1.33 percent increase is tax collection on new homes for roads in the unincorporated area of the county in 2008.
- o Sales taxes decreased by \$2.62 (8 percent) during the year. This was caused by slowing economy in 2008.

- Other Taxes decreased by \$1.67 (14.60%). Almost all of this decrease was caused by the decrease in Real Estate Excise Tax, the result of a slowing housing market.
- Operating grants for government activities increased by \$2.66 (3.83%), including \$1.69 in Mental Health Services.

Expenses and Program Revenues - Governmental Activities



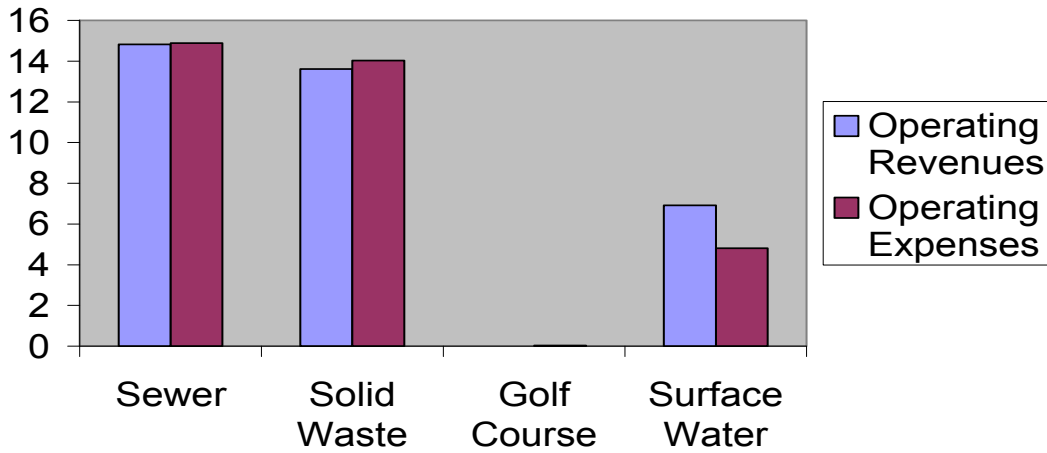
Revenues by Source – Governmental Activities

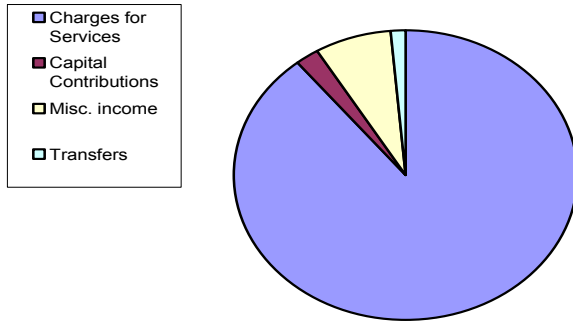


Business-type activities. The business-type activities increased the County’s net assets by \$4.76, accounting for part of the total growth in the government’s net assets. Key elements of this increase are as follows:

- The reduction in long term debt of \$2.4.
- Increase in operating revenues of \$.8

Expenses and Program Revenues – Business-type Activities





Financial Analysis of the Government's Funds

As noted earlier, Kitsap County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Kitsap County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Kitsap County's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Kitsap County's governmental funds reported combining ending fund balances of \$85.68, a decrease of \$10.17 in comparison with the prior year.

The general fund is the chief operating fund of the Kitsap County. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$6.58, while the total fund balance decreased to \$17.78. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 7.9 percent of the total general fund expenditures, while total fund balance represents 21.44 percent of that same amount.

The fund balance of Kitsap County's general fund decreased by \$3.11 during the current fiscal year. The key factor was the struggling economy leading to decreased sales tax revenues. The county took steps to limit increases in expenditures while looking for ways to increase revenues.

County road fund balance decreased by \$.64 due as labor and materials costs continue to exceed incoming revenues.

Real Estate Excise Tax fund balance decreased from \$9.15 in 2007 to \$5.86 in 2008 due to slowing home sales in the county.

The Home Entitlement fund balance increased from .077 in 2007 to .085 in 2008, as federal funding remained constant.

The debt service funds have a total fund balance of \$1.51, all of which is reserved for the payment of debt service.

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

Restricted net assets of the Sewer fund at the end of the year amounted to \$.04, and unrestricted net assets of sewer were \$30.73, Solid Waste amounted to \$26.39, while the Surface Water was \$9.83 and Village Green Golf Course was \$0.16

General Fund budgetary Highlights

GENERAL FUND BUDGETARY HIGHLIGHTS:

Actual General Fund revenues fell short of original budgeted revenues by \$4.18 during fiscal year 2008. The biggest reason for this was sales tax revenues which came in at \$3.6 less than the original budget.

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

During the year there was a \$1.82 increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$.33 additional appropriation to Sheriffs Office to enable the hiring of additional officers as well as increasing services.
- \$.26 additional appropriation to the General Administration for hiring extra positions.

The actual expenditures of the general fund came in well under the final budget total of \$87.14, with a total of \$82.93.

Capital Assets

At the end of the fiscal year 2008, the Kitsap County investment in capital assets for its governmental activities is \$727.32 as reflected in the following schedule, which represents a net increase of \$18.73 or 2.6 percent from last year. See note 7 to the financial statements for further details on Capital Assets.

Governmental activities
Change in Capital Assets (millions)

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Land	52.57	56.56	2.02	2.83	54.59	59.39
Infrastructure	432.95	446.07	0	0	432.95	446.07
Building	121.25	122.50	43.03	43.02	164.28	165.52
Building Improv	23.50	27.38	66.03	67.53	89.53	94.91
Machinery & Equipment	51.39	49.16	7.11	7.14	58.5	56.3
Construction in progress	26.93	25.65	8.95	9.11	35.88	34.76
Total	708.59	727.32	127.14	129.63	835.73	856.95
Less Accumulated depreciat	283.3	298.82	53.22	57.87	336.52	356.69
	\$ 425.29	\$ 428.50	\$ 73.92	\$ 71.76	\$ 499.21	\$ 500.26

The following are the major additions to the Capital Assets for Governmental Activities:

- Various infrastructure projects were completed during the year at a cost of \$13.12
- The county purchased Pilot Point Park property and Central Kitsap Community campus for \$4.92
- Remodel of the Public Works Annex for \$3.6.

Business-type activities. There were no major additions in this area in 2008.

Long-term Debt

At year-end, the County had \$145.06 in long-term debt versus \$152.36 last year, a net decrease of \$7.30 and 4.8 percent.

Outstanding Debt, at Year-End

Government activities:	2007	Addition	Deletion	2008
Bond Payable	\$ 108.79	\$ -	\$ 5.92	\$ 102.87
Special assessment	0.05	-	0.04	0.01
Comp	4.82	4.39	4.02	5.19
Int. serv. Debt	0.18	0.21	0.16	0.23
Leases	-	-	-	-
Notes Payable	5.24	-	0.12	5.12
Net OPEB Obligation	0.76	0.83		1.59
Others	0.79	-	0.08	0.71
Total	120.63	5.43	10.34	115.72
Enterprise activities:				
Bond Payable	19.38	-	1.73	17.65
Comp	0.44	0.44	0.43	0.45
Others	11.91	0.00	0.67	11.24
Total	31.73	0.44	2.83	29.34
Total Debt	\$ 152.36	\$ 5.87	\$ 13.17	\$ 145.06

See Notes 11 and 13 for more detail on Long-term debt.

There were no major additions to long-term debt in 2008.

The Standard and Poor's Corporation and Moody's Investors Service rate the Kitsap County's debt as a double-A bond rating.

The State limits the amount of general obligation debts the County can issue without the vote of the people to 1.5% of the total assessed value. As of the end of the fiscal year, the County has \$380.97 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 7 and 11).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The economy of the County is based mostly on government services. The top ten major employers in Kitsap County are government agencies and government support companies, with the exceptions of Walmart and TeleTech Holdings which rank seven and ten respectively. Kitsap County has the only shipyard on the West Coast capable of overhauling nuclear aircraft carriers.

Contacting the County's Financial Management

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

If you have questions about this report or need additional financial information, contact 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



BASIC FINANCIAL STATEMENTS

KITSAP COUNTY, WASHINGTON

Statement of Net Assets

December 31, 2008

	Governmental Activities	Business-type Activities	Total	Component Unit PFD
ASSETS				
Cash and Cash equivalents	\$ 57,417,609	\$ 6,676,868	\$ 64,094,477	108,164
Deposits with fiscal agents	58,889	-	58,889	-
Investments	25,757,196	58,861,739	84,618,935	764,236
Receivables(net)				
Property taxes	2,860,168	-	2,860,168	-
Special assessments	54,744	46,816	101,560	-
Accounts	342,996	2,487,520	2,830,516	-
Others	17,813	-	17,813	-
Internal balances	179,597	(179,597)	0	-
Due from other governments	9,835,360	514,749	10,350,109	-
Prepayments	326,537	-	326,537	-
Inventories	1,109,396	261,415	1,370,811	-
Restricted assets:				
Cash and cash equivalents	2,876,207	810	2,877,017	-
Deposits with fiscal agents	40,000	-	40,000	-
Investments	9,117,396	43,584	9,160,980	-
Notes/Contracts	9,137,510	-	9,137,510	-
Special Assessment Receivable-Deferred		859,690	859,690	-
Long-term Receivable from Comp. Unit	11,015,000	-	11,015,000	-
Capital assets, net (Note1)				
Land	56,563,985	2,825,721	59,389,706	-
Infrastructure	205,805,472	-	205,805,472	-
Buildings	97,064,051	18,800,208	115,864,259	-
Improvements & Other Buildings	19,900,270	39,214,798	59,115,068	-
Machinery & Equipment	23,520,571	1,816,333	25,336,904	-
Construction In Progress	25,646,983	9,105,780	34,752,763	-
Total assets	<u>558,647,749</u>	<u>141,336,433</u>	<u>699,984,184</u>	<u>872,400</u>
LIABILITIES				
Accounts payable and accrued expenses	4,783,344	1,253,256	6,036,600	-
Due to other governments	815,032	81,627	896,659	-
Other liabilities	8,149,027	598,704	8,747,731	-
Unearned revenue	8,184,292	-	8,184,292	-
Non current Liabilities (Note 2):				
Due within one year	7,000,806	2,558,839	9,559,645	395,000
Due in more than one year	108,715,552	26,782,922	135,498,474	10,620,000
Total liabilities	<u>137,648,054</u>	<u>31,275,348</u>	<u>168,923,401</u>	<u>11,015,000</u>
NET ASSETS				
Invested in capital assets, net of related debt	336,649,928	42,902,900	379,552,828	-
Restricted:				
Capital Projects	12,331,380	-	12,331,380	-
Debt service	1,506,082	44,394	1,550,476	-
Unrestricted	70,512,306	67,113,791	137,626,097	(10,142,600)
Total net assets	<u>\$ 420,999,697</u>	<u>\$ 110,061,085</u>	<u>\$ 531,060,782</u>	<u>\$ (10,142,600)</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, 2008

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	\$ 26,686,552	\$ 8,833,113	\$ 4,108,052	\$ -	\$ (13,745,387)	\$ -	\$ (13,745,387)	\$ -
Judicial Services	14,610,854	4,649,514	2,017,492	-	(7,943,849)	-	(7,943,849)	-
Public Safety	51,516,601	928,577	8,269,565	-	(42,318,459)	-	(42,318,459)	-
Physical Environment	3,982,612	5,781,168	3,148,656	-	4,947,212	-	4,947,212	-
Transportation	37,459,827	2,840,289	5,708,394	3,798,906	(25,112,238)	-	(25,112,238)	-
Health & Human Services	44,875,636	292,455	44,571,502	-	(11,679)	-	(11,679)	-
Economic Environment	8,752,556	56,450	1,247,866	-	(7,448,239)	-	(7,448,239)	-
Culture & Recreation	7,292,696	939,007	3,048,146	-	(3,305,543)	-	(3,305,543)	-
Interest on Long-term Debt	5,443,518	-	-	-	(5,443,518)	-	(5,443,518)	-
Total Governmental Activities	<u>200,620,853</u>	<u>24,320,572</u>	<u>72,119,673</u>	<u>3,798,906</u>	<u>(100,381,702)</u>	<u>0</u>	<u>(100,381,702)</u>	<u>-</u>
Business-type Activities								
Solid Waste	14,032,861	13,621,526	-	-	-	(411,335)	(411,335)	-
Sewer Utility	14,886,234	14,817,035	-	830,550	-	761,351	761,351	-
Surface Water	4,813,176	6,916,181	-	-	-	2,103,005	2,103,005	-
Golf	27,055	-	-	-	-	(27,055)	(27,055)	-
Total business-type activities	<u>33,759,326</u>	<u>35,354,742</u>	<u>-</u>	<u>830,550</u>	<u>-</u>	<u>2,425,966</u>	<u>2,425,966</u>	<u>-</u>
Total Primary Government	<u>\$ 234,380,179</u>	<u>\$ 59,675,314</u>	<u>\$ 72,119,673</u>	<u>\$ 4,629,456</u>	<u>(100,381,702)</u>	<u>2,425,966</u>	<u>(97,955,736)</u>	<u>-</u>
Component Units:								
Public Facility District(PFD)	2,125,623	-	-	-	-	-	-	(2,125,623)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					51,815,953	-	51,815,953	-
Property taxes, levied for debt service					-	-	-	-
Sales & use taxes					29,641,742	-	29,641,742	1,194,023
Other taxes					9,774,492	-	9,774,492	-
Investment earnings					4,738,718	2,034,347	6,773,065	34,618
Miscellaneous					5,087,350	841,866	5,929,216	-
Special item - gain(loss) on sale of capital assets					-	-	-	-
Transfers					537,636	(537,636)	-	-
Total general revenues, special items, and transfers					<u>101,595,890</u>	<u>2,338,577</u>	<u>103,934,467</u>	<u>1,228,641</u>
Change in net assets					1,214,189	4,764,543	5,978,732	(896,982)
Net assets - beginning					419,857,187	105,296,542	525,153,729	(9,245,619)
Prior Period Adjustments					(71,677)	-	(71,677)	-
Net assets - ending					<u>\$420,999,697</u>	<u>\$ 110,061,084</u>	<u>\$ 531,060,780</u>	<u>\$ (10,142,600)</u>

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

FUND FINANCIAL STATEMENTS

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

- Balance Sheet – Governmental Funds
- Statement of Revenues Expenditures and Changes in Fund Balances – Governmental Funds.
- Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statements of Activities
- Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund and Major Special Revenues Funds
- Statement of Net Assets – Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds
- Statement of Cash Flows – Proprietary Funds
- Statement of Fiduciary Net Assets – Fiduciary Funds
- Statement of Changes in fiduciary Net Assets – Fiduciary Funds

The following funds have been identified as Major funds for Kitsap County:

Governmental Funds

General Fund – Classified as a major fund and is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be account for in another fund.

County Roads – A fund used for the maintenance and the construction of county roads and bridges.

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

Home Entitlement – A fund used to account for the funding and operation of the County’s Home Entitlement program funded by federal assistance.

Enterprise Funds

Solid Waste – A fund used to account for the costs of providing solid waste service to the residents of Kitsap County.

Sanitary Sewer – A fund used to account for the costs of providing sewage disposal service to the residents of Kitsap County.

Surface Water Utility – A fund used to account for the costs of the Surface Water Utility service to residents of Kitsap County.

Balance Sheet
 Governmental Funds
 December 31, 2008

	Special Revenue Funds		
	General Fund	Road Department	Real Estate Excise Tax
ASSETS			
Cash and Cash equivalents	\$ 6,275,290	\$ 13,236,141	\$ 183,918
Deposits with fiscal agents	-	-	58,889
Investments	-	5,506,024	5,619,871
Receivables(net)	-	-	-
Property Taxes	1,625,998	1,117,995	-
Special assessments	-	1,622	-
Accounts	261,845	-	-
Notes/Contracts	11,015,000	-	5,060,000
Others	15,746	-	-
Due from other funds	546,987	1,079,122	-
Due from other governments	1,574,244	3,325,789	-
Interfund loan receivable	600,000	-	-
Prepayments	22,200	-	-
Advance to other funds	160,000	500,000	-
Total assets	\$ 22,097,309	\$ 24,766,694	\$ 10,922,678
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	888,289	594,795	304
Due to other funds	29,218	1,789,957	-
Due to other governments	-	-	-
Other liabilities	1,869,114	610,732	-
Advance from other fund	-	-	-
Revenues collected in advance	14,578	-	7,480
Deferred revenue	1,517,759	1,119,618	5,060,000
Interfund loan payable	-	-	-
Total liabilities	4,318,957	4,115,102	5,067,784
Fund balances			
Reserved:			
Mental health program	22,200	-	-
Advance/Receivable	11,175,000	-	-
Debt service	-	-	-
Mental health programs	-	-	-
Unreserved:			
General fund	6,581,152	-	-
Special revenues	-	20,651,592	5,854,894
Debt services	-	-	-
Capital projects funds	-	-	-
Total fund balance	17,778,352	20,651,592	5,854,894
Total liabilities & fund balances	\$ 22,097,309	\$ 24,766,694	\$ 10,922,678

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

Balance Sheet
 Governmental Funds
 December 31, 2008

	Home Entitlement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash equivalents	\$ 31,105	\$ 17,283,110	\$ 37,009,564
Deposits with fiscal agents	-	40,000	98,889
Investments	77,830	23,670,866	34,874,592
Receivables(net)	-	-	-
Property Taxes	-	116,175	2,860,168
Special assessments	-	53,122	54,744
Accounts	-	81,151	342,996
Notes/Contracts	2,792,510	1,285,000	20,152,510
Others	2,066	-	17,813
Due from other funds	-	390,182	2,016,291
Due from other governments	55,448	4,879,879	9,835,360
Interfund loan receivable	-	-	600,000
Prepayments	-	-	22,200
Advance from other funds	-	-	660,000
Total assets	\$ 2,958,960	\$ 47,799,486	\$ 108,545,127
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	50,428	2,792,449	4,326,264
Due to other funds	711	428,060	2,247,946
Due to other governments	-	815,032	815,032
Other liabilities	-	637,266	3,117,112
Advance from other fund	30,000	130,000	160,000
Revenues collected in advance	-	1,909	23,967
Deferred revenues	2,792,510	585,352	11,075,238
Long term debt due within one year	-	1,100,000	1,100,000
Total liabilities	2,873,648	6,490,067	22,865,558
Fund Balances			
Reserved:			
Prepayments	-	2,267,035	2,289,235
Advance/receivable	-	-	11,175,000
Debt service	-	-	-
Mental health programs	-	-	-
Unreserved:			
General fund	-	-	6,581,152
Special revenues	85,312	25,204,922	51,796,720
Debt services	-	1,506,082	1,506,082
Capital projects funds	-	12,331,380	12,331,380
Total fund balances	85,312	41,309,419	85,679,569
Total liabilities and fund balances	\$ 2,958,960	\$ 47,799,486	\$ 108,545,127

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

KITSAP COUNTY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

December 31, 2008

Fund balances of governmental funds - page 18 \$ 85,679,569

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	727,319,619	
Depreciation	(298,818,286)	
Capital asset net of depreciation		428,501,333

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

Bond payable	102,871,405	
Compensated absences	5,190,574	
Capital lease	-	
Other long-term liabilities	7,426,733	
Long-term debt		(115,488,712)

Other assets not available to pay for current-period expenditures and, therefore, are deferred in the funds. 2,914,912

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	25,307,431	
Liabilities	(5,929,627)	
Uses Other than Operations	14,791	
Asset less liabilities		19,392,595

Net assets of governmental activities - page 13 \$ 420,999,697

Statement of Revenue, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2008

	Special Revenue Funds		
	General Fund	County Roads	Real Estate Excise Tax
REVENUES:			
Property taxes	\$ 27,469,820	\$ 22,082,844	\$ -
Retail sales & use taxes	22,162,679	-	-
Other taxes	4,121,694	52,526	3,932,209
Licenses and permits	191,977	167,795	-
Intergovernmental	10,194,200	9,507,300	-
Charges for services	8,784,050	997,519	-
Fines & forfeits	2,608,704	-	-
Investment earnings	2,808,696	232,611	492,279
Miscellaneous	1,997,478	21,714	218,327
Total revenues	<u>80,339,298</u>	<u>33,062,309</u>	<u>4,642,815</u>
EXPENDITURES:			
Current:			
General government	27,313,199	-	145,828
Judicial Services	14,326,180	-	-
Public safety	36,153,558	-	-
Physical Environment	-	-	-
Transportation	-	23,309,451	-
Health & Human Services	-	-	-
Economic Environment	-	-	-
Culture & recreation	4,607,873	-	-
Interest on long-term debt	-	-	-
Debt service			
Principal	-	49,786	116,250
Interest and other charges	13,826	34,967	271,846
Capital outlay	513,139	10,888,300	2,272,888
Total expenditures	<u>82,927,775</u>	<u>34,282,503</u>	<u>2,806,812</u>
Excess(deficiency) of revenues over expenditures	<u>(2,588,477)</u>	<u>(1,220,195)</u>	<u>1,836,003</u>
OTHER FINANCING SOURCES (USES):			
Refunding bonds issued	-	-	-
Capital -related debt issued	-	-	-
Premiums on bonds	-	-	-
Sale of capital assets	-	-	-
Transfers in	3,073,887	1,198,000	-
Transfers out	(3,765,284)	(615,917)	(5,133,275)
Other adjustments	-	-	-
Total other financing sources & uses	<u>(691,397)</u>	<u>582,083</u>	<u>(5,133,275)</u>
Net change in fund balance	<u>(3,279,874)</u>	<u>(638,112)</u>	<u>(3,297,272)</u>
Fund balances-beginning	20,889,901	21,289,705	9,152,166
Prior period adjustments	168,323	-	-
Fund balances-ending	<u>\$ 17,778,352</u>	<u>\$ 20,651,592</u>	<u>\$ 5,854,894</u>

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, 2008

	Home Entitlement Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Property taxes	\$ -	\$ 2,263,289	\$ 51,815,953
Retail sales & use taxes	-	7,479,063	29,641,742
Other taxes	-	1,668,063	9,774,492
Licenses and permits	-	2,277,720	2,637,492
Intergovernmental	1,183,772	55,033,307	75,918,579
Charges for services	-	6,042,922	15,824,491
Fines & forfeits	-	389,714	2,998,418
Investment earnings	5,278	1,199,854	4,738,718
Miscellaneous	2,535	2,788,366	5,028,421
Total revenues	<u>1,191,586</u>	<u>79,142,299</u>	<u>198,378,306</u>
EXPENDITURES:			
Current:			
General government	-	1,358,267	28,817,294
Judicial Services	-	266,084	14,592,264
Public safety	-	10,905,032	47,058,590
Physical Environment	-	3,982,612	3,982,612
Transportation	-	94,730	23,404,181
Health & Human Services	-	44,724,949	44,724,949
Economic Environment	1,183,772	7,552,842	8,736,614
Culture & recreation	-	1,445,284	6,053,157
Interest on long-term debt	-	-	-
Debt service	-	-	-
Principal	-	5,962,760	6,128,796
Interest and other charges	-	5,122,880	5,443,518
Capital outlay	-	6,242,400	19,916,727
Total expenditures	<u>1,183,772</u>	<u>87,657,839</u>	<u>208,858,702</u>
Excess(deficiency) of revenues over expenditures	<u>7,813</u>	<u>(8,515,540)</u>	<u>(10,480,396)</u>
OTHER FINANCING SOURCES (USES):			
Refunding bonds issued	-	-	-
Capital -related debt issued	-	-	-
Premiums on bonds	-	-	-
Sale of capital assets	-	4,185	4,185
Transfers in	-	14,520,096	18,791,983
Transfers out	-	(8,901,268)	(18,415,743)
Other adjustments	-	-	-
Total other financing sources & uses	<u>-</u>	<u>5,623,013</u>	<u>380,425</u>
Net change in fund balance	<u>7,814</u>	<u>(2,892,526)</u>	<u>(10,099,969)</u>
Fund balances-beginning	77,498	44,441,950	95,851,220
Prior period adjustments	-	(240,000)	(71,677)
Fund balances-ending	<u>\$ 85,312</u>	<u>\$ 41,309,419</u>	<u>\$ 85,679,569</u>

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

KITSAP COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2008

Net change in fund balances-total governmental funds - page 21 \$ (10,099,969)

Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of activities (B-1) because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital out-lay	19,916,727
Depreciation	(20,731,848)

Capital Asset Transactions

Loss recognized in Statement of Activities but not in the funds	
Proceeds from the sale of capital assets not recognized in the Statement of Activity	-

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items

Receipts from bond sales	-
Other debt issuance costs	-
Bond principal	6,128,796
Recording of Net OPEB Obligation	(838,863)

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

Property taxes receivable	2,860,168
Special Assessments	54,744

Internal services Activities

Net Transfers	161,397
Depreciation already included above	1,437,616
Net profit	2,325,422

Change in net assets of governmental activities - page 14 \$ 1,214,189

KITSAP COUNTY, WASHINGTON

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

General Fund

Year Ended December 31, 2008

	2008			
	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES:				
Property taxes	\$ 27,662,407	\$ 27,662,407	\$ 27,469,820	\$ (192,587)
Retail sales & use taxes	25,850,000	25,850,000	22,162,679	(3,687,321)
Other taxes	4,686,060	4,686,060	4,121,694	(564,366)
Licenses and permits	253,545	253,545	191,977	(61,568)
Intergovernmental	9,234,822	9,985,097	10,194,200	209,103
Charges for services	9,625,914	9,625,914	8,784,050	(841,864)
Fines & forfeits	2,906,176	2,906,176	2,608,704	(297,472)
Investment Earnings	2,557,000	2,557,000	2,808,696	251,696
Miscellaneous	1,750,911	1,859,377	1,997,478	138,101
Total revenues	<u>84,526,835</u>	<u>85,385,576</u>	<u>80,339,297</u>	<u>(5,046,279)</u>
EXPENDITURES:				
Current:				
General government				
Administrative Services	\$ 926,833	\$ 1,104,605	\$ 1,027,974	\$ 76,631
Assessor	2,427,690	2,410,190	2,350,611	59,579
Auditor	3,626,407	3,761,660	3,631,454	130,206
Commissioners	1,125,063	1,320,419	1,275,738	44,681
General Administration	7,306,068	7,561,507	6,795,707	765,800
Personnel & Human resources	1,120,611	1,105,611	1,044,812	60,799
Prosecuting attorney	8,271,949	8,437,747	8,350,315	87,432
Facilities Maintenance	2,186,683	2,196,683	1,953,341	243,342
Treasurer	919,082	919,082	883,247	35,835
Total general government	<u>27,910,386</u>	<u>28,817,504</u>	<u>27,313,199</u>	<u>1,504,305</u>
Judicial Services				
Clerk	\$ 6,402,131	\$ 6,173,068	\$ 5,849,578	\$ 323,490
District court	3,011,808	3,011,808	2,854,031	157,777
Superior court	2,939,886	2,997,550	2,982,843	14,707
Juvenile	2,762,163	2,760,220	2,639,728	120,492
Total Judicial services	<u>15,115,988</u>	<u>14,942,646</u>	<u>14,326,180</u>	<u>616,466</u>
Public safety				
Sheriff	\$ 18,351,550	\$ 18,683,419	\$ 18,053,731	\$ 629,688
Jail	11,907,112	12,146,888	11,819,250	327,638
Juvenile	5,302,476	5,451,599	5,357,428	94,171
Coroner	911,376	918,287	908,028	10,259
Personnel & Human Resources	33,490	33,490	15,121	18,369
Total Public Safety	<u>36,506,004</u>	<u>37,233,683</u>	<u>36,153,558</u>	<u>1,080,125</u>
Culture & recreation				
Parks	\$ 4,014,345	\$ 4,031,345	\$ 3,946,442	\$ 84,903
Cooperative Extension	286,297	270,238	268,711	1,527
Personnel & Human Resources	413,555	436,055	392,720	43,335
Total Culture & Recreation	<u>4,714,197</u>	<u>4,737,638</u>	<u>4,607,873</u>	<u>129,765</u>
Interest and other charges	25,000	25,000	13,826	11,174
Capital outlay	1,246,810	1,383,341	513,139	870,202
Total expenditures	<u>85,518,385</u>	<u>87,139,812</u>	<u>82,927,775</u>	<u>4,212,037</u>
Excess(deficiency) of revenues over expenditures	(991,550)	(1,754,236)	(2,588,478)	(834,242)
OTHER FINANCING SOURCES (USES):				
Transfers in	3,090,831	3,351,306	3,073,887	(277,419)
Transfers out	(2,099,281)	(2,296,762)	(3,765,284)	(1,468,522)
Total other financing sources & uses	<u>991,550</u>	<u>1,054,544</u>	<u>(691,397)</u>	<u>(1,745,941)</u>
Net change in fund balance	-	(699,692)	(3,279,875)	(2,580,183)
Fund balances-beginning	20,889,902	20,889,902	20,889,902	-
Prior period adjustments			168,323	168,323
Fund balances-ending	<u>20,889,902</u>	<u>20,190,210</u>	<u>17,778,350</u>	<u>(2,411,860)</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, 2008

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 21,868,555	\$ 21,868,555	\$ 22,082,844	\$ 214,289
Retail sales & use taxes	-	-	-	-
Other taxes	50,000	50,000	52,526	2,526
Licenses and permits	100,000	100,000	167,795	67,795
Intergovernmental	9,832,020	9,832,020	9,507,300	(324,720)
Charges for services	803,000	803,000	997,519	194,519
Fines & forfeits	-	-	-	-
Investment earnings	20,000	20,000	232,611	212,611
Miscellaneous	1,000	1,000	21,714	20,714
Total revenues	<u>32,674,575</u>	<u>32,674,575</u>	<u>33,062,309</u>	<u>387,734</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	26,021,098	26,035,098	23,309,451	2,725,647
Health & Human Services	-	-	-	-
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	78,913	78,913	49,786	29,127
Interest and other charges	6,041	6,041	34,967	(28,926)
Capital outlay	12,768,000	12,768,000	10,888,300	1,879,700
Total expenditures	<u>38,874,052</u>	<u>38,888,052</u>	<u>34,282,503</u>	<u>4,605,549</u>
Excess(deficiency) of revenues over expenditures	<u>(6,199,477)</u>	<u>(6,213,477)</u>	<u>(1,220,195)</u>	<u>4,993,282</u>
OTHER FINANCING SOURCES (USES):				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	2,198,000	2,198,000	1,198,000	(1,000,000)
Transfers out	(597,930)	(615,930)	(615,917)	13
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>1,600,070</u>	<u>1,582,070</u>	<u>582,083</u>	<u>(999,987)</u>
Net change in fund balance	<u>(4,599,407)</u>	<u>(4,631,407)</u>	<u>(638,112)</u>	<u>3,993,295</u>
Fund balances-beginning	21,289,705	21,289,705	21,289,705	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 16,690,298</u>	<u>\$ 16,658,298</u>	<u>\$ 20,651,593</u>	<u>\$ 3,993,295</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, 2008

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Retail sales & use taxes	-	-	-	-
Other taxes	5,600,000	5,600,000	3,932,209	(1,667,791)
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines & forfeits	-	-	-	-
Investment earnings	353,943	353,943	492,279	138,336
Miscellaneous	4,000	4,000	218,327	214,327
Total revenues	<u>5,957,943</u>	<u>5,957,943</u>	<u>4,642,815</u>	<u>(1,315,128)</u>
EXPENDITURES:				
Current:				
General government	33,265	33,265	145,828	(112,563)
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	-	-	-	-
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	107,501	107,501	116,250	(8,749)
Interest and other charges	246,443	246,443	271,846	(25,403)
Capital outlay	1,942,573	4,215,461	2,272,888	1,942,573
Total expenditures	<u>2,329,782</u>	<u>4,602,670</u>	<u>2,806,812</u>	<u>1,795,858</u>
Excess(deficiency) of revenues over expenditures	<u>3,628,161</u>	<u>1,355,273</u>	<u>1,836,003</u>	<u>480,730</u>
OTHER FINANCING SOURCES (USES):				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(5,633,276)	(5,633,276)	(5,133,275)	500,001
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>(5,633,276)</u>	<u>(5,633,276)</u>	<u>(5,133,275)</u>	<u>500,001</u>
Net change in fund balance	<u>(2,005,115)</u>	<u>(4,278,003)</u>	<u>(3,297,272)</u>	<u>980,731</u>
Fund balances-beginning	9,152,166	9,152,166	9,152,166	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 7,147,051</u>	<u>\$ 4,874,163</u>	<u>\$ 5,854,894</u>	<u>\$ 980,731</u>

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

KITSAP COUNTY, WASHINGTON

Home Entitlement Fund 166

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2008

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Retail sales & use taxes	-	-	-	-
Other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	3,244,668	3,244,668	1,183,772	(2,060,896)
Charges for services	-	-	-	-
Fines & forfeits	-	-	-	-
Investment earnings	-	-	5,278	5,278
Miscellaneous	-	-	2,535	2,535
Total revenues	3,244,668	3,244,668	1,191,586	(2,053,082)
EXPENDITURES:				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	-	-	-	-
Economic Environment	3,244,668	3,244,668	1,183,772	2,060,896
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	3,244,668	3,244,668	1,183,772	2,060,896
Excess(deficiency) of revenues over expenditures	-	-	7,813	7,813
OTHER FINANCING SOURCES (USES):				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Other adjustments	-	-	-	-
Total other financing sources & uses	-	-	-	-
Net change in fund balance	-	-	7,813	7,813
Fund balances-beginning	77,498	77,498	77,498	-
Prior period adjustments	-	-	-	-
Fund balances-ending	\$ 77,498	\$ 77,498	\$ 85,311	\$ 7,813

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

Statement of Net Assets

Proprietary Funds
December 31, 2008

	Business-type Activities-Enterprise Funds				Total
	Sanitary Sewer	Solid Waste	Surface Water Utility	Other Non-Major Fund	
ASSETS					
Current assets:					
Cash and Cash equivalents	\$ 2,177,231	\$ 2,677,241	\$ 1,662,425	\$ 159,971	\$ 6,676,868
Deposits with fiscal agents	-	-	-	-	-
Investments	26,800,289	23,629,861	8,431,589	-	58,861,739
Receivables(net)					
Special assessments	46,816	-	-	-	46,816
Accounts	1,596,906	850,917	39,697	-	2,487,520
Due from other funds	214,697	625,388	131,102	-	971,187
Due from other governments	-	257,311	257,438	-	514,749
Prepayments	-	-	-	-	-
Inventories	261,415	-	-	-	261,415
Restricted assets:					
Cash and cash equivalents	810	-	-	-	810
Deposits with fiscal agents	-	-	-	-	-
Investments	43,584	-	-	-	43,584
Total current assets	<u>31,141,748</u>	<u>28,040,718</u>	<u>10,522,251</u>	<u>159,971</u>	<u>69,864,688</u>
Noncurrent assets:					
Special Assessment Receivable-Deferred	859,690				859,690
Capital assets, net (Note1)					
Land	1,123,482	472,444	869,795	360,000	2,825,721
Buildings	42,330,647	658,279	-	37,267	43,026,193
Improvements & Other Buildings	59,750,099	1,606,355	6,018,829	151,088	67,526,371
Machinery & Equipments	6,900,313	84,973	148,424	5,470	7,139,180
Construction In Progress	6,584,519	33,496	2,487,765	-	9,105,780
Less accumulated depreciation	(54,379,966)	(1,257,855)	(2,085,236)	(137,349)	(57,860,406)
Total noncurrent assets	<u>63,168,784</u>	<u>1,597,692</u>	<u>7,439,577</u>	<u>416,476</u>	<u>72,622,529</u>
Total assets	<u>94,310,532</u>	<u>29,638,410</u>	<u>17,961,828</u>	<u>576,447</u>	<u>142,487,217</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	275,221	762,060	213,663	2,313	1,253,257
Due to other funds	165,310	719,452	266,022	-	1,150,784
Due to other governments	4,349	25,060	52,218	-	81,627
Other liabilities	465,595	54,817	78,292	-	598,704
Current portion of long term liabilities	2,558,839				2,558,839
Total current liabilities	<u>3,469,314</u>	<u>1,561,389</u>	<u>610,195</u>	<u>2,313</u>	<u>5,643,211</u>
Non current Liabilities (Note 2):					
Due in more than one year	26,613,617	84,644	84,661	-	26,782,922
Total noncurrent liabilities	<u>26,613,617</u>	<u>84,644</u>	<u>84,661</u>	<u>-</u>	<u>26,782,922</u>
Total liabilities	<u>30,082,931</u>	<u>1,646,033</u>	<u>694,856</u>	<u>2,313</u>	<u>32,426,133</u>
NET ASSETS					
Invested in capital assets, net of related debt	33,449,154	1,597,692	7,439,577	416,476	42,902,900
Restricted:					
Debt service	44,394	-	-	-	44,394
Unrestricted	30,734,053	26,394,685	9,827,395	157,658	67,113,791
Total net assets	<u>\$ 64,227,601</u>	<u>\$ 27,992,377</u>	<u>\$ 17,266,972</u>	<u>\$ 574,134</u>	<u>\$ 110,061,085</u>

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

Statement of Net Assets

Proprietary Funds
December 31,2008

	Governmental Activities Internal Services Funds
ASSETS	
Current assets:	
Cash and Cash equivalents	\$ 23,284,252
Deposits with fiscal agents	-
Investments	-
Receivables(net)	
Special assessments	-
Accounts	-
Due from other funds	609,446
Due from other governments	-
Prepayments	304,337
Inventories	1,109,396
Restricted assets:	
Cash and cash equivalents	-
Deposits with fiscal agents	-
Investments	-
Total current assets	<u>25,307,431</u>
Noncurrent assets:	
Capital assets, net (Note1)	
Land	-
Buildings	-
Improvements & Other Buildings	-
Machinery & Equipments	27,434,032
Construction In Progress	-
Less accumulated depreciation	<u>(15,718,830)</u>
Total noncurrent assets	<u>11,715,202</u>
Total assets	<u>37,022,633</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	457,080
Due to other funds	196,658
Due to other governments	-
Other liabilities	5,048,242
Current portion of long term liabilities	-
Total current liabilities	<u>5,701,980</u>
Non current Liabilities (Note 2):	
Due in more than one year	<u>227,647</u>
Total noncurrent liabilities	<u>227,647</u>
Total liabilities	<u>5,929,627</u>
NET ASSETS	
Invested in capital assets, net of related debt	11,715,202
Restricted:	
Debt service	-
Unrestricted	19,377,804
Total net assets	<u>\$ 31,093,006</u>

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended December 31, 2008

	Business-type Activities - Enterprise Funds				Total
	Sanitary Sewer	Solid Waste	Surface Water Utility	Other Non-Major Fund	
Operating revenues:					
Charges for services	\$ 11,611,247	\$ 13,500,612	\$ 6,900,808	\$ -	\$ 32,012,667
Revenues used for security	\$ 3,205,788				\$ 3,205,788
Miscellaneous	-	120,914	15,373	-	136,287
Total operating revenues	<u>14,817,035</u>	<u>13,621,526</u>	<u>6,916,181</u>	<u>-</u>	<u>35,354,742</u>
Operating expenses:					
Personal services	4,842,380	1,594,409	1,924,330	-	8,361,119
Contractual services	1,151,587	1,239,432	1,774,448	-	4,165,467
Utilities	1,235,709	10,498,993	73,859	17,587	11,826,148
Repair and maintenance	118,931	91,107	57,734	1,625	269,397
Other supplies and expenses	2,210,236	497,269	638,109	558	3,346,172
Insurance claims and expenses	90,800	10,760	38,916	-	140,476
Depreciation	4,227,959	100,891	305,780	7,285	4,641,915
Total operating expenses	<u>13,877,602</u>	<u>14,032,861</u>	<u>4,813,176</u>	<u>27,055</u>	<u>32,750,694</u>
Operating income	<u>939,433</u>	<u>(411,335)</u>	<u>2,103,005</u>	<u>(27,055)</u>	<u>2,604,048</u>
Nonoperating revenue (expenses)					
Interest and investment revenue	927,058	807,578	299,711	-	2,034,347
Miscellaneous revenue	-	539,799	302,067	-	841,866
Interest expense	(1,008,632)	-	-	-	(1,008,632)
Miscellaneous expense	-	-	-	-	-
Total nonoperating expenses	<u>(81,574)</u>	<u>1,347,377</u>	<u>601,778</u>	<u>-</u>	<u>1,867,581</u>
Income (loss) before contributions & transfers	857,859	936,042	2,704,783	(27,055)	4,471,629
Capital contributions	830,550	-	-	-	830,550
Transfers in	3,449,222	306,000	-	-	3,755,222
Transfers out	<u>(3,599,509)</u>	<u>(457,900)</u>	<u>(235,451)</u>	<u>-</u>	<u>(4,292,860)</u>
Change in net assets	1,538,122	784,142	2,469,332	(27,055)	4,764,541
Total net assets - beginning	62,689,479	27,208,235	14,797,640	601,189	105,296,543
Prior Period Adjustments	-	-	-	-	-
Total net assets - ending	<u>\$ 64,227,602</u>	<u>\$ 27,992,377</u>	<u>\$ 17,266,972</u>	<u>\$ 574,134</u>	<u>\$ 110,061,084</u>

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended December 31,2008

	Governmental Activities Internal Service Funds
Operating revenues:	
Charges for services	\$ 18,674,678
Miscellaneous	80,094
Total operating revenues	<u>18,754,772</u>
Operating expenses:	
Personal services	5,153,247
Contractual services	1,224,682
Utilities	32,807
Repair and maintenance	1,017,809
Other supplies and expenses	6,348,198
Insurance claims and expenses	1,455,192
Depreciation	1,437,616
Total operating expenses	<u>16,669,551</u>
Operating income	<u>2,085,221</u>
Nonoperating revenue (expenses)	
Interest and investment revenue	-
Miscellaneous revenue	-
Interest expense	-
Miscellaneous expense	-
Total nonoperating expenses	<u>-</u>
Income (loss) before contributions & transfers	2,085,221
Capital contributions	78,804
Transfers in	385,000
Transfers out	<u>(223,603)</u>
Change in net assets	2,325,422
Total net assets - beginning	28,767,584
Prior Period Adjustments	-
Total net assets - ending	<u>\$ 31,093,006</u>

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

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2008

	Business-type Activities - Enterprise Funds				Total
	Sanitary Sewer	Solid Waste	Surface Water Utility	Other Non-Major Fund	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$13,168,161	\$14,184,315	\$ 6,830,638	\$ -	\$ 34,183,114
Payments to suppliers	(5,546,624)	(12,846,844)	(2,720,247)	(17,457)	(21,131,172)
Payments to employees	(4,842,365)	(1,576,955)	(1,908,921)	-	(8,328,241)
Net cash provided by operating activities	<u>2,779,172</u>	<u>(239,484)</u>	<u>2,201,470</u>	<u>(17,457)</u>	<u>4,723,701</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants received	-	329,222	274,834	-	604,056
Transfers	(150,287)	(151,900)	(235,451)	-	(537,638)
Net cash provided by noncapital activities	<u>(150,287)</u>	<u>177,322</u>	<u>39,383</u>	<u>-</u>	<u>66,418</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	830,550	-	-	-	830,550
Purchases of capital assets	(1,044,634)	(8,165)	(1,407,480)	-	(2,460,279)
Principal paid on capital debt	(2,359,596)	-	-	-	(2,359,596)
Interest paid on capital debt	(1,088,815)	-	-	-	(1,088,815)
Net cash from related financing activities	<u>(3,662,495)</u>	<u>(8,165)</u>	<u>(1,407,480)</u>	<u>-</u>	<u>(5,078,140)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	4,190,233	1,375,000	4,000,000	-	9,565,233
Purchase of Investment	(5,439,578)	(2,089,741)	(5,113,204)	-	(12,642,523)
Interest and dividends	927,058	807,578	299,711	-	2,034,347
Net cash provided by investing activities	<u>(322,287)</u>	<u>92,837</u>	<u>(813,493)</u>	<u>-</u>	<u>(1,042,943)</u>
Net (decrease) in cash and cash equivalents	(1,355,897)	22,510	19,880	(17,457)	(1,330,964)
Balances - beginning of the year	3,533,938	2,654,731	1,642,545	177,428	8,008,642
Balances - end of the year	<u>\$ 2,178,041</u>	<u>\$ 2,677,241</u>	<u>\$ 1,662,425</u>	<u>\$ 159,971</u>	<u>\$ 6,677,678</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 939,433	\$ (411,335)	2,103,005	\$ (27,055)	\$ 2,604,048
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	4,227,959	100,891	305,780	7,285	4,641,915
Change in assets and liabilities:					
Receivables, net	(1,532,465)	147,031	(33,154)	-	(1,418,588)
Due from other funds	(116,409)	22,588	(52,389)	-	(146,210)
Due from other governments	-	-	-	-	-
Inventories	(33,610)	-	-	-	(33,610)
Prepaid	-	-	-	-	-
Accounts and other payables	(627,148)	(118,606)	153,995	2,313	(589,446)
Due to other funds	(79,143)	(16,534)	(251,368)	-	(347,045)
Due to other governments	(24,380)	(7,809)	(79,258)	-	(111,447)
Employee benefits	-	-	-	-	-
Accrued expenses	24,920	26,835	39,450	-	91,205
Deposit with Fiscal Agents	15	17,455	15,409	-	32,879
Net cash provided by operating activities	<u>\$ 2,779,172</u>	<u>-\$ 239,484</u>	<u>\$ 2,201,470</u>	<u>\$ (17,457)</u>	<u>\$ 4,723,701</u>

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

Statement of Cash Flows**Proprietary Funds**

For the Year Ended December 31,2008

	Governmental Activities
	Internal service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 19,224,693
Payments to suppliers	(10,011,344)
Payments to employees	(5,106,262)
Net cash provided by operating activities	<u>4,107,087</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants received	-
Transfers	161,397
Net cash provided by noncapital activities	<u>161,397</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	78,802
Purchases of capital assets	(1,012,134)
Principal paid on capital debt	-
Interest paid on capital debt	-
Net cash from related financing activities	<u>(933,332)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	-
Purchase of Investment	-
Interest and dividends	-
Net cash provided by investing activities	<u>-</u>
Net (decrease) in cash and cash equivalents	3,335,152
Balances - beginning of the year	19,949,100
Balances - end of the year	<u>\$ 23,284,252</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	<u>\$ 2,085,221</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	1,437,616
Change in assets and liabilities:	
Receivables, net	(4,777)
Due from other funds	469,919
Due from other governments	-
Inventories	161,566
Prepaid	-
Accounts and other payables	(300,005)
Due to other funds	93,510
Due to other governments	-
Employee benefits	-
Accrued expenses	117,052
Deposit with Fiscal Agents	46,985
Net cash provided by operating activities	<u>\$ 4,107,087</u>

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

KITSAP COUNTY, WASHINGTON

Statement of Fiduciary Net Assets

December 31, 2008

	<u>Employee Deferred Compensation</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$ -	\$ 29,416,391
Deposits with Fiscal Agents	19,102,222	85,000
Investments		149,302,598
Taxes Receivable		9,212,810
Other Current Receivables		154,858
Due From Other Funds		-
Due From Other Governments		83,627
Total Assets	<u>\$19,102,222</u>	<u>\$ 188,255,284</u>
LIABILITIES		
Warrants Payable		\$ 5,789,073
Accounts Payable		
Sales Tax Payable		
Other Accrued Liabilities		
Due to Other Funds		1,536
Due to Other Governments		1,750
Custodial Account		182,462,925
Total Liabilities	<u>\$ -</u>	<u>\$ 188,255,284</u>
NET ASSETS		
Held in trust for pension benefits and other purposes	\$19,102,222	

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

KITSAP COUNTY, WASHINGTON

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended December 31, 2008

	Employee Deferred <u>Compensation</u>
ADDITIONS	
Contributions:	
Employer	\$ -
Plan Members	1,778,404
Total Contributions	<u>1,778,404</u>
Roll-Ins	-
Investment Earnings	(8,279,341)
Total Additions	<u>(6,500,937)</u>
DEDUCTIONS	
Benefits	(2,148,384)
Others	-
Total Deductions	<u>(2,148,384)</u>
Change In Net Assets	(8,649,322)
Net Assets-Beginning Of The Year	27,751,544
Net Assets-End Of The Year	<u>\$ 19,102,222</u>

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2008

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KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2008

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 Kitsap County voters elected the three-member board on a partisan basis to serve overlapping 4-year terms. The Board of County Commissioners is the legislative body. It also has a quasi-judicial role in dealing with land use matters. The body is also responsible for all administrative duties of running the County, which are not expressly given to any other County position.

Discretely presented component units. The Public Facility District (PFD) is governed by the seven member board appointed by the board of county commissioners. It is legally separate. The District is responsible for the construction of the Kitsap 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 Public Facility District projects through an \$11.395 million bond issue while the Public Facility District pledged its tax revenues to the County through an inter-local government agreement. The debt is reported on the County's books. The component unit does not issue separate financial statements.

Blended component units. The Industrial Development Corporation of Kitsap County was created and approved by the Kitsap County Board of Commissioners on May 17, 1999 to construct and maintain industrial facilities throughout Kitsap County. All three county commissioners are its board of directors; therefore, the County is financially responsible for the operation of the corporation. IDC sold \$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, and interest on the bonds, and certain other fees and expenses and to make payments sufficient to pay the purchase price of bonds tendered or deemed tendered for purchase to the extent that other moneys are not available. The corporation did not have any activity; therefore there is nothing to report.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Inter-fund 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.

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 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 the 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 the County receives cash.

The County reports the following major governmental funds:

The **general fund** is the County's operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **county 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 **Home Entitlement** fund is used to account for Home Entitlement grant funds.

The County reports the following major proprietary funds:

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

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

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 provided Information and Computer services, Self-Insurance program, and Equipment Rental and Repair services to other departments or agencies of the county, or to other agencies, on a cost reimbursement basis.

The fiduciary funds for Kitsap County are as follows:

Employee Deferred Compensation trust fund is used to account for the employee's deferred compensation plan, which accumulates resources for pension benefit payments to the individual contributors.

Agency funds are used to account for the funds held in a custodial nature for other governmental entities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this

same limitation. The County has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of the inter-fund activity has been eliminated for the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Indirect costs are allocated by either the number of staff, or the square footage of the office occupancy. Insurance costs are allocated by the number of staff covered, and information services costs that are not direct 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 the sewer, the collection fees for the solid waste, use charges for the surface water, and the golf course. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the County's policy to use unrestricted resources first and then restricted resources as needed.

D. 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. Budgets were not adopted for these funds in 2008 because no expenditures were anticipated in 2008. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for one fiscal year. They are re-budgeted every year throughout the fiscal periods of the debt or the capital project.

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).

Encumbrance 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 reappropriated and honored during the subsequent year.

Budget Policies and Control: Kitsap County's budget procedures comply with chapter 36.40 of the Revised Code of Washington. Budgets may be administratively revised within all funds except the General fund, as long as total appropriations are not changed. General fund department budgets may be revised administratively as long as the department total appropriation is not changed. In accordance with the laws of the State of Washington, any unexpended appropriation balances lapse at the close of the fiscal year.

The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with 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 the United States on a basis consistent with the legally adopted budgets as amended.

Funds for which budgets were not adopted in 2008:

- Human Resources Board Fund
- Treasurer's Maintenance & Operations Fund
- Cumulative Reserve Fund
- GMA Transportation Impact Fees Fund
- Point No Point Park Fund
- Indianola Fund
- Bucklin Ridge Park Development Fund
- Clear Creek Education Fund
- McCormick Village Traffic 1 Fund
- McCormick Village Park 1 Fund
- Juvenile Services Facility Fund
- General Obligation Bonds 1999B Fund
- Jail Construction Fund

2. Budget revision.

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

Fund Description	Original Budget	Budget Change	Final Budget
General Fund	\$ 87,617,666	1,818,908	\$ 89,436,574
County Road Funds	\$ 39,471,982	32,000	\$ 39,503,982
Real Estate Excise Tax	\$ 7,963,058	2,272,888	\$ 10,235,946
Non Major funds	\$ 64,675,915	12,623,805	\$ 77,299,720
		\$ 16,747,601	

3. Excess of expenditures over appropriations.
For the year ended December 31, 2008 expenditures did not exceed appropriations in any of the general fund departments

4. Deficit Balance
At December 31, 2008, the following fund reported a deficit balance of fund nets assets, which is a violation of state statute:

Fund	Deficit
Community Development	\$239,078

The county has taken steps to address this issue in 2009 by issuing an operating transfer of \$715,764 from the General fund. This transfer offset the deficit as well as provide for additional 2009 expenditures of Community Development.

E. Assets, Liabilities and Equity

1. Cash and Cash Equivalents
It is the County's policy to maximize its investment earnings by investing most of the temporary cash surpluses. At December 31, 2008, the treasurer was holding \$ 90.40 million in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and investments 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.

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 more information in Note 5.)

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Property Taxes Note 6.) 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.

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

Activity 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 15 (See 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.

5. Inventories and Prepaid Items

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. A comparison to market value is not considered necessary.

Inventories in proprietary funds are valued at cost using the weighted average method.

6. Restricted Assets

Certain proceeds of the County's enterprise fund revenue bonds, capital project funds, and debt service funds as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets 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 7)

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 a cost of more than \$5,000 for assets and \$25,000 for infrastructure (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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the county during the current fiscal year is \$1,008,632. Of this amount, none was included as part of the cost of capital assets under construction in connection sewer projects.

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

Asset Category	Useful Life 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, 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 11)**

11. **Deferred Revenues**
This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria has not been met.
12. **Fund Reserves and Designations**
In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT

A. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets.

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

B. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 4. CASH AND DEPOSITS

The County's cash, deposits and certificates of deposit are entirely covered by federal depository insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. The book value does not differ materially from the bank balance of deposits.

NOTE 5. INVESTMENTS

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, certificates of deposit or money market deposits with Washington state banks and savings and loan institutions. All temporary investments are stated at fair market value. Other property and investments are shown on the statement of net assets at cost.

All securities purchased by the County are held by a third-party custody provider in the County's name. In September, 2006, that custody provider became Union Bank of California.

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.

Table values expressed in millions of dollars

Investment Type	Weighted Average Maturities	%	Amortized Cost	Fair value of county's investments	Fair value of investments held by county as an agent for other local governments	Total Fair Value
FHLB	1.58	13.7%	\$ 45.87	\$ 22.20	\$ 24.04	\$ 46.24
FFCB	2.8	12.7%	42.30	\$ 20.66	\$ 22.38	43.04
FHLMC	2.69	25.4%	84.74	\$ 41.07	\$ 44.50	85.57
FNMA	2.72	13.3%	44.32	\$ 21.54	\$ 23.33	44.87
Money Mark	0	3.6%	11.93	\$ 5.73	\$ 6.20	11.93
WS ST LGIP	0	28.4%	95.05	\$ 45.62	\$ 49.43	95.05
Cert of Dep	0.32	3.0%	10.04	\$ 4.82	\$ 5.22	10.04
	Years	100%	\$ 334.25	\$ 161.64	\$ 175.10	\$ 336.74

Fair Value includes accrued interest of \$1.87

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

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 federal depository insurance 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 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 deposits, 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 6. PROPERTY TAXES

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

Property Tax Calendar	
January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. The balance of taxes receivable includes related interest and penalties. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The County's regular levy for the year 2008 was 0.8419 per \$1,000 on an assessed valuation of \$32,652,262,207 for a total regular levy of \$27,541,409.

The County's road levy for the year 2008 was \$1.1395 per \$1,000 on an assessed valuation of \$20,773,992,162 for total road levy of \$23,737,040.

Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

Assessments are levied against properties located within sewer utility local improvement districts and are recorded as Assessments Receivable and Contributed Capital when assessment rolls are issued. The proceeds are restricted for payment of revenue bond principal and interest.

Special assessments for road improvement districts are recorded as Assessment Receivable and Deferred Revenue when assessment rolls are issued. Special assessments are recognized as revenue only to the extent those individual installments are considered current assets. The proceeds are restricted for payment of special assessment bond principal and interest.

NOTE 7. CAPITAL ASSETS

The following is the summary of changes in capital assets activity for the year ended December 31, 2008:

	<i>Beginning Balance</i>	<i>Increase</i>	<i>Decrease</i>	<i>Ending Balance</i>
Government activities:				
Assets not being depreciated				
Land	\$ 52,570,502	\$ 3,993,483	\$ -	\$ 56,563,985
Land - Infrastructure	59,840,142	1,182,676	-	\$ 61,022,818
Construction in Progress	26,929,494	15,523,214	16,805,726	\$ 25,646,982
Total	139,340,138	20,699,373	16,805,726	\$ 143,233,786
Assets being depreciated				
Buildings	121,254,305	1,402,655	156,292	\$ 122,500,667
Building Improvements	23,500,792	4,050,088	175,284	\$ 27,375,596
Infrastructure	373,109,393	11,939,230	-	\$ 385,048,623
Equipment & Machinery	51,387,112	3,392,353	5,618,519	\$ 49,160,946
Total	569,251,602	20,784,326	5,950,095	\$ 584,085,833
Total capital assets	708,591,740	41,483,699	22,755,821	\$ 727,319,618
Less accumulated depreciation				
Buildings	22,786,895	2,695,592	45,871	\$ 25,436,616
Building Improvements	6,507,670	1,118,699	151,043	\$ 7,475,326
Infrastructure	226,952,244	13,313,725		\$ 240,265,969
Equipment & Machinery	27,051,548	3,603,832	5,015,005	\$ 25,640,375
Total	283,298,357	20,731,848	5,211,919	\$ 298,818,286
Government activities capital assets, net	\$ 425,293,382	\$ 20,751,853	\$ 17,543,902	\$ 428,501,333

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

Function/Program	Amount
Government activities:	
General government	\$ 1,632,296
Judicial Services	18,591
Public safety	3,619,147
Transportation	14,055,646
Health & Human service	150,687
Economic environment	15,942
Culture & recreation	1,239,539
Total	\$ 20,731,848

	Beginning Balance	Increase	Decrease	Ending Balance
Business-type activities				
Assets not being depreciated				
Land	\$ 2,021,221	\$ 804,500	\$ -	\$ 2,825,721
Construction in Progress	8,946,706	584,899	425,825	9,105,780
Total	10,967,927	1,389,399	425,825	11,931,501
Asset being depreciated				
Building	43,026,193		-	43,026,193
Building Improvements	66,032,439	1,493,931	-	67,526,370
Equipment & Machinery	7,112,934	26,248	-	7,139,182
Total	116,171,566	1,520,179	-	117,691,745
Grand Total	127,139,493	2,909,578	425,825	129,623,246
Less accumulated depreciation				
Building	22,439,657	1,787,683	1,355	24,225,985
Building Improvements	26,039,747	2,271,825	-	28,311,572
Equipment & Machinery	4,739,089	583,760	-	5,322,849
Total	53,218,493	4,643,268	1,355	57,860,406
Business-type activities capital assets, net	\$ 73,921,000	\$ (1,733,690)	\$ 424,470	\$ 71,762,840

Construction commitments

The County has active construction projects as of December 31, 2008. The projects include renovation of the County Courthouse, a new Coroner Facility, and the Central Kitsap Community Campus.

At year-end, the County's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Courthouse renovation	\$ 1,924,521	\$ -
Coroner Facility	2,370,711	800,000
Central Kitsap Community Campus	102,151	111,000
Total	\$ 4,397,384	\$ 911,000

NOTE 8. PENSION PLANS

Substantially all County full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems,

Communications Unit,
P.O. Box 48380,
Olympia, WA 98504-8380.

The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 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

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

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of the legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and, by either February 28, 2002 for state and higher education employees or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. 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 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in the state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. 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 annual benefit is 2 percent of the average final compensation per year of service, capped at 60 percent. (The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months). Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides

an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the average final compensation per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period). Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced 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.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation (AFC) per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire at age 55 with 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise, an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Judicial Benefit Multiplier

Beginning January 1, 2007 through December 31, 2007, judicial members of PERS may choose to participate in the Judicial Benefit Multiplier Program (JBM). Justices or judges in PERS Plan 1 and 2 were able to make a one-time 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 average financial compensation. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of average compensation.

Members who chose to participate in JBM 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 average financial compensation, pay higher contributions, stop contributing to the Judicial Retirement Account (JRA), 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; continue

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

Newly elected 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 to participate in 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 1,190 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	71,244
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	26,583
Active Plan Members Vested	105,447
Active Plan Members Non-vested	52,575
Total	255,849

Funding policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected 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. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. 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, 2008, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	8.31%**	8.31%**	8.31%***
Employee	6.00%****	5.45%****	*****

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

** The employer rate for the state elected officials is 12.39% for Plan 1 and 8.31% 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 5.45% for Plan 2.

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

Members participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer - State	10.81%	10.81%	10.81%**
Agency*			
Employer - Local	8.31%	8.31%	8.31%**
Gov.*			
Employee - State	9.76%	11.13%	7.50%***
Agency			
Employee - Local	12.26%	13.63%	7.50%***
Gov.			

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

** Plan 3 defined benefit portion only.

*** Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2008	\$ 215,418	\$ 3,194,204	\$ 690,493
2007	\$ 182,206	\$ 2,504,110	\$ 601,393
2006	\$ 111,284	\$ 1,306,570	\$ 517,894

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

Plan description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters and, as of July 24, 2005, those emergency medical technicians who were given the option and chose LEOFF Plan 2 membership. LEOFF membership is comprised primarily of non-state employees, with the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception.

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 for the LEOFF Plan 2 retirement plan.

LEOFF defined benefit 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. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

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 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
20 or more years	2.00%
10 but less than 20 years	1.50%
5 but less than 10 years	1.00%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age 50 with 20 years of service, or at the age 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. 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. 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 three percent annually.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	9,085
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	633
Active Plan Members Vested	12,904
Active Plan Members Nonvested	3,708
Total	26,330

Starting on July 1, 2000, LEOFF Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements 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.

The required contribution rates expressed as percentage of current-year covered payroll, as of December 31, 2008, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.46%**
Employee	0.00%	8.83%
State	N/A	3.53%

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

** The employer rate for ports and universities is 8.99%.

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

	LEOFF Plan 1	LEOFF Plan 2
2008	\$ 271	\$ 461,903
2007	\$ 287	\$ 442,481
2006	\$ 441	\$ 386,283

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2. PSERS was created by the 2004 legislature and became effective July 1, 2006.

PSERS Plan 2 membership includes full-time employees of a covered employer on or before July 1, 2006, who met at least one of the PSERS eligibility criteria, and elected membership during the election period of July 1, 2006 to September 30, 2006; and those 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: State of Washington agencies: Department of Corrections; Department of Natural Resources, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, and Liquor Control Board; Washington state counties; and Washington state cities except for Seattle, Tacoma and Spokane.

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

- have completed a certified criminal justice training course with the 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 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PSERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PSERS Plan 2 members are vested after the completion of five years of eligible service. PSERS Plan 2 members may retire 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, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 retirees 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. 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.

There are 71 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2007:

Retirees and Beneficiaries Receiving Benefits	0
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	0
Active Plan Members Vested	0
Active Plan Members Non-vested	2,755
TOTAL	2,755

Funding Policy

Each biennium, the state Pension Funding Council adopts PSERS 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. All employers are required to contribute at the level established by the Legislature. 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, 2008 were as follows:

	PSERS Plan 2
Employer*	9.43%
Employee	6.57%

*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	
2008	\$	354,583
2007	\$	279,281
2006	\$	52,805

NOTE 9. RISK MANAGEMENT

The county is exposed to various risks of loss related to torts, theft, damage to, and destruction of assets, errors or omissions, injuries to employees, and natural disasters. RCW 48.62 authorizes the governing body of any governmental entities to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The County uses the Washington Counties Risk Pool to insure its liability risks including public officials' errors and omissions. The Pool was formed on August 18, 1988, and it currently has 29 participating counties. The members are required to remain in the program for a minimum of five years and must give a one-year notice before terminating membership. A member county is still responsible for contributions to the pool for unresolved, unreported, and in-process claims for the period that it was a signatory to the inter-local agreement. The settlements did not exceed the insurance coverage for any of the programs in the last three years.

Workers compensation

The County assumes risk for Workers compensation as allowed by the State statute up to \$400,000 per occurrence. Losses above that amount are covered by excess workers' compensation insurance with statutory limits. Each department of the County is charged based on actuarial studies of the loss history, which are performed every two years. As of December 31, 2008, the County's estimated total undiscounted outstanding liability for the workers' compensation program is approximately \$1,950,000. It is funded at the 60% confidence level.

Workers Compensation	Year ended	
	31-Dec-07	31-Dec-08
Unpaid claims, beginning of fiscal year	\$ 2,071,317	\$ 1,950,000
Incurred claims (including IBNRs)	901,071	977,340
Claim payments	(1,022,388)	(1,130,663)
Unpaid claims, end of fiscal year	\$ 1,950,000	\$ 1,796,677

General Liability	Year ended	
	31-Dec-07	31-Dec-08
Unpaid claims, beginning of fiscal year	\$ 2,512,317	\$ 2,881,305
Incurred claims (including IBNRs)	983,212	1,121,119
Claim payments	(614,224)	(923,170)
Unpaid claims, end of fiscal year	\$ 2,881,305	\$ 3,079,254

General liability

The County has \$20,000,000 per occurrence liability protection with a \$500,000 deductible with the Washington Counties Risk Pool (WCRP). The County is responsible for the first \$500,000; the Pool acquires reinsurance from unrelated underwriters to cover all losses above \$100,000 per occurrence. The Pool reinsures the risks to the maximum policy limit. The County has never had a claim in excess of the policy limits. This policy also covers auto liability, employment and public officials' liability.

Property insurance

The county has a \$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. This policy is endorsed to include a Position bond, which provides certain elected officials with bond coverage as required by the State statute.

NOTE 10. SHORT-TERM DEBT

During the year, the County obtained a short-term loan in the amount of \$2,500,000 from County Roads for the purpose paying expenditures of the County's current expense fund and other funds pending the receipt of taxes and other revenues, thereby maintaining a positive fund balance within the General Fund.

Short term debt activities for the year ended December 31, 2008 were as follows:

Year ending December 31, 2008	Beginning Balance	Proceeds	Repayment	Ending Balance
County Roads Loan	\$0	\$2,500,000	\$2,500,000	\$0
Total Short-Term Debt	\$0	\$2,500,000	\$2,500,000	\$0

NOTE 11. 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.

As of December 31, 2008 the debt limits for the County were as follows:

	Without a Vote	With a Vote	
		2.50%	5.00%
Legal Limit	\$ 489,783,933	\$ 816,306,555	\$ 1,632,613,110
Applicable Outstanding Debt	108,809,269	108,809,269	108,809,269
Margin Available	\$ 380,974,664	\$ 707,497,286	\$ 1,523,803,841

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 & Purpose	Maturity Range	Interest Rate %	Original Amount	Amount of Installment
1996 - Refunding	11/1/09 - 11/1/12	5.4 - 5.7	\$9,875,000	1,530,000 - 2,675,000
1999 - Open space purchase	12/1/09 - 12/1/18	4.25 - 4.9	5,100,000	250,000 - 375,000
1999B - Purchase 911 equip	7/1/09 - 7/1/19	4.85 - 5.3	10,680,000	70,000 - 515,000
2000 - Jail Addition	7/1/09 - 7/1/10	4.85 - 4.9	20,000,000	600,000 - 630,000
2001 - Refunding	11/1/09 - 11/1/20	4.50 - 5.0	11,215,000	235,000 - 495,000
2002A - Special Event Center	10/1/09 - 10/1/26	4.45 - 5.375	11,395,000	395,000 - 910,000
2003 - Public Works Annex	12/1/09 - 12/1/27	3.5 - 4.875	10,250,000	335,000 - 565,000
2003B - Administrative Building	12/1/09 - 12/1/28	3.0 - 4.75	17,805,000	400,000 - 1,465,000
2004 - Gen. Govt. - Refunding	7/1/09 - 7/1/29	3.25 - 5.0	20,664,719	465,000 - 1,075,000
2004 - Bus.-type - Refunding	7/1/09 - 7/1/09	3.25 - 3.25	535,281	113,595 - 113,595
2005 - Refunding	7/1/09 - 7/1/25	3.25 - 5.0	18,995,000	35,000 - 1,500,000
2006 - Improve Bldgs & Parks	7/1/09 - 7/1/31	4.0 - 5.0	18,085,000	505,000 - 985,000
Total			\$ 154,600,000	

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

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	6,131,405	4,870,114	113,595	3,692
2010	6,110,000	4,600,014	-	-
2011	4,170,000	4,322,576	-	-
2012	7,035,000	4,135,491	-	-
2013	4,730,000	3,783,994	-	-
2014 - 2018	24,575,000	15,647,526	-	-
2019 - 2023	27,720,000	9,498,900	-	-
2024 - 2028	19,325,000	3,245,948	-	-
2029 - 2033	3,070,000	257,488	-	-
Total	\$ 102,866,405	\$ 50,362,051	\$ 113,595	\$ 3,692

Notes Payable

The County has a Note Payable of \$5.060 million due to the Kitsap County Consolidated Housing Authority from the purchase of part of the Norm Dick's Government Center. The County has since sold a portion of the property to the Kitsap County Health District. The County signed a \$5.060 million note with the Kitsap County Health District, which will be used to repay the Kitsap County Consolidated Housing Authority.

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2009	110,000	243,320
2010	112,500	239,745
2011	117,500	235,805
2012	122,500	231,515
2013	127,500	226,764
2014 - 2018	725,000	1,045,709
2019 - 2023	917,500	848,878
2024 - 2028	1,170,000	595,753
2029 - 2033	1,490,000	272,625
2034	167,500	8,375
Total	5,060,000	3,948,488

As of December 31, 2008 the County had \$5,000 outstanding in special assessment debt to provide funds for the construction of streets in new residential developments. The bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the County must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received.

Debt service requirements for special assessments are:

Special Assessment Bonds

Year Ending December 31	Governmental Activities	
	Principal	Interest
2009	-	268
2010	-	268
2011	-	268
2012	-	268
2013	5,000	268
Total	\$ 5,000	\$ 1,338

B. Revenue bonds

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

Issued Name & Purpose	Maturity Range	Interest Rate %	Original Amount	Amount of Installment
Sewer 1999	12/1/09 - 12/1/18	4.30 - 5.1	11,010,000	540,000 - 810,000
Sewer Refunding 2001	7/1/09 - 7/1/16	4.25 - 5.625	13,075,000	1,115,000 - 1,620,000
D.O.E. Loan # L0400026	5/1/09 - 5/1/25	1.5	14,188,000	238,434 - 303,064
PWTF Loan # PW-01-691-036	7/1/09 - 7/1/21	0.5	2,605,000	150,816 - 150,816
Total			\$ 40,878,000	

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

Year Ending December 31	Revenue Bonds	
	Principal	Interest
2009	1,695,000	869,630
2010	1,765,000	797,323
2011	1,840,000	721,470
2012	1,915,000	641,808
2013	2,010,000	545,235
2014 - 2018	8,295,000	1,098,135
Total	\$ 17,520,000	\$ 4,673,600

Year Ending December 31	Ecology & PWTF Loans	
	Principal	Interest
2009	629,478	141,829
2010	636,707	133,845
2011	644,046	125,752
2012	651,496	117,549
2013	659,058	109,233
2014 - 2018	3,412,778	417,362
2019 - 2023	3,318,083	192,328
2024 - 2028	902,419	13,613
Total	\$ 10,854,064	\$ 1,251,510

C. Compensated absences

It is the policy of the County to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave earned after January 1, 1984. Sick leave earned before January 1, 1984 is payable at 50% at retirement or death, and employees may accumulate up to a maximum of 150 days.

All vacation pay is accrued when incurred in the government-wide, and proprietary fund financial statements. An employee may accumulate up to 360 hours (45 days). All outstanding vacation leave is payable upon resignation, retirement, or death.

NOTE 12. 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.

NOTE 13. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bond payables:					
General obligation bonds	\$ 108,789,165	\$ -	\$ 5,922,760	\$ 102,866,405	\$ 6,131,405
Special assessment debt	45,000	-	40,000	5,000	-
Total bond payable	108,834,165	-	5,962,760	102,871,405	6,131,405
Compensated absences	4,826,018	4,389,819	4,025,263	5,190,574	637,724
Internal services comp.	180,662	211,152	164,167	227,647	22,765
Notes payable	5,247,500	-	127,500	5,120,000	130,000
Net OPEB obligation	758,601	838,863	-	1,597,464	-
Other liabilities	788,181	-	78,912	709,269	78,912
Governmental-activities Long-term liabilities	\$ 120,635,127	\$ 5,439,834	\$ 10,358,602	\$ 115,716,359	\$ 7,000,806
Business-type activities					
Bond payable:					
General obligation bonds	\$ 220,835	\$ -	\$ 107,240	\$ 113,595	\$ 113,595
Unamortized premium	\$ 11,137	\$ -	\$ 9,281	\$ 1,856	\$ 1,856
Revenue bonds	19,150,000	-	1,630,000	17,520,000	1,695,000
Unamortized premium	417,856	-	47,431	370,425	47,432
Total bond payable	19,799,828	-	1,793,952	18,005,876	1,857,883
Other liabilities	11,476,421	-	622,356	10,854,065	629,478
Compensated absences	448,941	476,051	443,171	481,821	71,478
Business-type activities Long-term liabilities	\$ 31,725,190	\$ 476,051	\$ 2,859,479	\$ 29,341,762	\$ 2,558,839
Total	\$ 152,360,317	\$ 5,915,885	\$ 13,218,081	\$ 145,058,121	\$ 9,559,645

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. The General fund generally liquidates the claims, judgments, and compensated absences from the governmental activities.

All bond issues comply with arbitrage regulations as verified by an outside consultant, Arbitrage Compliance Specialists, Inc. Five-year reports are prepared as required.

NOTE 14. 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.

As of the December 31, 2008, the County acts as guarantor of several Kitsap County Consolidated Housing Authority's bond issues. There is an outstanding balance of \$52.25 million as of December 31, 2008. See subsequent event note 19B, the County assumed \$36.18 million of this debt May 18, 2009.

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 15. INTER-FUND BALANCES AND TRANSFERS

1. Advances to/From other funds

The Advance balance is the outstanding long-term loan between funds. It is usually more than one year.

Advances From	Advances To	
	Non Major	Total
General Fund	160,000	\$ 160,000
County Roads	\$ 500,000	\$ 500,000

2. Due from other funds/Due to other funds

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Due to other funds	Due from other funds									
	Gen. Fund	County Roads	Home Entitlemt	Non Major	Solid Waste	Sewer Utility	Surface Stormwter	Internal Service	Agency Funds	Total
General Fd	21,060	196,838	\$ 711	100,645	\$ 5,564	\$ 129,389	\$ 113	92,666	0	546,986
County Rds	2,692	843,807		161,225	2,617	8,203	27,889	32,690	0	1,079,123
Home Entitlement				-						-
Non Major	158	248,702	-	105,624	1,880		32,282		1,536	390,182
Solid Waste	48	2,964			620,319	891	1,165			625,387
Sewer Utility	233	5,336		38,811	77,656	-	21,358	71,303	0	214,697
Surface Storm	129	31,308		20,500	11,415	19,150	48,601			131,103
Ent. Non Major	-	-			-	-			0	-
Internal Serv.	4,900	461,002		1,254		7,677	134,615			609,447
Total	29,218	1,789,957	711	428,059	719,450	165,310	266,023	196,659	1,536	3,596,924

3. Transfers

Transfers are used to 1) move revenues from funds with collection authorization to the debt service funds as debt principal and interest payments become due, 2) move unrestricted revenues to finance various programs that the county must account for in other funds.

TRANSFERS-FUND FINANCIAL STATEMENTS							
IN	General	County	Real Estate	Mental	Non	Internal	
OUT	Fund	Roads	Excise tax	Health	Major	Service	Total
General Fund	-	-	-	-	3,380,284	385,000	3,765,284
County Roads	-	-	-	-	615,917	-	615,917
REET	-	-	-	-	5,133,275	-	5,133,275
Mental Health	-	-	-	-	-	-	-
Nonmajor	2,873,888	1,198,000	-	-	4,823,650	-	8,895,538
Solid Waste	-	-	-	-	151,900	-	151,900
Surface Stormwater	-	-	-	-	235,451	-	235,451
Sewer	-	-	-	-	150,287	-	150,287
Nonmajor Ent	-	-	-	-	-	-	-
Int. Serv	200,000	-	-	-	23,603	-	223,603
Total	3,073,888	1,198,000	-	-	14,514,367	385,000	19,171,255

NOTE 16. RECEIVABLES AND PAYABLES.

Federal grants and assistance awards made on the basis of entitlement periods are reported as “due from other government” (inter-government receivables) and revenues in the year in which entitlement occurs. Federal or state reimbursement type grants for the acquisition of capital assets of proprietary fund types are reported as “due from other government” (inter-governmental receivables) and “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 government” (inter-governmental receivables) and revenues in the year in which the related expenditure or expenses are incurred.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned.

The County has an \$11.015 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 pay the County back. The debt is carried on the County’s books and the note is reflected on the PFD books as well.

NOTE 17. DEFERRED COMPENSATION

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property

and rights of the County (without being restricted to the provisions of the benefits under the plan). It is subject only to the claims of the County's general creditors. Participants' rights under the plan are equal to those of general creditors of the County in an amount equal to the fair value of the deferred account for each participant.

It is the opinion of the County legal counsel that the County has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The County believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The investment carrying values of the plans are as follows:

Investment company	Fair Value
PEBSCO	\$ 10,047,733
ING	3,903,832
Hartford	4,756,645
ICMA	394,012
Total	\$ 19,102,222

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 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, 2008 there were 42 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 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 56.22 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 September 30, 2006 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 cost method used to determine the actuarial accrued liability was Projected Cost Credit. These assumptions are individually and collectively reasonable for the purposes of this valuation.

