



FINANCIAL SECTION

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Washington State Auditor
Brian Sonntag

June 21, 2012

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 Kitsap County, Washington, as of and for the year ended December 31, 2011, 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 Kitsap County, Washington, as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Road, Real Estate Excise Tax and Mental Health Medicaid funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended December 31, 2011, the County has implemented the Governmental Accounting Standards Board Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with *Government Auditing Standards*, we will also issue our report dated June 21, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 and information on postemployment benefits other than pensions on page 89 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 financial statements and supplementary information on pages 90 through 223 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the Introductory and the Statistical Section is presented for purposes of additional analysis and is not a required part of the basic financial statements of the County. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is stylized and cursive.

BRIAN SONNTAG, CGFM
STATE AUDITOR

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2011

As management of Kitsap County, we offer readers of Kitsap County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2011. 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 \$515.86 (net assets). Of this amount, \$112.44 (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 \$.31 with a \$.34 decrease on the Governmental side and a \$.65 increase on the Business-Type side. The Governmental side saw an increase of \$.85 apart from a Special Item. This Special item was the demolition of a building with book value of \$1.19, see note 19B for further details.
- As of the close of the current fiscal year, Kitsap County's governmental funds reported combined ending fund balances of \$80.42, an increase of \$1.27 from the prior year. Approximately \$12.82 of this amount is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$13.23, or 17.6 percent of the total general fund expenditures. \$1.73 of this balance was from funds formerly reported as special revenue funds that no longer qualified under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
- Kitsap County's total general obligation debt decreased by \$5.90 (6 percent) during the current fiscal year. This represented 2011 principle payments as well as a refunding issue.

Overview of the Financial Statements

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

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

The *statement of net assets* presents information on all of Kitsap County's assets and liabilities, with the difference between the two reported as net assets. Over time,

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Management's Discussion and Analysis For the Year Ended December 31, 2011

increases or decreases in net assets may serve as a useful indicator of whether the financial position of Kitsap County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net 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 result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

The government-wide financial statements can be found on pages 16-17 of this report.

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

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

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

Kitsap County maintains one hundred and six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general

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Management's Discussion and Analysis For the Year Ended December 31, 2011

fund, county roads fund, real estate excise tax fund and mental health Medicaid fund, all of which are considered major funds.

Kitsap County implemented GASB Statement No. 54 in 2011. As a result of the new definition of a Special Revenue Fund that is part of GASB 54, thirteen funds previously classified as Special Revenue Funds no longer qualify and their data is included as part of the General Fund. Individual fund data for these funds is not presented separately in this report.

Data from the other eighty-nine governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Kitsap County adopts an annual appropriated budget for all its funds, with the exception of those listed in the notes to the financial statements, see Note D1. A budgetary comparison statement has been provided for each of the major funds to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages **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 and Surface Water Utility activities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. Kitsap County uses internal service funds to account for its management information systems, self-insurance activities, elections activities, and fleet of equipment. Because all these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Solid Waste, and Sewer funds and Surface Water Utility, which are considered major funds of Kitsap County. Conversely, all the internal service funds are combined into single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages **28 – 30** 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 page **31** of this report.

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Management's Discussion and Analysis For the Year Ended December 31, 2011

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 34 – 88 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 90 – 211 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 \$515.86 at the close of the most recent fiscal year. The County's fiscal condition remains stable.

The largest portion of Kitsap County's net assets (74.4 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	
	2010	2011	2010	2011	2010	2011
Assets:						
Current & other assets	\$ 140.83	\$ 142.26	\$ 105.10	\$ 95.31	\$ 245.93	\$ 237.57
Capital assets	413.76	409.18	78.45	87.75	492.21	496.93
Total assets	554.59	551.44	183.55	183.06	738.14	734.50
Liabilities						
Other liabilities	31.35	35.11	5.88	6.97	37.23	42.08
Long-term liabilities	124.46	117.89	60.90	58.65	185.36	176.55
Total liabilities	155.81	153.00	66.78	65.63	222.59	218.64
Net assets						
Invested in capital	329.34	330.25	53.16	53.85	382.50	384.10
Restricted	18.76	15.98	3.45	3.34	22.21	19.32
Unrestricted	50.68	52.20	60.17	60.24	110.85	112.44
Total net assets	\$ 398.78	\$ 398.43	\$ 116.78	\$ 117.43	\$ 515.56	\$ 515.86

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Management's Discussion and Analysis For the Year Ended December 31, 2011

An additional portion of Kitsap County's net assets (3.7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$112.44) 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 \$.31 during the current fiscal year. The major reason was profitability of the utility operations.

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

The government's restricted net assets decreased by 12.97% (from \$22.21 to \$19.33). This was caused by the reduction in the Parks Capital Improvement Fund balance as the result of recording of a liability associated with the acquisition the Rolling Hills Golf Course. Unrestricted net assets increased by 1.4% (from \$110.84 to \$112.44).

Governmental activities. Governmental activities decreased the County's net assets by \$.35. The key elements of this net change are as follows:

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2011

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2011	2010	2011	2010	2011
Revenues:						
Program revenues						
Charges for services	\$ 24.13	\$ 22.96	\$ 34.23	\$ 35.50	\$ 58.36	\$ 58.46
Operating grants	72.06	67.95	0.61	1.03	72.67	68.98
Capital grants	1.66	3.27	0.74	0.78	2.40	4.05
General revenues						
Property taxes	54.47	55.25	-	-	54.47	55.25
Sales taxes	26.50	26.99	-	-	26.50	26.99
Other taxes	10.14	9.99	-	-	10.14	9.99
Investment earnings	2.18	1.70	0.82	0.86	3.00	2.56
Other income	4.76	3.77	-	-	4.76	3.77
Total revenues	195.90	191.88	36.40	38.17	232.30	230.05
Expenses						
General government	27.40	25.55	-	-	27.40	25.55
Judicial services	13.51	13.87	-	-	13.51	13.87
Public safety	50.80	49.38	-	-	50.80	49.38
Physical environment	4.59	3.04	-	-	4.59	3.04
Transportation	36.83	37.02	-	-	36.83	37.02
Health & human services	47.00	43.62	-	-	47.00	43.62
Economic environment	7.70	6.52	-	-	7.70	6.52
Culture & recreation	6.42	6.77	-	-	6.42	6.77
Interest on LT debt	6.44	5.60	-	-	6.44	5.60
Utilities	-	-	34.52	37.19	34.52	37.19
Total expenses	200.69	191.37	34.52	37.19	235.21	228.56
Incr (decr) in net assets before						
Special Items & Transfers	(4.79)	0.51	1.88	0.98	(2.91)	1.49
Special items:						
Building demolition	-	(1.19)	-	-	-	(1.19)
Annexations	(0.21)	-	-	-	(0.21)	-
Transfers	0.38	0.34	(0.38)	(0.34)	-	-
Incr (decr) in net assets	(4.62)	(0.34)	1.50	0.64	(3.12)	0.30
Beginning Net assets	403.40	398.78	115.28	116.78	518.68	515.56
Ending Net assets	\$ 398.78	\$ 398.44	\$ 116.78	\$ 117.42	\$ 515.57	\$ 515.86

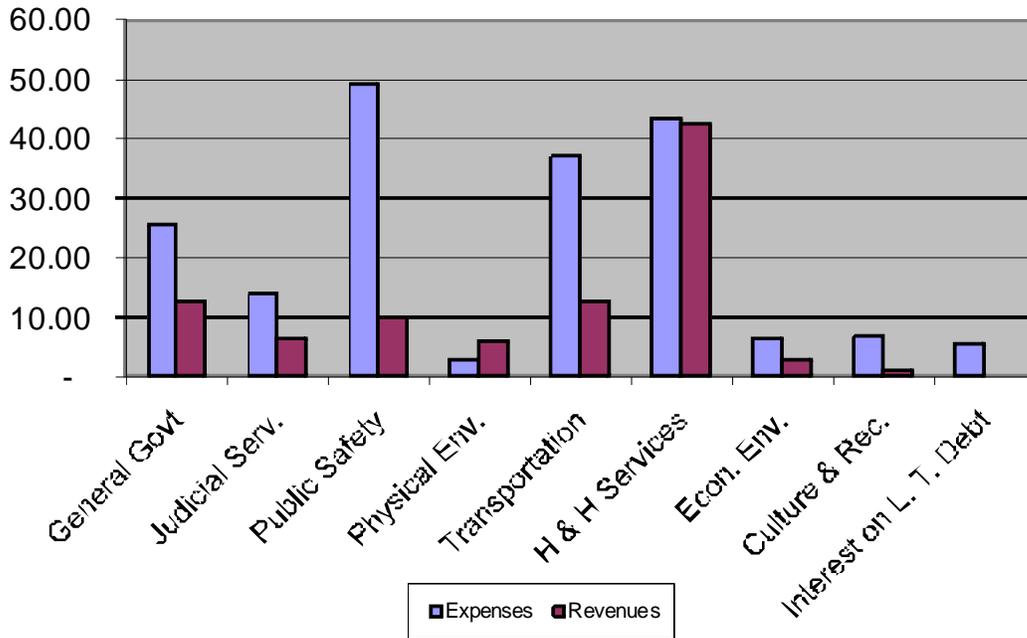
- Reductions in expenses outpaced reduction in revenues.
- Property taxes increased by \$.78 (1.4 percent) during the year.
- Sales taxes increased by \$.49 (1.9 percent) during the year. The economy finally began to take a slight turn upward in 2011.
- Capital grants for government activities increased by \$1.61 (97%) in 2011.
- Building with a value of \$1.19 was demolished to make room for the YMCA project.

Kitsap County, Washington

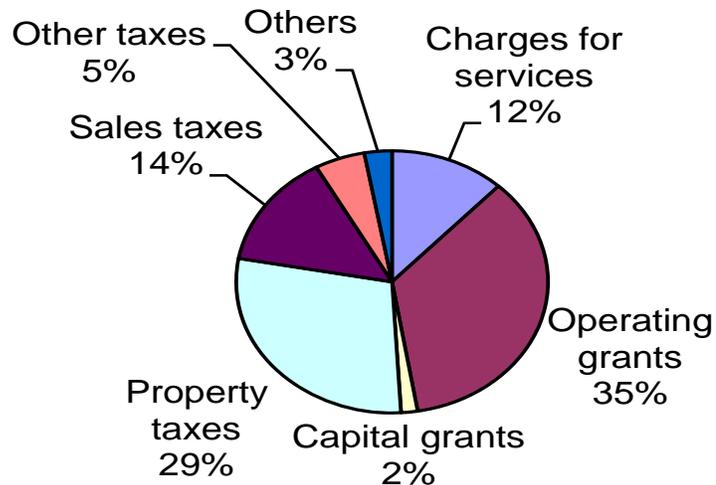
Management's Discussion and Analysis For the Year Ended December 31, 2011

Expenses and Program Revenues - Governmental

Activities



Revenues by Source – Governmental Activities



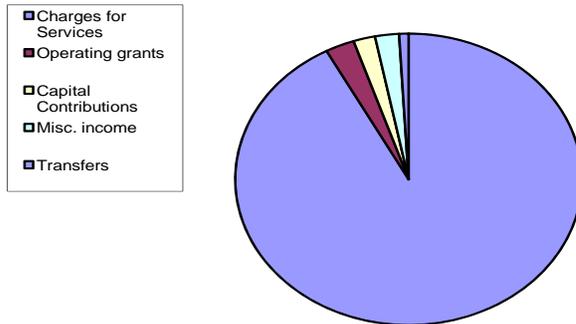
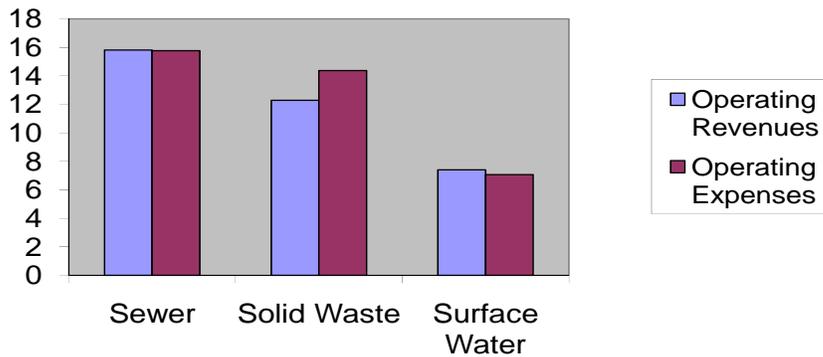
Kitsap County, Washington

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Business-type activities. Business-type activities increased the County's net assets by \$.65. The primary element of this increase was:

- Increase in operating revenues of Surface water operations

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 Kitsap County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financial requirements. In particular,

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2011

unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Kitsap County's governmental funds reported combining ending fund balances of \$80.42, an increase of \$1.27 in comparison with the prior year.

The general fund is the chief operating fund of Kitsap County. At the end of the current fiscal year, unassigned fund balance of the general fund was \$13.23, while the total fund balance increased to \$13.67. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 17.6 percent of the total general fund expenditures.

Apart from the change noted in the previous paragraph, the fund balance of Kitsap County's general fund increased by \$5.32 during the current fiscal year. The key factor was the cost cutting measures taken by the County to reverse declining fund balances. A portion of the increase is due to the inclusion of fund balances of a number of funds formerly reported as special revenue funds now reported in the general fund, as a result of implementation of GASB 54. These funds accounted for an increase of \$1.73 and added \$1.79 to the general fund's beginning fund balance.

County Roads fund balance increased by \$3.08 primarily due an increase in grant revenues in 2011.

Real Estate Excise Tax fund balance decreased from \$5.92 in 2010 to \$3.70 in 2011. This was due to continued drops in the Real Estate Excise Tax collected.

Mental Health Medicaid fund had a balance of \$1.79 in 2011 down from \$1.94 in 2010. This was due to a decrease of state funding for the program.

Debt service funds have a total fund balance of \$11.06, all of which is reserved for the payment of debt service. This is a decrease of \$.66 from 2010.

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

The Sewer fund's total net assets were \$70.28 in 2011, up \$1.21 from 2010. This increase was caused by operating income as operating revenues exceeded operating expenses.

Solid Waste fund's total net assets were \$25.69 for 2011, down \$1.42 from 2010, as operating expenses exceeded operating revenues.

Surface Water fund's total net assets were \$21.46 for 2011 up \$.86 from 2010. This was all due to operating income exceeding operating expenses.

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2011

General Fund Budgetary Highlights

Actual general fund revenues exceeded original budgeted revenues by \$1.34 during fiscal year 2011. The biggest reasons for this were property taxes exceeding budget by \$.52 and sales taxes exceeding budget by \$.50. In addition, interest and penalties on late payments of real and personal property taxes exceeded budget by \$.87.

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

During the year there was a \$.95 increase in appropriations between the original and final amended budget, however, the actual expenditures of the general fund came in well under the final budget total of \$77.25, with a total of \$75.15.

Capital Assets

At the end of fiscal year 2011, Kitsap County's investment in capital assets for its governmental activities was \$763.96 as reflected in the following schedule, which represents a net increase of \$13.70 or 1.8 percent from last year. See Note 6 to the financial statements for further details on Capital Assets.

Change in Capital Assets (millions)

	Governmental Activities		Business-type Activities		Total	
	2010	2011	2010	2011	2010	2011
Land	\$ 57.18	\$ 58.44	\$ 2.47	\$ 2.47	\$ 59.65	\$ 60.91
Infrastructure	457.94	472.90	-	-	457.94	472.9
Building	126.42	125.75	46.31	46.31	172.73	172.06
Building Improv	28.59	28.77	76.63	76.90	105.22	105.67
Machinery & Equipment	53.53	54.35	7.45	7.46	60.98	61.81
Construction in progress	26.60	23.75	11.84	25.36	38.44	49.11
Total	750.26	763.96	144.70	158.50	894.96	922.46
Less: accumulated depreciation	336.51	354.78	66.25	70.75	402.76	425.53
Net capital assets	\$ 413.75	\$ 409.18	\$ 78.45	\$ 87.75	\$ 492.20	\$ 496.93

Governmental activities

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

- Various infrastructure projects were completed during the year at a cost of \$9.55
- Various infrastructure land purchase totaled \$5.43

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2011

- County purchased Rolling Hills Golf Course \$2.11
- Updated E R & R Fleet updated purchasing five dump trucks, a sander and seven pick-up trucks for a total of \$1.01

Business-type activities.

Following are the major activities in this area in 2011:

- There were no major additions to Business-type activities.
- The large balance in the Construction in Progress reflects an upgrade to the sewer system in the Central Kitsap area that is currently underway.

Long-term Liabilities

At year-end, the County had \$185.84 in long-term liabilities versus \$197.10 last year, a net decrease of \$11.26 and 5.7 percent.

Long-term liabilities, at Year-End

	2010	Additions	Reductions	2011
<i>Government activities:</i>				
Bonds Payable	\$ 97.86	\$ 20.37	\$ 26.27	\$ 91.96
Compensated absences	5.06	3.75	3.84	4.97
Internal Services debt	0.26	0.27	0.24	0.29
Notes Payable	26.75	2.84	5.57	24.02
Net OPEB Obligation	2.73	0.41	-	3.14
Other items	0.55	-	0.08	0.47
Total	\$ 133.21	\$ 27.64	\$ 36.00	\$ 124.85
<i>Enterprise activities:</i>				
Bonds Payable	\$ 52.54	\$ -	\$ 1.92	\$ 50.62
Compensated absences	0.55	0.52	0.51	0.56
Other items	10.80	0.74	0.99	10.55
Total	\$ 63.89	\$ 1.26	\$ 3.42	\$ 61.73
Total Debt	\$ 197.10	\$ 28.90	\$ 39.42	\$ 186.58

See Notes 10 and 12 for more information on Long-term debt.

The major long-term debt addition for 2011 was the following debt issue:

2011 General Obligation Refunding Bond, total issuance of \$20.37 million. This was used to refund 1999B, 2001, 2002A issues and most of the 2003 bond issue.

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

The Standard and Poor's Corporation and Moody's Investors Service provided a bond rating of AA and Aa3 respectively for Kitsap County's debt as of December 2010.

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2011

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 \$381.45 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 6, 10 and 12).

ECONOMIC FACTORS

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

Contacting the County's Financial Management

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

If you have questions about this report or need additional financial information, contact Dave Schureman, Financial Services Manager
Kitsap County Auditor's Office
619 Division Street, MS-31
Port Orchard, Washington, 98366.
Telephone (360) 337-7132 or visit the County's web site at www.kitsapgov.com

KITSAP COUNTY, WASHINGTON

Statement of Net Assets

December 31, 2011

	Governmental Activities	Business-type Activities	Total	Component Unit PFD
ASSETS				
Cash and Cash equivalents	\$ 74,494,052	\$ 8,099,770	\$ 82,593,822	122,917
Deposits with fiscal agents	58,889	-	58,889	-
Investments	17,938,968	78,651,767	96,590,735	797,522
Receivables(net)				
Property taxes	3,662,019	-	3,662,019	-
Special assessments	23,397	31,634	55,031	-
Accounts	65,473	2,518,591	2,584,064	-
Others	1,841	-	1,841	-
Due from agency agency fund	1,706,867	-	1,706,867	-
Internal balances	(1,429,769)	1,429,769	-	-
Due from other governments	7,800,360	451,489	8,251,849	-
Prepayments	361,062	-	361,062	-
Advance to other funds	-	-	-	-
Inventories	1,421,819	243,634	1,665,453	-
Restricted assets:				
Cash and cash equivalents	1,304,493	3,342,181	4,646,674	-
Deposits with fiscal agents	15,000	-	15,000	-
Investments	4,162,820	66	4,162,886	-
Notes/Contracts	10,882,886	-	10,882,886	-
Special Assessment Receivable-Deferred	-	537,876	537,876	-
Long-term Receivable from Comp. Unit	9,785,000	-	9,785,000	-
Long-term Receivable from KCCHA	10,007,991	-	10,007,991	-
Capital assets, net (Note1)				
Land	58,439,816	2,465,721	60,905,537	-
Infrastructure	198,356,346	-	198,356,346	-
Buildings	91,939,091	16,778,034	108,717,125	-
Improvements & Other Buildings	17,154,894	41,567,706	58,722,600	-
Machinery & Equipment	19,543,423	1,581,548	21,124,971	-
Construction In Progress	23,745,265	25,354,837	49,100,102	-
Total assets	<u>551,442,003</u>	<u>183,054,620</u>	<u>734,496,623</u>	<u>920,438</u>
LIABILITIES				
Accounts payable and accrued expenses	4,885,600	2,950,130	7,835,730	-
Due to agency fund	676	-	676	-
Due to other governments	879,242	208,744	1,087,986	-
Other liabilities	12,293,872	373,227	12,667,099	-
Debt interest payable	-	356,941	356,941	-
Unearned revenue	10,096,335	-	10,096,335	-
Non current Liabilities (Note 2):				
Due within one year	6,949,293	3,085,053	10,034,347	525,000
Due in more than one year	117,896,658	58,653,522	176,550,179	9,260,000
Total liabilities	<u>153,001,677</u>	<u>65,627,617</u>	<u>218,629,294</u>	<u>9,785,000</u>
NET ASSETS				
Invested in capital assets, net of related debt	330,248,834	53,846,496	384,095,330	-
Restricted:				
Capital Projects	4,917,915	-	4,917,915	-
Debt service	11,066,149	3,342,247	14,408,396	-
Unrestricted	52,207,429	60,238,260	112,445,689	(8,864,562)
Total net assets	<u>\$ 398,440,326</u>	<u>\$ 117,427,003</u>	<u>\$ 515,867,329</u>	<u>\$ (8,864,562)</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, 2011

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	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities								
General Government	\$ 25,548,523	\$ 8,502,030	\$ 4,138,443	\$ -	\$ (12,908,051)	\$ -	\$ (12,908,051)	\$ -
Judicial Services	13,872,085	4,804,872	1,782,489	-	(7,284,724)	-	(7,284,724)	-
Public Safety	49,374,998	1,033,024	8,759,533	-	(39,582,441)	-	(39,582,441)	-
Physical Environment	3,043,994	3,850,359	2,078,979	-	2,885,344	-	2,885,344	-
Transportation	37,020,115	3,444,726	5,950,616	3,265,434	(24,359,338)	-	(24,359,338)	-
Health & Human Services	43,614,975	198,978	42,261,413	-	(1,154,584)	-	(1,154,584)	-
Economic Environment	6,523,280	74,569	2,819,470	-	(3,629,241)	-	(3,629,241)	-
Culture & Recreation	6,766,371	1,054,537	155,662	-	(5,556,172)	-	(5,556,172)	-
Interest on Long-term Debt	5,599,174	-	-	-	(5,599,174)	-	(5,599,174)	-
Total Governmental Activities	<u>191,363,516</u>	<u>22,963,095</u>	<u>67,946,605</u>	<u>3,265,434</u>	<u>(97,188,381)</u>	<u>-</u>	<u>(97,188,381)</u>	<u>-</u>
Business-type Activities								
Solid Waste	14,373,377	12,290,057	439,103	-	-	(1,644,217)	(1,644,217)	-
Sewer Utility	15,762,557	15,808,989	-	783,737	-	830,169	830,169	-
Surface Water	7,055,214	7,396,968	598,264	-	-	940,018	940,018	-
Total business-type activities	<u>37,191,148</u>	<u>35,496,014</u>	<u>1,037,367</u>	<u>783,737</u>	<u>-</u>	<u>125,970</u>	<u>125,970</u>	<u>-</u>
Total Primary Government	<u>\$ 228,554,664</u>	<u>\$ 58,459,109</u>	<u>\$ 68,983,972</u>	<u>\$ 4,049,171</u>	<u>(97,188,381)</u>	<u>125,970</u>	<u>(97,062,411)</u>	<u>-</u>
Component Units:								
Public Facility District (PFD)	568,564	-	-	-	-	-	-	(568,564)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					55,249,248	-	55,249,248	-
Property taxes, levied for debt service					-	-	-	-
Sales & use taxes					26,995,375	-	26,995,375	1,058,543
Other taxes					9,988,942	-	9,988,942	-
Investment earnings					1,703,757	859,175	2,562,932	7,334
Miscellaneous					3,772,009	-	3,772,009	740
Special item - gain(loss) demolition of building					(1,194,820)	-	(1,194,820)	-
Transfers					334,099	(334,099)	-	-
Total general revenues, special items, and transfers					<u>96,848,610</u>	<u>525,076</u>	<u>97,373,686</u>	<u>1,066,616</u>
Change in net assets					(339,771)	651,046	311,275	498,052
Net assets - beginning					398,780,098	116,775,956	515,556,054	(9,362,612)
Prior Period Adjustments					-	-	-	-
Net assets - ending					<u>\$ 398,440,326</u>	<u>\$ 117,427,001</u>	<u>\$ 515,867,328</u>	<u>\$ (8,864,562)</u>

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

Balance Sheet
 Governmental Funds
 December 31, 2011

	Special Revenue Funds		
	General Fund	Road Department	Real Estate Excise Tax
ASSETS			
Cash and Cash equivalents	\$ 13,169,902	\$ 22,873,852	\$ 137,622
Deposits with fiscal agents	-	-	58,889
Investments	424,233	2,646,181	3,543,044
Receivables(net)			
Property Taxes	2,250,485	1,319,985	-
Special assessments	-	1,622	-
Accounts	52,538	-	-
Notes/Contracts	15,374	13,196	4,720,000
Others	-	-	-
Due from other funds	286,888	1,813,784	-
Due from other governments	1,374,264	2,008,872	-
Interfund loan receivable	1,150,000	-	-
Prepayments	259,617	-	-
Advance to other funds	180,000	-	-
Total assets	\$ 19,163,300	\$ 30,677,493	\$ 8,459,555
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	1,203,104	416,701	604
Due to other funds	68,336	2,540,513	28,000
Due to other governments	-	-	-
Other liabilities	1,962,256	727,754	-
Advance from other fund	-	-	-
Revenues collected in advance	5,569	2,400	7,480
Deferred revenue	2,251,149	1,321,608	4,720,000
Interfund loan payable	-	-	-
Total liabilities	5,490,415	5,008,976	4,756,084
Fund balances			
Nonspendable	439,617	-	-
Restricted	-	-	3,703,471
Committed	-	25,668,516	-
Assigned	-	-	-
Unassigned	13,233,269	-	-
General fund	-	-	-
Debt services	-	-	-
Capital projects funds	-	-	-
Total fund balance	13,672,885	25,668,516	3,703,471
Total liabilities & fund balances	\$ 19,163,300	\$ 30,677,493	\$ 8,459,555

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

Balance Sheet

Governmental Funds
December 31, 2011

	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
	Mental Health Medicaid Fund		
ASSETS			
Cash and Cash equivalents	\$ 881,353	\$ 11,907,719	\$ 48,970,447
Deposits with fiscal agents	-	15,000	73,889
Investments	1,393,371	14,094,959	22,101,788
Receivables(net)			
Property Taxes	-	91,549	3,662,019
Special assessments	-	21,775	23,397
Accounts	-	12,936	65,473
Notes/Contracts	-	15,919,316	20,667,886
Others	-	1,841	1,841
Due from other funds	-	494,099	2,594,772
Due from other governments	-	4,138,448	7,521,585
Interfund loan receivable	-	-	1,150,000
Prepayments	-	-	259,617
Advance to other funds	-	-	180,000
Total assets	\$ 2,274,723	\$ 46,697,641	\$ 107,272,713
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	452,492	2,379,896	4,452,797
Due to other funds	8,415	462,147	3,107,411
Due to other governments	-	879,242	879,242
Other liabilities	24,004	590,669	3,304,683
Advance from other fund	-	180,000	180,000
Revenues collected in advance	-	18,413	33,863
Deferred revenues	-	5,455,131	13,747,888
Interfund loan payable	-	1,150,000	1,150,000
Total liabilities	484,910	11,115,499	26,855,884
Fund Balances			
Nonspendable	-	9,785,000	10,224,617
Restricted	1,789,813	24,674,542	30,167,826
Committed	-	1,535,255	27,203,771
Assigned	-		-
Unassigned	-	(412,654)	12,820,615
General fund	-	-	-
Debt services	-	-	-
Capital projects funds	-	-	-
Total fund balances	-	-	-
Total fund balances	1,789,813	35,582,143	80,416,829
Total liabilities and fund balances	\$ 2,274,723	\$ 46,697,641	\$ 107,272,713

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, 2011

Fund balances of governmental funds - page 19 \$ 80,416,827

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	763,954,881	
Depreciation	(354,776,049)	
Capital asset net of depreciation		409,178,832

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

Bond payable	91,961,771	
Compensated absences	4,967,446	
Bond Anticipation Note	17,091,419	
Notes payable	6,920,000	
OPEB Liability	3,141,736	
PWTF Loans	472,533	
Long-term debt		(124,554,904)

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

Taxes/Assessments receivable	3,685,416	
KCCHA receivable		10,007,995

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	30,714,123	
Liabilities	(11,415,766)	
Uses Other than Operations	407,803	
Asset less liabilities		19,706,160

Net assets of governmental activities - page 16

\$ 398,440,326

Statement of Revenue, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2011

	Special Revenue Funds		
	General Fund	County Roads	Real Estate Excise Tax
REVENUES:			
Property taxes	\$ 30,002,126	\$ 23,010,729	\$ -
Retail sales & use taxes	20,242,670	-	-
Other taxes	5,493,093	47,109	2,205,352
Licenses and permits	175,721	192,995	-
Intergovernmental	10,559,313	9,216,050	-
Charges for services	8,241,606	1,714,262	-
Fines & forfeits	2,383,303	-	-
Investment earnings	914,177	24,355	269,971
Miscellaneous	1,152,729	31,923	117,594
Total revenues	<u>79,164,738</u>	<u>34,237,425</u>	<u>2,592,917</u>
EXPENDITURES:			
Current:			
General government	22,426,800	-	25,600
Judicial Services	13,441,747	-	-
Public safety	35,209,912	-	-
Physical Environment	63,990	-	-
Transportation	7,204	24,164,389	-
Health & Human Services	-	-	-
Economic Environment	-	-	-
Culture & recreation	3,800,442	-	-
Debt service	-	-	-
Principal	-	78,912	117,500
Interest and other charges	-	3,232	238,314
Capital outlay	201,559	6,558,065	-
Total expenditures	<u>75,151,654</u>	<u>30,804,598</u>	<u>381,413</u>
Excess(deficiency) of revenues over expenditures	<u>4,013,084</u>	<u>3,432,826</u>	<u>2,211,504</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from BANS	-	-	-
Proceeds from GO Bonds	-	-	-
Proceeds from Refunding Bonds	-	-	-
Payment to bond refunding escrow agent	-	-	-
Sale of capital asset	-	-	-
Transfers in	2,617,704	-	-
Transfers out	(3,099,706)	(353,553)	(4,432,554)
Premiums on bonds	-	-	-
Total other financing sources & uses	<u>(482,002)</u>	<u>(353,553)</u>	<u>(4,432,554)</u>
SPECIAL ITEMS:			
Sales of pledged assets	-	-	-
Net change in fund balance	<u>3,531,084</u>	<u>3,079,274</u>	<u>(2,221,050)</u>
Fund balances-beginning	10,141,800	22,589,242	5,924,521
Prior period adjustments	-	-	-
Fund balances-ending	<u>\$ 13,672,885</u>	<u>\$ 25,668,516</u>	<u>\$ 3,703,471</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, 2011

	Special Revenue		
	Fund		
	Mental Health Medicaid Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Property taxes	\$ -	\$ 2,236,392	\$ 55,249,247
Retail sales & use taxes	-	6,752,705	26,995,375
Other taxes	-	2,243,387	9,988,942
Licenses and permits	-	2,045,872	2,414,588
Intergovernmental	21,457,674	29,979,004	71,212,041
Charges for services	-	4,110,288	14,066,156
Fines & forfeits	-	437,027	2,820,329
Investment earnings	15,910	479,344	1,703,757
Miscellaneous	-	2,446,365	3,748,611
Total revenues	<u>21,473,583</u>	<u>50,730,384</u>	<u>188,199,047</u>
EXPENDITURES:			
Current:			
General government	-	1,923,930	24,376,329
Judicial Services	-	412,225	13,853,972
Public safety	-	9,861,028	45,070,940
Physical Environment	-	2,980,004	3,043,994
Transportation	-	36,776	24,208,368
Health & Human Services	21,623,826	21,850,541	43,474,368
Economic Environment	-	6,518,155	6,518,155
Culture & recreation	-	1,678,770	5,479,212
Debt service			
Principal	-	11,370,966	11,567,378
Interest and other charges	-	5,033,406	5,274,951
Capital outlay	-	3,619,113	10,378,738
Total expenditures	<u>21,623,826</u>	<u>65,284,914</u>	<u>193,246,406</u>
Excess(deficiency) of revenues over expenditures	<u>(150,243)</u>	<u>(14,554,530)</u>	<u>(5,047,359)</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from BANS	-	639,801	639,801
Proceeds from GO Bonds	-	-	-
Proceeds from Refunding Bonds	-	20,422,161	20,422,161
Payment to bond refunding escrow agent	-	(21,363,092)	(21,363,092)
Sale of capital asset	-	-	-
Transfers in	-	13,162,406	15,780,110
Transfers out	-	(7,606,249)	(15,492,061)
Premiums on bonds	-	869,360	869,360
Total other financing sources & uses	<u>-</u>	<u>6,124,388</u>	<u>856,279</u>
SPECIAL ITEMS:			
Sales of pledged assets	-	5,458,648	5,458,648
Net change in fund balance	<u>(150,242)</u>	<u>(2,971,507)</u>	<u>1,267,557</u>
Fund balances-beginning	1,940,057	38,553,649	79,149,269
Prior period adjustments	-	-	-
Fund balances-ending	<u>\$ 1,789,813</u>	<u>\$ 35,582,142</u>	<u>\$ 80,416,826</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, 2011

Net change in fund balances-total governmental funds - page 22 \$ 1,267,558

Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of activities because:

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

Capital out-lay	10,378,738
Depreciation	(20,025,209)

Capital Asset Transactions

Gain recognized in Statement of Activities but not in the funds	-
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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	(21,931,320)
Receipts from sales of non-county contracted assets	(5,458,648)
Payment to bond funding escrow agent	21,363,092
Other debt issuance costs amortized	(324,211)
Bond principal	11,567,378
Recording of Net OPEB Obligation	(410,575)
Special item - loss demolition of building	(1,194,820)

Revenues in statement of activities that do not provide current financial resources are not reported as revenues in the funds.	-
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Property taxes receivable	3,662,019
Special Assessments	23,397

Internal services Activities

Net Transfers	46,051
Depreciation already included above	2,129,230
Net profit	(1,432,450)

Change in net assets of governmental activities - page 17	\$ (339,770)
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KITSAP COUNTY, WASHINGTON

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

General Fund

Year Ended December 31, 2011

	2011			
	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES:				
Property taxes	\$ 29,483,122	\$ 29,483,122	\$ 30,002,047	\$ 518,925
Retail sales & use taxes	19,743,812	19,743,812	20,242,670	498,858
Other taxes	4,619,453	4,619,453	5,491,802	872,349
Licenses and permits	200,900	200,900	175,721	(25,179)
Intergovernmental	10,307,709	10,508,934	10,558,062	49,128
Charges for services	8,386,198	8,386,198	8,241,606	(144,592)
Fines & forfeits	2,742,417	2,744,300	2,370,062	(374,238)
Investment Earnings	754,156	754,156	910,246	156,090
Miscellaneous	1,568,042	1,588,042	1,152,729	(435,313)
	<u>77,805,809</u>	<u>78,028,917</u>	<u>79,144,946</u>	<u>1,116,029</u>
EXPENDITURES:				
Current:				
Administrative Services	\$ 792,997	\$ 792,997	\$ 783,730	\$ 9,267
Assessor	2,151,685	2,151,685	2,110,546	41,139
Auditor	1,709,608	1,709,608	1,675,264	34,344
Commissioners	1,256,092	1,256,092	1,233,645	22,447
General Administration	6,262,492	6,055,682	5,282,067	773,615
Personnel & Human resources	1,061,153	1,061,153	1,064,119	(2,966)
Prosecuting attorney	8,022,393	8,022,393	7,787,991	234,402
Facilities Maintenance	1,767,476	1,767,476	1,713,266	54,210
Treasurer	809,299	809,299	775,793	33,506
Total general government	<u>23,833,195</u>	<u>23,626,385</u>	<u>22,426,421</u>	<u>1,199,964</u>
Judicial Services				
Clerk	\$ 5,423,157	\$ 5,643,157	\$ 5,843,551	\$ (200,394)
District court	2,582,772	2,582,772	2,497,801	84,971
Superior court	2,427,597	2,555,265	2,531,791	23,474
Juvenile	2,528,773	2,556,111	2,568,604	(12,493)
Total Judicial services	<u>12,962,299</u>	<u>13,337,305</u>	<u>13,441,747</u>	<u>(104,442)</u>
Public safety				
Sheriff	\$ 17,145,829	\$ 17,414,383	\$ 17,329,342	\$ 85,041
Jail	12,298,757	12,761,757	12,620,603	141,154
Juvenile	4,497,900	4,499,773	4,370,090	129,683
Coroner	863,354	863,354	864,766	(1,412)
Personnel & Human Resources	28,844	28,844	19,582	9,262
Total Public Safety	<u>34,834,684</u>	<u>35,568,111</u>	<u>35,204,383</u>	<u>363,728</u>
Culture & recreation				
Parks	\$ 3,320,704	\$ 3,320,704	\$ 3,167,546	\$ 153,158
Cooperative Extension	363,038	381,438	362,613	18,825
Personnel & Human Resources	283,658	283,658	266,921	16,737
Total Culture & Recreation	<u>3,967,400</u>	<u>3,985,800</u>	<u>3,797,080</u>	<u>188,720</u>
Interest and other charges	82,271	82,271	-	82,271
Capital outlay	561,229	561,229	201,559	359,670
Total expenditures	<u>76,241,078</u>	<u>77,161,101</u>	<u>75,071,189</u>	<u>2,089,912</u>
Excess(deficiency) of revenues over expenditures	1,564,731	867,816	4,073,756	3,205,940
OTHER FINANCING SOURCES (USES):				
Transfers in	2,860,491	2,843,041	2,737,248	(105,793)
Transfers out	(3,256,347)	(3,256,347)	(3,219,250)	37,097
Total other financing sources & uses	<u>(395,856)</u>	<u>(413,306)</u>	<u>(482,002)</u>	<u>(68,696)</u>
Net change in fund balance	1,168,875	454,510	3,591,754	3,137,244
Fund balances-beginning	8,351,069	8,351,069	8,351,069	-
Prior period adjustments			-	-
General Fund balance-ending prior to GASB 54 rollup	<u>9,519,944</u>	<u>8,805,579</u>	<u>11,942,823</u>	<u>3,137,244</u>
Additional fund balance rolled into General Fund	1,738,261	1,659,851	1,730,062	70,211
General Fund balance-ending after GASB 54 rollup	<u>\$ 11,258,205</u>	<u>\$ 10,465,430</u>	<u>\$ 13,672,885</u>	<u>\$ 3,207,455</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, 2011

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 23,751,191	\$ 23,751,191	\$ 23,010,729	\$ (740,462)
Other taxes	50,000	50,000	47,109	(2,891)
Licenses and permits	140,000	140,000	192,995	52,995
Intergovernmental	6,684,101	6,684,101	9,216,050	2,531,949
Charges for services	603,000	603,000	1,714,262	1,111,262
Investment earnings	10,000	10,000	24,355	14,355
Miscellaneous	10,000	10,000	31,923	21,923
Total revenues	<u>31,248,292</u>	<u>31,248,292</u>	<u>34,237,425</u>	<u>2,989,133</u>
EXPENDITURES:				
Current:				
Transportation	25,933,471	25,933,471	24,164,389	1,769,082
Debt service				
Principal	78,913	78,913	78,912	1
Interest and other charges	6,041	6,041	3,232	2,809
Capital outlay	<u>10,578,600</u>	<u>10,578,600</u>	<u>6,558,065</u>	<u>4,020,535</u>
Total expenditures	<u>36,597,025</u>	<u>36,597,025</u>	<u>30,804,598</u>	<u>5,792,427</u>
Excess(deficiency) of revenues over expenditures	<u>(5,348,733)</u>	<u>(5,348,733)</u>	<u>3,432,826</u>	<u>8,781,559</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	<u>(372,541)</u>	<u>(372,541)</u>	<u>(353,553)</u>	<u>18,988</u>
Total other financing sources & uses	<u>(372,541)</u>	<u>(372,541)</u>	<u>(353,553)</u>	<u>18,988</u>
Net change in fund balance	<u>(5,721,274)</u>	<u>(5,721,274)</u>	<u>3,079,274</u>	<u>8,800,548</u>
Fund balances-beginning	22,589,242	22,589,242	22,589,242	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 16,867,968</u>	<u>\$ 16,867,968</u>	<u>\$ 25,668,516</u>	<u>\$ 8,800,548</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, 2011

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Other taxes	\$ 2,649,623	\$ 2,649,623	\$ 2,205,352	(444,271)
Investment earnings	368,377	368,377	269,971	(98,406)
Miscellaneous	117,504	117,504	117,594	90
Total revenues	<u>3,135,504</u>	<u>3,135,504</u>	<u>2,592,917</u>	<u>(542,587)</u>
EXPENDITURES:				
Current:				
General government	29,390	29,390	25,600	3,790
Debt service	-	-	-	-
Principal	110,000	110,000	117,500	(7,500)
Interest and other charges	242,875	242,875	238,314	4,561
Capital Outlay	-	-	-	-
Total expenditures	<u>382,265</u>	<u>382,265</u>	<u>381,413</u>	<u>852</u>
Excess(deficiency) of revenues over expenditures	<u>2,753,239</u>	<u>2,753,239</u>	<u>2,211,504</u>	<u>(541,735)</u>
OTHER FINANCING SOURCES (USES):				
GO Bond proceeds	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	200,000	-	-	-
Transfers out	(4,432,545)	(4,432,545)	(4,432,554)	(9)
Premiums on bonds	-	-	-	-
Total other financing sources & uses	<u>(4,232,545)</u>	<u>(4,432,545)</u>	<u>(4,432,554)</u>	<u>(9)</u>
Net change in fund balance	<u>(1,479,306)</u>	<u>(1,679,306)</u>	<u>(2,221,050)</u>	<u>(541,744)</u>
Fund balances-beginning	5,924,521	5,924,521	5,924,521	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 4,445,215</u>	<u>\$ 4,245,215</u>	<u>\$ 3,703,471</u>	<u>\$ (541,744)</u>

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

KITSAP COUNTY, WASHINGTON

Mental Health Medicaid 187

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2011

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 21,050,000	\$ 21,375,000	\$ 21,457,674	\$ 82,674
Investment earnings	-	-	15,910	15,910
Miscellaneous	930,000	930,000	-	(930,000)
Total revenues	<u>21,980,000</u>	<u>22,305,000</u>	<u>21,473,583</u>	<u>(831,417)</u>
EXPENDITURES:				
Current:				
Health & Human Services	21,980,000	22,305,000	21,623,826	681,174
Total expenditures	21,980,000	22,305,000	21,623,826	681,174
Excess(deficiency) of revenues over expenditures	-	-	(150,243)	(150,243)
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	-	-
Total other financing sources & uses	-	-	-	-
Net change in fund balance	-	-	(150,243)	(150,243)
Fund balances-beginning	1,940,057	1,940,057	1,940,057	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 1,940,057</u>	<u>\$ 1,940,057</u>	<u>\$ 1,789,814</u>	<u>\$ (150,243)</u>

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

KITSAP COUNTY, WASHINGTON

Statement of Net Assets

Proprietary Funds
December 31, 2011

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal Services Funds
ASSETS					
Current assets:					
Cash and Cash equivalents	\$ 4,651,788	\$ 1,320,469	\$ 2,127,513	\$ 8,099,770	\$ 26,828,098
Deposits with fiscal agents	-	-	-	-	-
Investments	46,983,725	23,762,753	7,905,289	78,651,767	-
Receivables(net)					
Special assessments	31,634	-	-	31,634	-
Accounts	1,497,347	918,673	102,571	2,518,591	-
Due from other funds	389,903	7,007	2,307,031	2,703,941	2,083,986
Due from other governments	-	90,350	361,139	451,489	278,775
Prepayments	-	-	-	-	101,445
Inventories	243,634	-	-	243,634	1,421,819
Restricted assets:					
Cash and cash equivalents	3,342,181	-	-	3,342,181	-
Deposits with fiscal agents	-	-	-	-	-
Investments	66	-	-	66	-
Total current assets	<u>57,140,278</u>	<u>26,099,252</u>	<u>12,803,543</u>	<u>96,043,073</u>	<u>30,714,123</u>
Noncurrent assets:					
Special Assessment Receivable-Deferred	537,876			537,876	-
Capital assets, net (Note1)					
Land	1,123,482	472,444	869,795	2,465,721	-
Buildings	45,501,328	802,991	5,479	46,309,798	-
Improvements & Other Buildings	67,393,982	1,651,625	7,853,875	76,899,482	-
Machinery & Equipments	7,213,167	90,381	162,633	7,466,181	29,037,305
Construction In Progress	20,725,193	27,314	4,602,330	25,354,837	-
Less accumulated depreciation	(66,050,430)	(1,561,102)	(3,136,644)	(70,748,176)	(18,813,485)
Total noncurrent assets	<u>76,444,598</u>	<u>1,483,653</u>	<u>10,357,468</u>	<u>88,285,719</u>	<u>10,223,820</u>
Total assets	<u>133,584,876</u>	<u>27,582,905</u>	<u>23,161,011</u>	<u>184,328,792</u>	<u>40,937,943</u>
LIABILITIES					
Accounts payable and accrued expenses	1,879,306	816,556	254,268	2,950,130	432,803
Due to other funds	70,459	145,045	1,058,668	1,274,172	1,294,925
Due to other governments	3,784	27,579	177,381	208,744	-
Other liabilities	210,411	68,505	94,311	373,227	9,396,993
Debt interest payable	356,941			356,941	-
Non current Liabilities (Note 2):					
Due within one year	3,032,584	41,056	11,413	3,085,053	29,105
Due in more than one year	57,753,843	796,959	102,720	58,653,522	261,940
Total liabilities	<u>63,307,328</u>	<u>1,895,700</u>	<u>1,698,761</u>	<u>66,901,789</u>	<u>11,415,766</u>
NET ASSETS					
Invested in capital assets, net of related debt	42,005,375	1,483,653	10,357,468	53,846,496	10,223,820
Restricted:					
Debt service	3,342,247	-	-	3,342,247	-
Unrestricted	24,929,926	24,203,552	11,104,782	60,238,260	19,298,357
Total net assets	<u>\$ 70,277,548</u>	<u>\$ 25,687,205</u>	<u>\$ 21,462,250</u>	<u>\$ 117,427,003</u>	<u>\$ 29,522,177</u>

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

KITSAP COUNTY, WASHINGTON

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

Proprietary Funds

For the Year Ended December 31, 2011

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal Service Funds
Operating revenues:					
Charges for services	\$ 15,733,567	\$ 12,179,572	\$ 7,395,977	\$ 35,309,116	\$ 16,157,708
Miscellaneous	75,422	110,485	991	186,898	40,878
Total operating revenues	15,808,989	12,290,057	7,396,968	35,496,014	16,198,586
Operating expenses:					
Personal services	5,159,403	1,817,021	2,378,039	9,354,463	6,047,903
Contractual services	934,930	2,033,620	3,238,295	6,206,845	1,421,595
Utilities	1,254,002	9,830,795	73,580	11,158,377	26,745
Repair and maintenance	125,609	72,527	204,477	402,613	963,728
Other supplies and expenses	1,870,096	505,227	696,589	3,071,912	4,337,756
Insurance claims and expenses	26,833	8,525	67,870	103,228	3,000,302
Depreciation	4,000,390	105,662	396,364	4,502,416	2,129,230
Total operating expenses	13,371,263	14,373,377	7,055,214	34,799,854	17,927,259
Operating income	2,437,726	(2,083,320)	341,754	696,160	(1,728,673)
Nonoperating revenue (expenses)					
Interest and investment revenue	514,274	219,179	125,722	859,175	-
Miscellaneous revenue	-	439,103	598,264	1,037,367	265,110
Interest expense	(2,391,294)	-	-	(2,391,294)	-
Miscellaneous expense	-	-	-	-	(21,275)
Total nonoperating expenses	(1,877,020)	658,282	723,986	(494,752)	243,835
Income (loss) before contributions & transfers	560,706	(1,425,038)	1,065,740	201,408	(1,484,838)
Capital contributions	783,737	-	-	783,737	6,337
Transfers in	-	-	-	-	110,000
Transfers out	(130,164)	-	(203,935)	(334,099)	(63,949)
Change in net assets	1,214,279	(1,425,038)	861,805	651,046	(1,432,450)
Total net assets - beginning	69,063,269	27,112,243	20,600,445	116,775,957	30,954,627
Prior Period Adjustments	-	-	-	-	-
Total net assets - ending	\$ 70,277,547	\$ 25,687,203	\$ 21,462,251	\$ 117,427,001	\$ 29,522,177

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

KITSAP COUNTY, WASHINGTON

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2011

	Business-type Activities - Enterprise Funds				Governmental
	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Activities Internal service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 15,877,745	\$ 12,411,355	\$ 5,365,825	\$ 33,654,925	\$ 16,594,717
Payments to suppliers	(3,321,970)	(11,909,825)	(3,329,350)	(18,561,145)	(8,456,278)
Payments to employees	(5,155,444)	(1,812,952)	(2,366,120)	(9,334,516)	(6,021,814)
Net cash provided by operating activities	7,400,331	(1,311,422)	(329,645)	5,759,264	2,116,625
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants received	-	440,567	471,671	912,238	-
Transfers in	-	-	-	-	110,000
Transfers out	(130,164)	-	(203,935)	(334,099)	(63,949)
Net cash provided by noncapital activities	(130,164)	440,567	267,736	578,139	46,051
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	530,024	-	-	530,024	-
Proceeds from sales of bonds	-	-	-	-	-
Purchases of capital assets	(11,392,501)	(22,296)	(1,983,077)	(13,397,874)	(953,210)
Principal paid on capital debt	(2,829,879)	-	-	(2,829,879)	-
Interest paid on capital debt	(2,396,529)	-	-	(2,396,529)	-
Net cash from related financing activities	(16,088,885)	(22,296)	(1,983,077)	(18,094,258)	(953,210)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investm	15,657,839	1,520,000	6,350,000	23,527,839	-
Purchase of Investment	(39,722,187)	(1,269,052)	(2,792,121)	(43,783,359)	-
Interest and dividends	504,898	219,179	125,722	849,799	-
Net cash provided by investing activities	(23,559,449)	470,127	3,683,601	(19,405,721)	-
Net (decrease) in cash and cash equivalent	(32,378,167)	(423,024)	1,638,615	(31,162,576)	1,209,466
Balances - beginning of the year	40,372,136	1,743,493	488,898	42,604,527	25,618,632
Balances - end of the year	\$ 7,993,969	\$ 1,320,469	\$ 2,127,513	\$ 11,441,952	\$ 26,828,098
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 2,437,726	\$ (2,083,320)	341,754	\$ 696,160	(1,728,673)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	4,000,390	105,662	396,364	4,502,416	2,129,230
Change in assets and liabilities:					
Receivables, net	(89,162)	99,371	20,427	30,636	-
Due from other funds	157,918	21,927	(2,051,570)	(1,871,725)	(1,399,519)
Due from other governments	-	-	-	-	(278,775)
Inventories	14,866	-	-	14,866	367,558
Prepaid	-	-	-	-	(13,524)
Accounts and other payables	1,010,804	(243,086)	68,040	835,758	(142,191)
Due to other funds	(85,627)	45,734	794,843	754,950	(232,531)
Due to other governments	(1,789)	(3,822)	84,973	79,362	-
Employee benefits	3,959	4,069	11,919	19,947	26,089
Accrued expenses	(48,754)	742,043	3,605	696,894	3,388,961
Net cash provided by operating activities	\$ 7,400,331	\$ (1,311,422)	\$ 329,645	\$ 5,759,264	\$ 2,116,625

Noncash investing, capital and financing Activities

Contribution of capital assets	253,713	253,713	-
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The notes to the financial statements are an integral part of this statement.

KITSAP COUNTY, WASHINGTON

Statement of Fiduciary Net Assets

December 31, 2011

	Agency Funds
ASSETS	
Cash	\$ 23,928,396
Deposits with Fiscal Agents	25,000
Investments	198,066,583
Taxes Receivable	11,686,516
Other Current Receivables	167,080
Due From Other Funds	676
Due From Other Governments	210,744
Total Assets	<u>\$ 234,084,994</u>
LIABILITIES	
Warrants Payable	\$ 2,844,840
Accounts Payable	-
Sales Tax Payable	-
Other Accrued Liabilities	-
Due to Other Funds	1,706,867
Due to Other Governments	515
Interfund loans	-
Custodial Account	229,532,772
Total Liabilities	<u>\$ 234,084,994</u>

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

KITSAP COUNTY, WASHINGTON

Statement of Net Assets

Component Unit

December 31, 2011

	<u>Public Facilities District</u>
ASSETS	
Current assets:	
Cash and Cash equivalents	\$ 122,917
Deposits with fiscal agents	-
Investments	797,522
Total current assets	<u>920,438</u>
Total assets	<u>920,438</u>
LIABILITIES	
Non current Liabilities:	
Due within one year	525,000
Due in more than one year	9,260,000
Total noncurrent liabilities	<u>9,785,000</u>
Total liabilities	<u>9,785,000</u>
NET ASSETS	
Invested in capital assets, net of related debt	-
Unrestricted	(8,864,562)
Total net assets	<u>\$ (8,864,562)</u>

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

KITSAP COUNTY, WASHINGTON

Statement of Activities

Component Unit

For the Year Ended December 31, 2011

Function/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Component Unit					
Public Facilities District	\$ 568,564	\$ -	\$ -	\$ -	(568,564)
Total Component Units	568,564	-	-	-	(568,564)
General revenues					
Sales & use taxes			-	-	\$ 1,058,543
Investment earnings			-	-	7,334
Miscellaneous					740
Total general revenues					\$ 1,066,617
Changes in net assets					498,053
Net assets - beginning					(9,362,612)
Prior Period Adjustments					-
Total net assets - ending					\$ (8,864,562)

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

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Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kitsap County's financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below:

A. Reporting entity

Kitsap County is a municipal corporation of Washington State, governed under the commissioner form of government. The accompanying financial statements present the government and entities for which the government is considered to be financially accountable. The voters of Kitsap County elected the three-member board on a partisan basis to serve overlapping 4-year terms. The Board of County Commissioners is the legislative body. 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 a legally separate entity. 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 interlocal government agreement. The debt is reported on the County's books. The component unit does not issue separate financial statements, therefore, we have included these statements in our basic Financial Statement section.

Blended component units. The Industrial Development Corporation of Kitsap County was created and approved by the Kitsap County Board of Commissioners on May 17, 1999 to construct and maintain industrial facilities throughout Kitsap County. All three County Commissioners are on its board of directors; therefore, the County is financially responsible for the operation of the corporation. IDC sold \$2 million in non-recourse revenue bonds in 2003 which neither the County, nor IDC is responsible to repay under the loan agreement. The issuer (IDC) loaned the proceeds of the bonds to CARA Group, LLC, a Washington limited liability company (the Borrower) pursuant to a loan agreement dated March 1, 2003. The Borrower is obligated to make payments to the trustee in amounts sufficient to pay the principal and premium, if any, 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 during the current year; therefore there is nothing to report.

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

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 interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are 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 year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

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

The County reports the following major proprietary funds:

The **solid waste fund** is used to account for the costs of providing solid waste 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 provide Information and Computer services, Self-Insurance program, Elections Services 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:

Agency funds are used to account for the funds held in a custodial nature for other governmental entities, the vast majority in the form of cash and investments. The entities include school districts, the public utility district,

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

recreation districts, the public health district, the library district, cities and towns, ports, water districts, fire districts and sewer districts.

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 2011 because no expenditures were anticipated in 2011. Budgets for debt service and capital

Kitsap County, Washington

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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.

Funds for which budgets were not adopted in 2011:

- GMA Transportation Impact Fees Fund - CK
- Regional Septic Loans
- KC Projects 2001
- 1996 Refunding GO Bond
- KC2009 Rsv Tree tops
- LTGO Bond 1999
- LTGO Bond 2000
- Road Improvement Guarantee Fund
- Model Toxic Control
- Bethel Corridor Development Project
- Jail Construction Fund

Other budgets are adopted at the level of the fund, except in the General (Current Expense) fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level.

Appropriations for general and special revenue funds lapse at year-end (except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned).

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

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

Kitsap County, Washington

Notes to Financial Statements

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

2. Budget revisions

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

Fund	Original	Budget	Final
Description	Budget	Change	Budget
General Fund	\$ 79,440,353	1,013,423	\$ 80,453,776
Mental Health Medicaid	\$ 21,980,000	325,000	\$ 22,305,000
Non Major Funds	\$ 34,975,235	32,075,657	\$ 67,050,892
		\$ 33,414,080	

3. Excess of expenditures over appropriations

For the year ended December 31, 2011 expenditures did not exceed appropriations in any of the general fund departments.

4. Deficit Balance

At December 31, 2011, the following fund reported a deficit balance of fund nets assets, which is a violation of state statute:

Fund #	Fund Name	Deficit
168	Department of Community Development	\$ 412,654

The County continues analyze DCD's fund balance and during the year made an additional transfer to the fund based on this analysis. Additionally, the County is considering converting a portion of a loan from the General Fund into a transfer.

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, 2011, the treasurer was holding \$ 97.27 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.

Kitsap County, Washington

Notes to Financial Statements

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2. Investments

Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares (See more information in Note 4.)

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Property Taxes Note 5). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2011, no special assessments receivables were delinquent.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered.

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

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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.

Kitsap County, Washington

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December 31, 2011

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

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

6. Restricted Assets

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 6)

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

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

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the county during the current fiscal year is \$2,391,294. 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:

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

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 10)

11. Deferred Revenues

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

12. Fund Balance Classification

The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No.54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned or unassigned.

- Nonspendable fund balances include items that cannot be spent. This includes activity that is not in a spendable form such as advances and prepaid amounts in the general fund and the long-term portion of a note receivable in a debt service fund (2002A G O Bond).

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

- Restricted fund balances have constraints placed upon the use of resources either by external party or imposed by law through a constitutional provision or enabling legislation.
- Committed fund balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the Kitsap County Board of Commissioners, the County’s highest level of decision making authority. This formal action is the passage of law by the Board of County Commissioners, creating, modifying, or rescinding an appropriation.
- Assigned fund balance – There was no assigned fund balance for 2011.
- Unassigned fund balance is the residual amount of the general fund’s fund balance that is not included in the four categories described above. Any deficit fund balances within governmental fund types are also reported as unassigned.

Thirteen funds previously reported as special revenue funds did not meet the new requirements of GASB 54. Therefore, these fund balances were reported as unassigned fund balance in the General Fund. The following shows the composition of the new General Fund as of December 31, 2011:

	<u>Unassigned Fund Balance</u>	<u>Total Fund Balance</u>
General fund (prior to inclusion of other funds)	\$11,503,207	\$11,942,824
Human Resources Board	61,370	61,370
Special Purpose Path	74,895	74,895
1% Art Program	60,047	60,047
Cumulative Reserve	596,638	596,638
Drug Forfeiture Enforcement	9,134	9,134
Wetland Mitigation	59,322	59,322
Bucklin Ridge Park	1,217	1,217
Clear Creek Education	2	2
Kingston Commuter Parking	51,404	51,404
Kitsap County Grants	54	54
Indianola Forrest	270,644	270,644
McCormick Village Traffic	379,791	379,791
McCormick Village Park	165,544	165,544
General Fund Balance (after inclusion of funds)	\$13,233,269	\$13,672,885

14. The composition of the fund balances of the County’s governmental funds for the fiscal year ended December 31, 2011 is presented on the following pages (amounts are in thousands):

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

	General	County Roads	Real Estate Excise Tax	Mental Health Medicaid
Nonspendable:				
Advances	\$ 180,000			
Prepaid Items	259,617			
Note Receivable				
Total Nonspendable	439,617			
Restricted:				
Transportation		-		
General Government			3,703,471	
Health & Human Services				1,789,813
Public Safety				
Judicial Services				
Physical Environment				
Culture & Recreation				
Economic Environment	-			
Debt service				
Total Restricted	-	-	3,703,471	1,789,813
Committed:				
Transportation		25,668,516		
General Government				
Public Safety				
Physical Environment				
Culture & Recreation				
Economic Environment				
Total Committed	-	25,668,516	-	-
Unassigned:				
	13,233,269			
Total Fund Balance	\$ 13,672,886	\$ 25,668,516	\$ 3,703,471	\$ 1,789,813

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

Cencom	Emergency Services	Law Library	KPREP Fund	Election Reserve	Auditor's Document Preservation
				133,857	353,055
1,990,662	4,226	167,388	15,343		
1,990,662	4,226	167,388	15,343	133,857	353,055
-	-	-	-	-	-
\$ 1,990,662	\$ 4,226	\$ 167,388	\$ 15,343	\$ 133,857	\$ 353,055

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

	Housing Affordability	Westnet Fund	Boating Safety Program	Noxious Weed Control
Nonspendable:				
Advances				
Prepaid Items				
Note Receivable				
Total Nonspendable				
Restricted:				
Transportation				
General Government	2,271,383			
Health & Human Services				
Public Safety		545,473	138,192	
Judicial Services				
Physical Environment				182,853
Culture & Recreation				
Economic Environment				
Debt service				
Total Restricted	2,271,383	545,473	138,192	182,853
Committed:				
Transportation				
General Government				
Public Safety		411,497		
Physical Environment				
Culture & Recreation				
Economic Environment				
Total Committed	-	411,497	-	-
Unassigned:				
Total Fund Balance	\$ 2,271,383	\$ 956,970	\$ 138,192	\$ 182,853

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

Treasurer's M&O	Electronic Technology	Veterans Relief	Expert Witness	Conservation Futures	Community Service
844,855	197,172	254,583	9,204	850,594	-
844,855	197,172	254,583	9,204	850,594	-
-	-	-	-	-	70,219
\$ 844,855	\$ 197,172	\$ 254,583	\$ 9,204	\$ 850,594	\$ 70,219

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

	County Stadium	County Fair	Prisoner Commissary	SIU Revenue
Nonspendable:				
Advances				
Prepaid Items				
Note Receivable				
Total Nonspendable				
Restricted:				
Transportation				
General Government				
Health & Human Services				
Public Safety			19,418	599,683
Judicial Services				
Physical Environment				
Culture & Recreation	84,352			
Economic Environment				
Debt service				
Total Restricted	84,352	-	19,418	599,683
Committed:				
Transportation				
General Government				
Public Safety				
Physical Environment				
Culture & Recreation		17,052		
Economic Environment				
Total Committed	-	17,052	-	-
Unassigned:				
Total Fund Balance	\$ 84,352	\$ 17,052	\$ 19,418	\$ 599,683

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

Kitsap S.A.I.V.S	Anti- Profiteering	Family Court	Trial Court	Public Defense	Pooling Fees
30,620	5,907				340,491
		65,139	92,652	65,148	
30,620	5,907	65,139	92,652	65,148	340,491
-	-	-	-	-	-
\$ 30,620	\$ 5,907	\$ 65,139	\$ 92,652	\$ 65,148	\$ 340,491

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

	GMA Park Impact Fees	GMA Trans. Impact Fee Central Kitsap	County Parks Acq & Dev	Pt No Pt Lighthouse
<hr/>				
Nonspendable:				
Advances				
Prepaid Items				
Note Receivable				
Total Nonspendable				
<hr/>				
Restricted:				
Transportation		7,471		
General Government				
Health & Human Services				
Public Safety				
Judicial Services				
Physical Environment				
Culture & Recreation	17,376			44,099
Economic Environment				
Debt service				
Total Restricted	17,376	7,471	-	44,099
<hr/>				
Committed:				
Transportation				
General Government				
Public Safety				
Physical Environment				
Culture & Recreation			565,004	
Economic Environment				
Total Committed	-	-	565,004	-
<hr/>				
Unassigned:				
Total Fund Balance	\$ 17,376	\$ 7,471	\$ 565,004	\$ 44,099
<hr/>				

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

Crime Prevention	Regional Septic Loan	Recovery Center	Dispute Resolution	CDBG Entitlement	HOME Entitlement
		1,782,556		10,958	
	97				122,869
-	97	1,782,556	10,958	34,690	122,869
103,137					
103,137	-	-	-	-	-
\$ 103,137	\$ 97	\$ 1,782,556	\$ 10,958	\$ 34,690	\$ 122,869

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

	Kitsap Abatement	Community Development	Jail & Juvenile	Service Area 1 Road Impact
Nonspendable:				
Advances				
Prepaid Items				
Note Receivable				
Total Nonspendable				
Restricted:				
Transportation				553,822
General Government				
Health & Human Services				
Public Safety			748,804	
Judicial Services				
Physical Environment				
Culture & Recreation				
Economic Environment				
Debt service				
Total Restricted	-	-	748,804	553,822
Committed:				
Transportation				
General Government				
Public Safety				
Physical Environment	146,436			
Culture & Recreation				
Economic Environment				
Total Committed	146,436	-	-	-
Unassigned:		(412,654)		
Total Fund Balance	\$ 146,436	\$ (412,654)	\$ 748,804	\$ 553,822

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

Service Area 2 Road Impact	Service Area 3 Road Impact	Service Area 4 Road Impact	Regional Service Area Roads	PEG Fund	Mental Health
767,207	211,156	354,077	206,463		1,106,893
767,207	211,156	354,077	206,463	-	1,106,893
				55,410	
-	-	-	-	55,410	-
\$ 767,207	\$ 211,156	\$ 354,077	\$ 206,463	\$ 55,410	\$ 1,106,893

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

	Developmental Disabilities	Youth Services/ Juvenile Services	Substance Abuse	Mental Health Non-Medicaid
Nonspendable:				
Advances				
Prepaid Items				
Note Receivable				
Total Nonspendable				
Restricted:				
Transportation				
General Government				
Health & Human Services	1,444,420		268,423	768,437
Public Safety		8,975		
Judicial Services				
Physical Environment				
Culture & Recreation				
Economic Environment				
Debt service				
Total Restricted	1,444,420	8,975	268,423	768,437
Committed:				
Transportation				
General Government				
Public Safety				
Physical Environment				
Culture & Recreation				
Economic Environment				
Total Committed	-	-	-	-
Unassigned:				
Total Fund Balance	\$ 1,444,420	\$ 8,975	\$ 268,423	\$ 768,437

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

Commuter Trip Reduction	Area Agency On Aging	Employment & Training	KRCC	ARRA EECBG	Debt Service
					9,785,000
					9,785,000
-					
	539,823	126,819			
				88,291	
					1,281,149
-	539,823	126,819	-	88,291	1,281,149
83,732					
			82,768		
83,732	-	-	82,768	-	-
\$ 83,732	\$ 539,823	\$ 126,819	\$ 82,768	\$ 88,291	\$ 11,066,149

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

	<u>Capital Projects</u>
Nonspendable:	
Advances	
Prepaid Items	
Note Receivable	
Total Nonspendable	
Restricted:	
Transportation	63,558
General Government	245,657
Health & Human Services	
Public Safety	60,799
Judicial Services	
Physical Environment	1,702,216
Culture & Recreation	2,633,502
Economic Environment	211,682
Debt service	
Total Restricted	4,917,414
Committed:	
Transportation	
General Government	
Public Safety	
Physical Environment	
Culture & Recreation	
Economic Environment	
Total Committed	-
Unassigned:	
Total Fund Balance	\$ 4,917,414

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

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 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 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. DEPOSITS AND INVESTMENTS

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

As allowed by the state statute, all investments of the County's funds are obligations of the U.S. Government, U.S. agency issues, the Washington State Local Government Investment Pool, certificates of deposit, municipal obligations or money market deposits with Washington state banks and savings and loan institutions. All temporary investments are stated at fair 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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

note securities that adjust weekly, monthly or quarterly to rates resembling current market.

As of December 31, 2011, the County had the following investments:

Investment Type	Rating	Weighted Average Maturities	%	Amortized Cost	Fair Value of County's Investments	Fair Value of Investments Held by County as Agent for Other Local Governments	Total Fair Value
FHLB	AAA	1.77	9.8%	\$ 38.89	\$ 17.15	\$ 21.83	\$ 38.98
FFCB	AAA	3.50	6.3%	\$ 25.07	\$ 11.10	\$ 14.12	\$ 25.22
FHLMC	AAA	2.36	18.3%	\$ 72.70	\$ 31.99	\$ 40.71	\$ 72.70
FNMA	AAA	2.96	26.3%	\$ 104.47	\$ 46.34	\$ 58.98	\$ 105.32
MONEY MKT SVGS ACCTS	NR	0.50	4.1%	\$ 16.37	\$ 7.20	\$ 9.17	\$ 16.37
WA ST LGIP	NR	0.50	27.8%	\$ 110.27	\$ 48.52	\$ 61.75	\$ 110.27
CERTIFICATE OF DEPOSIT	NR	0.50	2.5%	\$ 10.00	\$ 4.40	\$ 5.60	\$ 10.00
MUNICIPAL SECURITIES	Aa1/AA/AA+	2.06	4.8%	\$ 19.12	\$ 8.40	\$ 10.68	\$ 19.08
		Years	100%	\$ 396.89	\$ 175.09	\$ 222.85	\$ 397.94

Both Cost and Fair Value include accrued interest of \$.99; amortized cost and total fair value stated in millions.

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

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

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

The Washington State LGIP is an unrated 2a-7 like pool, as defined by GASB 31, and therefore is not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. The balance in the LGIP is not subject to custodial risk since all investments or deposits held by the LGIP are either insured or held by a third party custody provider in the LGIP's name. The County may withdraw its participation for same or next day settlement.

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

NOTE 5. 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 tax is 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 2011 was 1.0251 per \$1,000 on an assessed valuation of \$28,434,461,783 for a total regular levy of \$29,167,016.

The County's road levy for the year 2011 was \$1.4301 per \$1,000 on an assessed valuation of \$17,523,372,354 for total road levy of \$25,094,521.

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

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

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

Kitsap County, Washington

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December 31, 2011

NOTE 6. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2011 was as follows:

	<i>Beginning</i>	<i>Increase</i>	<i>Decrease</i>	<i>Ending</i>
Governmental activities				
Assets not being depreciated				
Land	\$ 57,179,803	\$ 1,272,513	\$ 12,500	\$ 58,439,816
Land - Infrastructure	61,734,593	5,425,441	-	67,160,034
Construction in Progress	26,599,890	12,429,778	15,284,404	23,745,265
Total	\$ 145,514,286	\$ 19,127,731	\$ 15,296,904	\$ 149,345,114
Assets being depreciated				
Buildings	\$ 126,424,331	\$ 645,388	\$ 1,323,334	\$ 125,746,385
Building Improvements	28,587,638	202,627	20,851	28,769,414
Equipment & Machinery	53,537,422	2,509,626	1,695,800	54,351,248
Infrastructure	396,201,142	9,551,328	9,750	405,742,721
Total	604,750,534	12,908,969	3,049,736	614,609,768
Total capital assets	\$ 750,264,820	\$ 32,036,701	\$ 18,346,639	\$ 763,954,881
Less accumulated depreciation				
Buildings	\$ 31,056,766	\$ 2,868,908	\$ 118,380	\$ 33,807,294
Building Improvements	10,260,557	1,356,396	2,433	11,614,520
Equipment & Machinery	32,118,610	4,325,762	1,636,546	34,807,825
Infrastructure	263,073,013	11,474,144	748	274,546,409
Total	\$ 336,508,946	\$ 20,025,210	\$ 1,758,107	\$ 354,776,049
Governmental activities Capital assets, net	\$ 413,755,874	\$ 12,011,491	\$ 16,588,533	\$ 409,178,832

	<i>Beginning</i>	<i>Increase</i>	<i>Decrease</i>	<i>Ending</i>
Business-type activities				
Assets not being depreciated				
Land	\$ 2,465,721	\$ -	\$ -	\$ 2,465,721
Construction in Progress	11,840,856	13,513,981	-	25,354,837
Total	\$ 14,306,577	\$ 13,513,981	\$ -	\$ 27,820,558
Assets being depreciated				
Buildings	\$ 46,309,798	\$ -	\$ -	\$ 46,309,798
Building Improvements	76,626,866	272,616	-	76,899,482
Equipment & Machinery	7,451,253	14,927	-	7,466,180
Total	\$ 130,387,917	\$ 287,543	\$ -	\$ 130,675,460
Grand Total	\$ 144,694,494	\$ 13,801,524	\$ -	\$ 158,496,018
Less accumulated depreciation				
Buildings	\$ 27,882,580	\$ 1,649,185	\$ -	\$ 29,531,765
Building Improvements	32,883,000	2,448,776	-	35,331,776
Equipment & Machinery	5,480,178	404,455	-	5,884,633
Total	\$ 66,245,758	\$ 4,502,416	\$ -	\$ 70,748,174
Business-type activities capital assets, net	\$ 78,448,736	\$ 9,299,108	\$ -	\$ 87,747,844

Kitsap County, Washington

Notes to Financial Statements

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

Function/Program	Amount
Government activities:	
General government	\$ 1,868,973
Judicial Services	18,113
Public safety	3,893,484
Transportation	12,811,746
Health & Human service	140,608
Economic environment	5,126
Culture & recreation	1,287,159
Total	\$ 20,025,210

Construction commitments

The County had no active construction projects as of December 31, 2011.

NOTE 7. PENSION PLANS

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

Department of Retirement Systems
Communications Unit,
P.O. Box 48380,
Olympia, WA 98504-8380,

or it may be downloaded from the DRS website at www.drs.wa.gov.

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

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university

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employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 22 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or 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 Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

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 monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered

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employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of 14 service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months).

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

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

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. 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.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS 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 monthly benefit that is one percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months).

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve

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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 for normal retirement at age 65, or they may retire early with the following conditions and benefits:

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

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, 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.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

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 Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

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

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Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

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

Judicial Benefit Multiplier

During January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier Program (JBM) enacted in 2006. Justices and judges in PERS Plan 1 and Plan 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 AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate 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 AFC, 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 or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required 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 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

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Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Non-vested	51,005
Total	262,285

Funding policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. 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 Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with 33 Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll as of December 31, 2011, were as follows:

Members not participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%**	7.25%**	7.25%**
Employee	6.00%****	4.64%****	*****

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

** The employer rate for the state elected officials is 10.80% for Plan 1 and 7.25% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

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

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

Members participating in JBM:

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	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer - State	9.75%	9.75%	9.75%**
Agency*			
Employer - Local	7.25%	7.25%	7.25%**
Government*			
Employee - State	9.76%	9.10%	7.50%***
Agency			
Employee - Local	12.26%	11.60%	7.50%***
Government*			

*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
2011	\$ 127,928	\$ 2,597,672	\$ 555,682
2010	\$ 133,163	\$ 2,340,792	\$ 522,077
2009	\$ 193,117	\$ 3,092,977	\$ 685,655

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

Plan description

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

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

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.

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.

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LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

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

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

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

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

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

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

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the FAS per year of service. (FAS 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

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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. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is two percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, 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 three percent for each year prior to age 53. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least ten percent of FAS and two percent per year of service beyond five years. The first ten percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

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

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may request service credit on behalf of the deceased member.

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

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Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

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, 2010:

Retirees and Beneficiaries Receiving Benefits	9,647
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	782
Active Plan Members Vested	13,420
Active Plan Members Nonvested	3,656
Total	27,505

Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees 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. 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, 2011, were as follows:

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

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

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

Both the County and the employees made the required contributions. The County's

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required contributions for the years ending December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2011	\$ 111	\$ 456,254
2010	\$ 157	\$ 480,094
2009	\$ 201	\$ 513,615

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

The Legislature created PSERS in 2004 and the system 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. PSERS retirement benefit provisions are established in Chapter 41.37 RCW and may be amended only by the State Legislature.

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

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

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

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Corrections departments of Washington State counties;
- Corrections departments of Washington State cities except for Seattle, Tacoma and Spokane; and
- Interlocal corrections agencies.

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

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

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PSERS Plan 2 members are vested after completing 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 ten years of PSERS service credit, with an allowance of two percent of the average final compensation (AFC) per year of service. The AFC 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 members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three 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 three percent annually.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. Eligibility is based on the member being totally incapacitated for continued employment with a PSERS employer and leaving that employment as a result of the disability. The disability allowance is two percent of the average final compensation (AFC) for each year of service. AFC is based on the member's 60 consecutive highest creditable months of service. Service credit is the total years and months of service credit at the time the member separates from employment. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years).

PSERS Plan 2 members can receive service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may request service credit on behalf of the deceased member.

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

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2010:

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

Retirees and Beneficiaries Receiving Benefits	7
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	0
Active Plan Members Vested	0
Active Plan Members Non-vested	4,210
Total	4,217

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, 2011 are as follows:

	PSERS Plan 2
Employer*	8.86%
Employee	6.36%

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

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

	PSERS Plan 2
2011	\$ 332,799
2010	\$ 313,450
2009	\$ 365,577

NOTE 8. RISK MANAGEMENT

The county is exposed to various risks of loss related to torts, theft, damage to, and destruction of assets, errors or omissions, injuries to employees, and natural disasters. Kitsap County uses its Risk Management Fund, an internal service fund, to finance and administer the County's property/casualty and workers' compensation self insurance programs. The County contracts with a Third Party Administrator to process medical claims made against its workers' compensation program.

RCW 48.62 authorizes the governing body of any governmental entity to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Kitsap County was a member of the Washington Counties Risk Pool until September 2010, when it made the determination

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

to withdraw from the risk pool in order to have more control over decisions made with respect to risk management activities.

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

General liability

The County purchased an excess insurance policy with a \$20,000,000 limit for liability protection and a \$500,000 self-insured retention. The County is responsible for the first \$500,000 of each claim and the insurer covers up to \$20,000,000 per occurrence. The County has never had a claim in excess of the policy limits. This policy also covers auto liability, employment liability, and public officials' liability.

Property insurance

The county has a \$50,000 per occurrence deductible and is insured for up to \$50 million per occurrence through an independent insurance carrier. The earthquake coverage has a deductible of 2% of the total damage per occurrence with a \$100,000 minimum and \$1,000,000 maximum deductible.

Crime/dishonesty insurance

The employee crime/dishonesty policy has a \$5,000 deductible and \$1,000,000 in coverage. The County also purchases Scheduled Position Bonds, which provides certain elected officials with bond coverage as required by the State statute.

Workers compensation

The County assumes risk for workers' compensation as allowed by the State statute up to \$500,000 per occurrence. The County purchases an excess workers' compensation policy that provides statutory limits coverage. Interfund premiums are based on each department's loss experience and number and class of employees. As of December 31, 2011, the County's estimated total undiscounted outstanding liability for the workers' compensation program is \$2,056,545. Reserve funding is targeted at 70 percent or better to ensure adequate resources are available to cover losses within the self-insured retention level.

Unemployment Risk

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

Self Insured Claims Activity

Following is a summary of the changes in the self-insurance fund liabilities for estimated claim settlements for the years ended December 2011 and 2010:

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

Workers Compensation	Year ended	
	12/31/2010	12/31/2011
Unpaid claims, beginning of fiscal year	\$ 1,764,202	\$ 2,056,545
Incurred claims (including IBNRs)	1,046,381	1,083,560
Claim payments	(754,038)	(887,539)
Unpaid claims, end of fiscal year	\$ 2,056,545	\$ 2,252,566

General Liability	Year ended	
	12/31/2010	12/31/2011
Unpaid claims, beginning of fiscal year	\$ 3,560,969	\$ 4,458,615
Incurred claims (including IBNRs)	1,237,755	1,333,048
Claim payments	(340,109)	(675,357)
Unpaid claims, end of fiscal year	\$ 4,458,615	\$ 5,116,306

NOTE 9. SHORT-TERM DEBT

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

NOTE 10. LONG-TERM DEBT

In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds Payable is reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

State law provides that debt cannot be incurred in excess of the following percentages of the value of the taxable property of the County:

1.5% - Without a vote of the people

2.5% - With a vote of the people

5.0% - With a vote of the people, provided the indebtedness in excess of 2.5% is for utilities, parks, or open space development.

As of December 31, 2011 the debt limits for the County were as follows:

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

	Without a Vote	With a Vote	
		2.50%	5.00%
Legal Limit	\$ 426,516,927	\$ 710,861,545	\$ 1,421,723,089
Applicable Outstanding Debt	116,445,723	116,445,723	116,445,723
Margin Available	\$ 310,071,203	\$ 594,415,821	\$ 1,305,277,366

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:

2003B - Administrative Building	12/1/12 - 12/1/28	3.75 - 4.75	17,805,000	440,000 - 1,465,000
2004 - Gen. Govt. - Refunding	07/1/12 - 07/1/29	3.75 - 5.0	20,664,719	485,000 - 1,075,000
2005 - Refunding	07/1/12 - 07/1/25	5.0	18,995,000	1,070,000 - 1,500,000
2006 - Improve Bldgs & Parks	07/1/12 - 07/1/31	4.4 - 5.0	18,085,000	505,000 - 985,000
2009B - KCCHA Notes	4/30/13	3 mth Libor + 160-200	3,622,975	3,246,771
2010 - Refunding; Coroner's Bldg & CKCC; BAN (Prop.Acq.)	12/1/12 - 12/1/30	3.0 - 4.0	9,220,000	190,000 - 1,445,000
2011 - Refunding	12/1/12 - 12/1/27	2.0 - 4.0	20,370,000	500,000 - 1,550,000
2001 - Rds PWTF Ln # PW-01-691-037 - Anderson Hill	07/1/12 - 07/1/21	0.5	897,812	47,253
2003 - KCCHA Real Estate Contract	6/1/12 - 6/1/34		5,583,889	122,500 - 327,500
2009 - BAN Line of credit (KCCHA Loans)	4/30/13	1.77 - 2.4	40,500,000	17,091,419
2011 - Rolling Hills Golf Course	10/31/12 - 10/31/31	6.5	2,200,000	56,534 - 187,756
Total			\$ 168,194,396	

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2012	5,660,000	3,828,653
2013	8,271,771	3,586,374
2014	4,710,000	3,325,824
2015	4,905,000	3,152,624
2016	5,100,000	2,965,174
2017-2021	27,750,000	11,580,880
2022-2026	26,160,000	5,487,375
2027-2031	9,405,000	1,035,345
Total	\$ 91,961,771	\$ 34,962,249

During 2011, the County currently refunded the 1999B general obligation refunding bond and the 2001 general obligation refunding bond, and advance refunded the 2002A general obligation bond and a portion of the 2003 general obligation bond with one general obligation refunding bond.

The County issued \$20,370,000 general obligation refunding bonds. The net proceeds were used along with other funds of the County to provide resources to purchase \$20,950,682 of government securities that were placed in an irrevocable trust on November 22, 2011 for the purpose of generating resources for redemption of the 1999B, 2001, 2002A and a portion of the 2003 bonds on their respective dates.

As a result, the refunded debt, other than the 2003 general obligation bond, was paid in full and the liability has been removed from the County's long-term debt. A portion of the 2003 general obligation bond was not refunded and remains outstanding. The balance, \$370,000, is due in December 2012.

This current and advance refunding was undertaken to reduce total debt service payments over the next sixteen years by \$2,971,587.29 and to obtain an economic gain of \$ 2,497,311.48.

Notes Payable

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

The County has a note payable of \$2.2 million due to the Rolling Hills Golf Course Partnership from the purchase of the Rolling Hills Golf Course in March

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

2011. Principal and interest payments are due annually for 20 years, beginning in October 2012.

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2012	\$ 179,034	\$ 374,981
2013	187,721	366,543
2014	196,648	357,452
2015	205,831	347,903
2016	217,787	337,213
2017-2021	1,276,636	1,492,739
2022-2026	1,665,681	1,098,694
2027-2031	2,183,161	580,589
2032-2034	807,500	73,500
Total	\$ 6,919,999	\$ 5,029,614

The County has a Bond Anticipation Note Payable (BAN) of \$17.09 million due to Bank of America. This is in conjunction with debt it assumed from Housing Kitsap, formerly known as the Kitsap County Consolidated Housing Authority. As part of the debt assumption agreement, Housing Kitsap's properties were pledged for sale to pay off the BAN. As these properties sell, proceeds are applied to the principal balance of the BAN.

During 2011, in addition to proceeds from sales of the properties, the County paid \$400,000 towards the principal balance of the BAN and the City of Bremerton contributed \$1,150,000 towards the principal balance.

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

B. Revenue bonds

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

Issued Name & Purpose	Maturity Range	Interest Rate %	Original Amount	Amount of Installment
Sewer Refunding 2001	7/1/12 - 7/1/16	5.25 - 5.625	\$ 13,075,000	1,305,000 - 1,620,000
Sewer Refunding 2010A	12/1/12 - 12/1/18	3.0 - 4.0	5,775,000	665,000 - 805,000
Sewer 2010B	12/1/28 - 12/1/40	6.714 - 7.364	37,120,000	1,090,000 - 4,100,000
Sewer 2010C	12/1/28	6.696	1,110,000	1,110,000
D.O.E. Loan # L0400026	5/1/12 - 5/1/25	1.5	14,188,000	249,402 - 303,064
PWTF Loan # PW-01-691-036	7/1/12 - 7/1/21	0.5	2,605,000	150,816
PWTF Loan # PR-08-951-108	7/1/12 - 7/1/13	0.5	1,000,000	270,833
Total			\$ 74,873,000	

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

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

Year Ending December 31	Revenue Bonds	
	Principal	Interest
2012	1,970,000	2,279,291
2013	2,055,000	2,190,829
2014	2,155,000	2,094,909
2015	2,260,000	1,994,029
2016	2,365,000	1,886,066
2017-2021	1,585,000	8,622,931
2022-2026	-	8,527,331
2027-2031	9,320,000	7,994,850
2032-2036	14,220,000	5,276,729
2037-2040	14,690,000	1,626,916
Total	\$ 50,620,000	\$ 42,493,881

Year Ending December 31	Ecology & PWTF Loans	
	Principal	Interest
2012	922,329	120,257
2013	929,891	110,587
2014	666,734	100,802
2015	674,526	92,256
2016	682,436	83,592
2017-2021	3,535,074	283,755
2022-2025	2,074,509	62,898
Total	\$ 9,485,499	\$ 854,147

C. Pollution Remediation Obligation

During 2011, the Solid Waste fund recorded a liability of \$742,805 which represents the County's share of cleanup costs of the Hansville Landfill. The Washington State Department of Ecology identified the County and Waste Management as Potentially Liable Parties (PLPs) for remediation of the site. See Note 18 for additional information.

D. Compensated absences

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

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2011

NOTE 11. LEASES

Operating leases

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

Capital Leases

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

NOTE 12. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2011 was as follows:

Governmental activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 97,861,771	\$ 20,370,000	\$ 26,270,000	\$ 91,961,771	\$ 5,660,000
Total bond payable	97,861,771	20,370,000	26,270,000	91,961,771	5,660,000
Compensated absences	5,054,957	3,749,199	3,836,710	4,967,446	569,733
Internal services comp.	264,956	267,189	241,099	291,046	29,105
Notes payable	26,740,085	2,839,801	5,568,466	24,011,420	643,203
Net OPEB obligation	2,731,161	410,575	-	3,141,736	-
Other liabilities	551,445	-	78,912	472,533	47,253
Governmental-activities Long-term liabilities	<u>\$ 133,204,374</u>	<u>\$ 27,636,765</u>	<u>\$ 35,995,188</u>	<u>\$ 124,845,951</u>	<u>\$ 6,949,293</u>
Business-type activities					
Bonds payable:					
Revenue bonds	52,535,000	-	1,915,000	50,620,000	1,970,000
Unamortized premium/dis	403,796	-	79,795	324,001	79,795
Total bond payable	52,938,796	-	1,994,795	50,944,001	2,049,795
Other liabilities	10,400,379	742,805	914,879	10,228,304	953,864
Compensated absences	546,324	528,071	508,125	566,270	81,394
Business-type activities Long-term liabilities	<u>\$ 63,885,498</u>	<u>\$ 1,270,876</u>	<u>\$ 3,417,800</u>	<u>\$ 61,738,575</u>	<u>\$ 3,085,053</u>
Total	<u>\$ 197,089,872</u>	<u>\$ 28,907,641</u>	<u>\$ 39,412,987</u>	<u>\$ 186,584,525</u>	<u>\$ 10,034,347</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these are included as part of the above totals for governmental activities. At year end \$291,045 of internal service funds compensated absences are included in the above amounts. The general fund generally liquidates the claims, judgments, compensated absences and OPEB obligations from the governmental activities.

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

Kitsap County, Washington

Notes to Financial Statements

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NOTE 13. CONTINGENCIES AND LITIGATIONS

The county is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County's legal advisor the resolution of these matters will not have a material adverse effect on the financial condition of the County.

The County acts as guarantor of one Kitsap County Consolidated Housing Authority's bond issues with an outstanding balance of \$17.25 million as of December 31, 2011.

The county participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Other than the instances described above, county management believes that such disallowances, if any, will be immaterial.

NOTE 14. INTER-FUND BALANCES AND TRANSFERS

1. Advances to/From other funds

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

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

2. Due from other funds/Due to other funds

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

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Due to Other Funds	General Fund	County Roads	RE Tax	Ment Hlth Medicaid	Non Major	Solid Waste	Sewer Utility	Surface Storm	Internal Service	Agency Funds	Total
General Fd	-	25,891	-	726	194,539	587	315	40,088	24,743	-	286,889
County Rds	2,485	-	-	-	33,444	2,667	56,891	914,003	804,293	-	1,813,783
HOME Ent	-	-	-	-	-	-	-	-	-	-	-
Mental Hlth	-	-	-	-	-	-	-	-	-	-	-
Non Major	4,491	232,178	28,000	7,689	151,879	-	92	60,454	9,317	-	494,100
Solid Waste	-	1,651	-	-	1,317	-	1,742	2,296	-	-	7,006
Sewer Utility	-	-	-	-	-	128,690	-	40,723	220,490	-	389,903
Surface Strr	-	2,002,930	-	-	45,097	13,100	10,615	-	235,288	-	2,307,030
Internal Ser	61,361	277,864	-	-	35,871	-	803	1,104	116	1,706,867	2,083,986
Agency	-	-	-	-	-	-	-	-	676	-	676
Total	68,337	2,540,514	28,000	8,415	462,147	145,044	70,458	1,058,668	1,294,923	1,706,867	7,383,373

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	-	-	-	-	2,989,707	110,000	3,099,707
County Roads	-	-	-	-	353,553	-	353,553
REET	-	-	-	-	4,432,554	-	4,432,554
Mental Health	-	-	-	-	-	-	-
Nonmajor	2,571,110	-	-	-	5,035,138	-	7,606,248
Solid Waste	-	-	-	-	-	-	-
Surface Stormwater	-	-	-	-	203,929	-	203,929
Sewer	-	-	-	-	130,170	-	130,170
Nonmajor Ent	-	-	-	-	-	-	-
Int. Serv	46,594	-	-	-	17,355	-	63,949
Total	2,617,704	-	-	-	13,162,406	110,000	15,890,110

NOTE 15. RECEIVABLES AND PAYABLES.

Federal grants and assistance awards.

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

Kitsap County, Washington

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receivables) and revenues in the year in which the related expenditure or expenses are incurred.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned.

Public Facility District receivable.

The County has a \$9.79 million long-term receivable due from the Public Facility District, one of its component units. The County sold G.O. bonds and gave the proceeds to the PFD and the PFD pledged its sales tax revenue to repay the County. The debt is carried on the County's books and the note is reflected on the PFD books as well.

Rolling Hills Golf Course lease receivable.

In March 2011, the County purchased a golf course property consisting of approximately 104 acres encompassing the golf course, clubhouse, outbuildings and storage sheds, and various property and equipment items necessary to operate the golf course and clubhouse. The cost of the golf course was \$2,200,400 of which \$2,112,855 was capitalized. Accumulated depreciation on the golf course and property as of December 31, 2011 was \$29,143.

In March 2011, the County entered into an agreement to lease the golf course to the seller, a private entity.

Lease payments are due to the County annually, beginning on October 15, 2012 and on October 15 each year thereafter, for a period of 20 years. Each annual lease payment is \$200,000.

Future minimum lease payments receivable are as follows:

Year Ending December 31	Amount
2012	\$ 200,000
2013	200,000
2014	200,000
2015	200,000
2016	200,000
2017 - 2021	1,000,000
2022 - 2026	1,000,000
2027 - 2031	1,000,000
Total	\$ 4,000,000

Also see note 12, Changes in Long Term Liabilities, for additional information about the note payable by the County to the seller of the golf course.

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Notes to Financial Statements

December 31, 2011

NOTE 16. DEFERRED COMPENSATION

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

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the County (without being restricted to the provisions of the benefits under the plan). 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's legal counsel that the County has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The County believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The investment carrying values of the plans as of December 31, 2011, are as follows:

Investment company		Fair Value
Nationwide		\$ 12,077,496
ING		5,597,840
Hartford		6,319,415
ICMA		743,903
	Total	\$ 24,738,654

NOTE 17. 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, 2009 there were 42 active participants in this closed plan.

Kitsap County, Washington

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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 ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2008. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB. The net OPEB obligation of \$3,141,737 is included as a noncurrent liability on the Statement of Net Assets. The actuarial valuation was performed on December 31, 2011.

Normal Cost at year end		\$ -
Amortization of UAAL*		1,016,734
Annual Required Contribution (ARC)		\$ 1,016,734
Determination of Net OPEB Obligation:		
Annual Required Contribution		\$ 1,016,734
Interest on prior year Net OPEB Obligation		122,902
Adjustment to ARC		(254,309)
Annual OPEB Cost		\$ 885,327
Contributions		474,752
Increase in Net OPEB Obligations		\$ 410,575
Net OPEB Obligation - beginning of year		\$ 2,731,162
Increase in Net OPEB Obligations		\$ 410,575
Net OPEB Obligation - end of year		\$ 3,141,737

*Unfunded Actuarial Accrued Liability

The County's annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for 2011 were as follows:

Year Ended	Annual Cost	Contribution	Percentage of Annual OPEB cost contributed
2008	\$ 1,328,020	\$ 489,157	37%
2009	\$ 1,072,127	\$ 450,113	42%
2010	\$ 984,620	\$ 472,936	48%
2011	\$ 885,327	\$ 474,752	54%

Funding Status

As of December 31, 2011 the most recent alternative method measurement date, the plan was 0% funded. The accrued liability for benefits was \$10,919,266 and the actuarial value of assets was \$0 resulting in a UAAL of \$10,919,266. Historically Kitsap County has used a pay-as-you-go approach to funding. If Kitsap County were to

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contribute the ARC to the plan every year, a liability would not be recorded. If the ARC is not fully funded in a given year, a liability is reported for the unpaid portion of the ARC.

Actuarial Methods and Assumptions

The County's annual other post employment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount determined using the alternative method permitted under GASB No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the actuarial liability. Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the September 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 healthcare cost inflation trend was computed at 7% and the plan is amortized as a level amount over 15 years.

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

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

NOTE 18. POLLUTION REMEDIATION OBLIGATION

In accordance with Governmental Accounting Standards Board Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, which became effective for the 2008 reporting year, liabilities for environmental cleanup obligations were recorded in the Solid Waste fund.

Hansville Landfill

The Solid Waste Fund recognized a liability of \$742,805 for the Hansville site, which represents the estimated costs remaining to be recognized as determined by the Environmental Protection Agency. In 2011, Kitsap County together with Waste Management of Washington Inc., were identified as Potentially Liable Parties (PLPs) for remediation of contamination at the Hansville Landfill under the Model Toxics Control Act (MTCA). A Cleanup Action Plan (CAP) providing for Natural Attenuation with Enhanced Monitoring and Institutional Controls has been approved by the Washington State Department of Ecology. The landfill is full and has been closed since 1989.

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NOTE 19. OTHER NOTE DISCLOSURES

A. Accounting and Reporting Changes:

- We implemented Governmental Accounting Standards Board Statement 54, which redefined fund balance. In addition it changed the definition of what can be reported as a special revenue fund. As a result thirteen funds previously reported as special revenue funds were reported as part of the general fund for 2011.

B. Special Items:

- As reported in the 2009 Comprehensive Annual Financial Report, Kitsap County has agreed to assume debt issues of the Kitsap County Consolidated Housing Authority (KCCHA). As result of this agreement certain KCCHA properties were pledged to be sold to pay off these debt issues. The sales of these properties occurring in 2011 were reported as a Special Item totaling \$5.47 million in the Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental funds.
- As part of the agreement to build a new YMCA in Silverdale, the County agreed to demolish a building with a net book value of \$1.19 million that was occupying a portion of the site.