



## FINANCIAL SECTION

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# Washington State Auditor's Office

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

June 25, 2015

Board of Commissioners  
Kitsap County  
Port Orchard, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of Kitsap County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component unit and remaining fund information of Kitsap County, Washington, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, County Roads, Real Estate Excise Tax and Mental Health Medicaid funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15, budgetary comparison information on pages 25 through 28, and information on postemployment benefits other than pensions on page 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying information listed as combining financial statements and supplementary information on pages 81 through 209 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 Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the County. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we will also issue our report dated June 25, 2015, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report will be issued under separate cover in the County's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Sincerely,



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2014*

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As management of Kitsap County, we offer readers of Kitsap County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found section II of this report. All amounts, unless otherwise indicated, are expressed in millions of dollars.

### **Financial Highlights**

- The assets of Kitsap County exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$557.76 (net position). Of this amount, \$138.46 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$ 18.57 with a \$12.49 increase on the Governmental side and a \$6.07 increase on the Business-Type side. The economy continues to show signs of recovery and the County has worked hard to increase financial position since 2009.
- As of the close of the current fiscal year, Kitsap County's governmental funds reported combined ending fund balances of \$102.32, an increase of \$10.11 from the prior year. Approximately \$20.45 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 \$20.59, or 26.13 percent of the total general fund expenditures. \$.97 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 \$5.43 (5.5 percent) during the current fiscal year. This represented 2014 principle payments.

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

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

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

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

# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2014*

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increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

The government-wide financial statements can be found on pages 17 -18 of this report.

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

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

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

Kitsap County maintains one hundred and three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the

# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2014*

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governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, county roads fund, real estate excise tax fund, mental health Medicaid fund and KC LTGO 2013 Refunding Bond fund, all of which are considered major funds.

Thirteen funds were rolled up into the General Fund because they did not meet the Special Revenue Fund criteria as stated in GASB Statement No. 54 (also see Note 1.E.12). Data from the other eight-five 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 implemented GASB Statement No. 65 in 2013. As a result, deferred items such as taxes receivable are now recorded as deferred outflows and inflows rather than assets and liabilities.

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 1D. A budgetary comparison statement has been provided for each of the major funds to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 19 – 28 of this report.

***Proprietary funds.*** Kitsap County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Kitsap County uses enterprise funds to account for its Sanitary Sewer operations, Solid Waste activities and Surface Water Utility activities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. Kitsap County uses internal service funds to account for its management information systems, self-insurance activities, elections activities, employer medical benefits, building repair & replacement and fleet of equipment. Because all these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Solid Waste, and Sewer funds and Surface Water Utility, which are considered major funds of Kitsap County. Conversely, all the internal service funds are combined into single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 29 – 31 of this report.

***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

# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2014*

like that used for proprietary funds. The basic fiduciary fund financial statements can be found on page 32 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 – 79 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 193 – 199 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Kitsap County, assets exceeded liabilities by \$557.76 at the close of the most recent fiscal year. The County's fiscal condition remains stable.

The largest portion of Kitsap County's net position (71.87 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.

<b>Kitsap County's Net Position</b>						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2014	2013	2014	2013	2014
<b>Assets:</b>						
Current & other assets	\$ 163.88	\$ 175.96	\$ 76.03	\$ 60.10	\$ 239.91	\$ 236.06
Capital assets	393.74	388.98	108.08	125.28	501.82	514.26
<b>Total assets</b>	<b>557.62</b>	<b>564.94</b>	<b>184.11</b>	<b>185.38</b>	<b>741.73</b>	<b>750.32</b>
Deferred outflows						
<b>Liabilities</b>						
Other liabilities	29.8	29.82	7.62	5.91	37.42	35.73
Long-term liabilities	106.11	100.96	56.91	53.84	163.02	154.81
<b>Total liabilities</b>	<b>\$135.91</b>	<b>130.78</b>	<b>64.53</b>	<b>59.75</b>	<b>200.44</b>	<b>190.55</b>
Deferred inflows	2.08	2.02			363.46	2.02
<b>Net position</b>						
Net investment in capital assets	319.65	320.75	61.48	80.14	381.13	400.89
Restricted	13.02	13.98	3.34	4.44	16.36	18.42
Unrestricted	86.96	97.40	54.74	41.05	141.70	138.45
<b>Total net position</b>	<b>\$ 419.63</b>	<b>\$ 432.13</b>	<b>\$ 119.56</b>	<b>\$ 125.63</b>	<b>\$ 539.19</b>	<b>\$ 557.77</b>

# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2014*

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An additional portion of Kitsap County's net position (3.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$138.40) 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 position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true last fiscal year.

The government's net position increased by \$18.57 during the current fiscal year. The major reason was increase in sales tax as the economy continued to rebound. We also saw major increases in grant activity.

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

The government's restricted net position increased from \$16.36 to \$18.43. This was caused by an overall reduction in outstanding debt. Unrestricted net position decreases slightly from \$141.70 to \$138.46.

**Governmental activities.** Governmental activities increased the County's net position by \$12.51. The key elements of this net change are as follows:

- Increase in sales tax revenue of \$4.72 over 2013
- Increase in property tax revenues of \$1.36 over 2013
- Increase in grant activity of \$10.24 over 2013

# Kitsap County, Washington

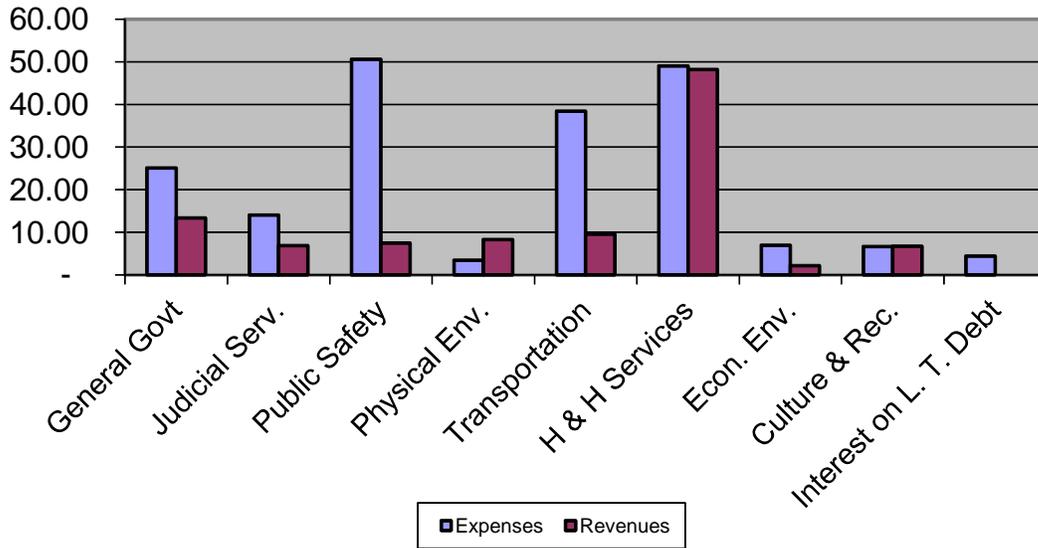
## *Management's Discussion and Analysis For the Year Ended December 31, 2014*

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2014	2013	2014	2013	2014
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 23.38	\$ 23.02	\$ 37.71	\$ 41.97	\$ 61.09	\$ 64.99
Operating grants	66.65	78.45	1.16	2.26	67.81	80.72
Capital grants	3.04	1.46	1.19	0.90	4.23	2.36
General revenues						
Property taxes	57.36	58.72	-	-	57.36	58.72
Sales taxes	27.67	32.38	-	-	27.67	32.38
Other taxes	12.29	11.96	-	-	12.29	11.96
Investment earnings	1.51	1.54	0.44	0.35	1.95	1.89
Other income	3.36	3.74	-	-	3.36	3.74
<b>Total revenues</b>	<b>195.26</b>	<b>211.28</b>	<b>40.50</b>	<b>45.48</b>	<b>235.76</b>	<b>256.75</b>
<b>Expenses</b>						
General government	19.29	25.09	-	-	19.29	25.09
Judicial services	13.95	14.06	-	-	13.95	14.06
Public safety	49.93	50.59	-	-	49.93	50.59
Physical environment	3.34	3.49	-	-	3.34	3.49
Transportation	37.84	38.46	-	-	37.84	38.46
Health & human services	43.86	49.07	-	-	43.86	49.07
Economic environment	6.47	7.00	-	-	6.47	7.00
Culture & recreation	6.49	6.63	-	-	6.49	6.63
Interest on LT debt	4.72	4.36	-	-	4.72	4.36
Utilities	-	-	39.47	39.31	39.47	39.31
<b>Total expenses</b>	<b>185.89</b>	<b>198.75</b>	<b>39.47</b>	<b>39.31</b>	<b>225.36</b>	<b>238.06</b>
Incr (decr) in net position before	9.37	12.53	1.03	6.17	10.40	18.69
<b>Special Items, Transfers &amp; Extraordinary items</b>						
Special items	14.90	-	-	-	14.90	-
Transfers	0.35	0.38	(0.35)	(0.38)	-	-
Incr (decr) in net position	24.62	12.91	0.68	5.80	25.30	18.69
Beginning Net position	393.47	419.63	118.88	119.56	512.35	539.20
Prior period adjustments	1.54	(0.41)	-	0.27	1.54	(0.14)
<b>Ending Net position</b>	<b>\$ 419.63</b>	<b>\$ 432.13</b>	<b>\$ 119.56</b>	<b>\$ 125.63</b>	<b>\$ 539.20</b>	<b>\$ 557.75</b>

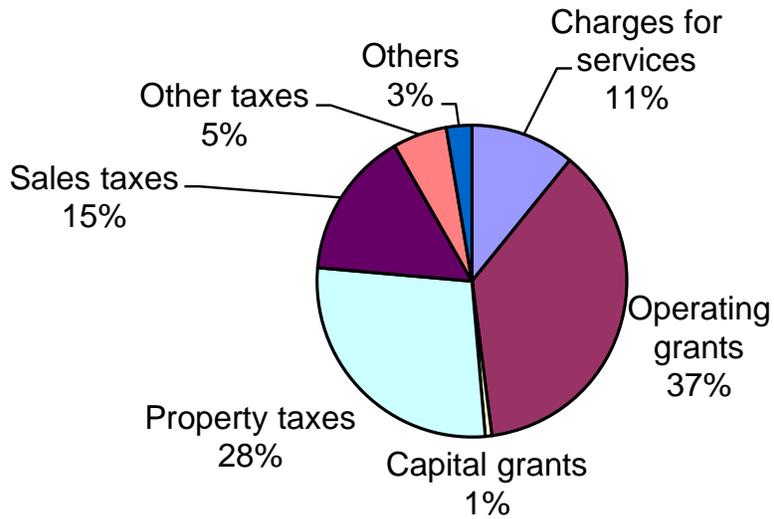
# Kitsap County, Washington

## Management's Discussion and Analysis For the Year Ended December 31, 2014

### Expenses and Program Revenues - Governmental Activities



### Revenues by Source – Governmental Activities



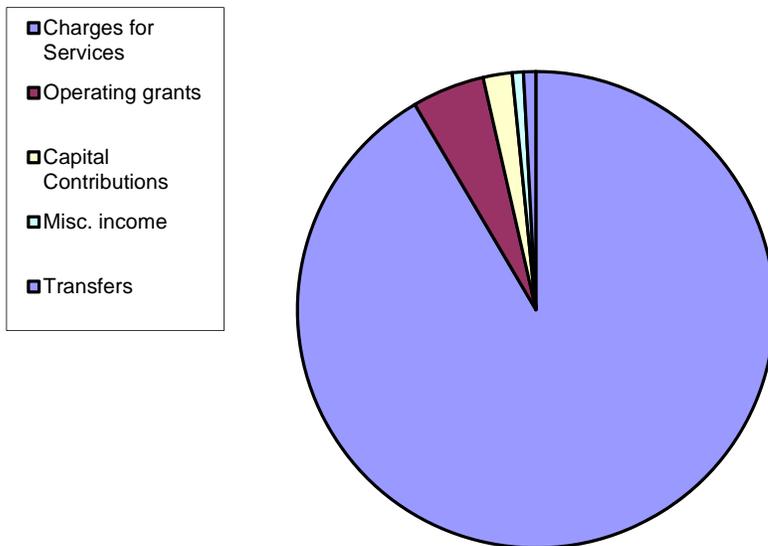
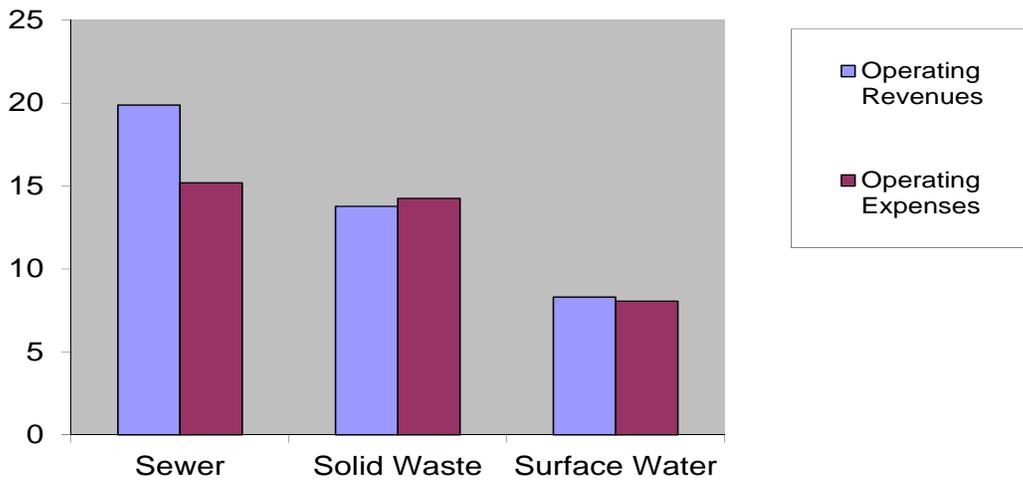
# Kitsap County, Washington

## Management's Discussion and Analysis For the Year Ended December 31, 2014

*Business-type activities.* Business-type activities increased the County's net position by \$6.07. The primary element of this increase was:

- Profitability of the Sanitary Sewer operation

### Expenses and Program Revenues – Business-type Activities



# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2014*

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### **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, 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 \$102.32, an increase of \$10.11 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 increased to \$20.59, while the total fund balance increased to \$20.98. 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 26.12 percent of the total general fund expenditures.

The key factors to the increase were an increase in sales tax of \$1.3 as a result of an improving economy, a \$1.2 increase in property tax as well as conservative spending. A small portion of the fund balance 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 \$.97 added to the general fund's balance in 2014.

County Roads fund balance increased by \$2.0 primarily due to fewer capital projects in 2014.

Real Estate Excise Tax fund balance increased from \$3.01 in 2013 to \$3.70 in 2014. This was due to continued activity in commercial property sales in 2014 helping increase Real Estate Excise Tax collected.

Mental Health Medicaid fund had a balance of \$3.46 in 2014 up from \$2.43 in 2013. This was due to increased state funding for the program.

Debt service funds have a total fund balance of \$10.81, all of which is reserved for the payment of debt service. This was an increase of \$.35 from 2013.

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

# Kitsap County, Washington

## Management's Discussion and Analysis For the Year Ended December 31, 2014

The Sewer fund's total net position was \$77.18 in 2014, up \$ 4.13 from 2013. This increase was caused by operating income as operating revenues exceeded operating expenses.

Solid Waste fund's total net position was \$24.57 for 2014, up \$.13 from 2013, as operating expenses exceeded operating revenues.

Surface Water fund's total net position was \$23.88 for 2014 up \$1.81 from 2013. This was all due to operating income exceeding operating expenses.

### General Fund Budgetary Highlights

Actual general fund revenues exceeded final budgeted revenues by \$2.10 during fiscal year 2014. The biggest reasons for this were sales taxes exceeding budget by \$1.31 and intergovernmental revenues exceeding budget by \$.92.

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

During the year there was a \$.87 increase in appropriations between the original and final amended budget, however, the actual expenditures of the general fund came in well under the final budget total of \$80.07, with a total of \$78.61.

### Capital Assets

At the end of fiscal year 2014, Kitsap County's investment in capital assets for its governmental activities was \$793.76 as reflected in the following schedule, which represents a net increase of \$12.63 or 1.6 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	
	2013	2014	2013	2014	7/5/1905	7/6/1905
Land	\$ 58.42	\$ 65.01	\$ 2.89	\$ 2.89	\$ 61.31	\$ 67.90
Infrastructure	485.85	495.79	-	-	485.85	495.79
Building	129.27	129.27	56.35	56.47	185.62	185.74
Building Improv	33.47	33.85	90.63	93.44	124.1	127.29
Machinery & Equipment	57.82	59.08	9.69	9.66	67.51	68.74
Construction in progress	16.31	10.76	29.54	49.74	45.85	60.5
Total	781.14	793.76	189.10	212.20	970.24	1005.96
Less: accumulated depreciation	387.39	404.78	81.03	86.93	468.42	491.71
Net capital assets	\$393.75	\$388.98	\$ 108.07	\$ 125.28	\$501.82	\$514.26

# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2014*

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 \$9.65
- The County purchased land for conservation purposes \$6.61
- Updated the Equipment Rental Fleet at a cost of \$1.94

Business-type activities.

Following are the major activities in this area in 2014:

- Infrastructure continues to make up the majority of construction in progress with completed projects at \$2.92
- Sewer projects works in progress \$19.38

### ***Long-term Liabilities***

At year-end, the County had \$164.49 in long-term liabilities versus \$172.10 last year, a net decrease of \$7.61 and 4.4 percent.

Long-term liabilities, at Year-End

	2013	Additions	Reductions	2014
<b><i>Government activities:</i></b>				
Capital leases	\$ 0.48	\$ -	\$ 0.10	\$ 0.38
Bonds Payable	98.89	-	5.43	93.46
Compensated absences	5.12	4.52	4.37	5.27
Internal Services debt	0.37	0.36	0.31	0.42
Notes Payable	2.08	-	0.06	2.02
Net OPEB Obligation	4.78	0.77	-	5.55
Other items	0.38	-	0.05	0.33
Total	\$ 112.10	\$ 5.65	\$ 10.32	\$ 107.43
<b><i>Enterprise activities:</i></b>				
Bonds Payable	\$ 46.76	\$ -	\$ 2.23	\$ 44.53
Compensated absences	0.60	0.60	0.60	0.60
Other items	12.65	0.22	0.94	11.93
Total	\$ 60.01	\$ 0.82	\$ 3.77	\$ 57.06
<b>Total Debt</b>	<b>\$ 172.10</b>	<b>\$ 6.47</b>	<b>\$ 14.09</b>	<b>\$ 164.49</b>

There were no major long-term debt additions for 2014.

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

# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2014*

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The Standard and Poor's Corporation and Moody's Investors Service provided a bond rating of AA+ and Aa3 respectively for Kitsap County's debt as of April 2013. The State limits the amount of general obligation debts the County can issue without the vote of the people to 1.5% of the total assessed value. As of the end of the fiscal year, the County has \$292.46 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](http://www.kitsapgov.com)

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## **BASIC FINANCIAL STATEMENTS**

# KITSAP COUNTY, WASHINGTON

Statement of Net Position  
December 31, 2014

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Unit PFD</b>
<b>ASSETS</b>				
Cash and Cash equivalents	\$ 110,405,038	\$ 10,361,755	\$ 120,766,793	274,535
Deposits with fiscal agents	58,889	-	58,889	-
Investments	13,286,859	40,966,417	54,253,276	292,352
Receivables(net)				
Property taxes	2,796,799	-	2,796,799	-
Special assessments	14,214	23,868	38,082	-
Accounts	623,739	2,938,476	3,562,215	-
Others	19,766	-	19,766	-
Due from agency agency fund	501	-	501	-
Internal balances	466,633	(466,633)	(0)	-
Due from other governments	4,805,020	1,267,620	6,072,640	-
Prepayments	353,612	-	353,612	-
Inventories	1,608,759	237,430	1,846,189	-
Restricted assets:				
Cash and cash equivalents	1,304,493	1,071,511	2,376,004	-
Deposits with fiscal agents	15,000	-	15,000	250,000
Investments	4,162,820	3,369,234	7,532,054	-
Notes/Contracts	10,800,153	-	10,800,153	-
Special Assessment Receivable		335,071	335,071	-
Long-term Receivable from Comp. Unit	8,150,000	-	8,150,000	-
Long-term Receivable from KCCHA	17,084,114		17,084,114	-
Capital assets, net (Note1)				
Land	65,009,855	2,889,181	67,899,036	-
Infrastructure	189,677,010	-	189,677,010	-
Buildings	86,741,664	20,950,728	107,692,392	-
Improvements & Other Buildings	17,841,458	49,775,727	67,617,185	-
Machinery & Equipment	18,944,711	1,920,044	20,864,755	-
Construction In Progress	10,764,674	49,744,326	60,509,000	-
Total assets	<u>564,935,780</u>	<u>185,384,755</u>	<u>750,320,535</u>	<u>816,887</u>
<b>DEFERRED OUTFLOWS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	3,954,770	1,799,672	5,754,442	-
Due to agency fund	376		376	-
Due to other governments	10,563,934	135,550	10,699,484	-
Other liabilities	4,289,959	510,662	4,800,621	30
Debt interest payable		246,195	246,195	-
Unearned revenue	4,552,296	-	4,552,296	-
Non current Liabilities (Note 2):				
Due within one year	6,465,413	3,220,491	9,685,904	570,000
Due in more than one year	100,957,531	53,842,066	154,799,597	7,580,000
Total liabilities	<u>130,784,279</u>	<u>59,754,636</u>	<u>190,538,915</u>	<u>8,150,030</u>
<b>DEFERRED INFLOWS</b>				
Golf course service concession arrangement	<u>2,019,097</u>	<u>-</u>	<u>2,019,097</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	320,748,486	80,135,006	400,883,492	-
Restricted:				
Capital Projects	3,181,066	-	3,181,066	-
Debt service	10,799,674	4,440,745	15,240,419	-
Unrestricted	97,403,178	41,054,368	138,457,546	(7,333,143)
Total net position	<u>\$ 432,132,404</u>	<u>\$ 125,630,119</u>	<u>\$ 557,762,523</u>	<u>\$ (7,333,143)</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, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit Public Facility District
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities								
General Government	\$ 25,090,463	\$ 8,743,443	\$ 4,657,005	\$ -	\$ (11,690,015)	\$ -	\$ (11,690,015)	\$ -
Judicial Services	14,062,978	4,973,968	1,938,133	-	(7,150,878)	-	(7,150,878)	-
Public Safety	50,589,774	692,858	6,798,874	-	(43,098,042)	-	(43,098,042)	-
Physical Environment	3,493,436	4,843,822	3,494,340	-	4,844,726	-	4,844,726	-
Transportation	38,456,468	2,448,431	5,690,261	1,463,418	(28,854,358)	-	(28,854,358)	-
Health & Human Services	49,067,392	167,030	48,061,509	-	(838,853)	-	(838,853)	-
Economic Environment	7,004,151	77,975	2,111,042	-	(4,815,135)	-	(4,815,135)	-
Culture & Recreation	6,628,407	1,075,755	5,701,499	-	148,848	-	148,848	-
Interest on Long-term Debt	4,359,307	-	-	-	(4,359,307)	-	(4,359,307)	-
Total Governmental Activities	198,752,376	23,023,282	78,452,663	1,463,418	(95,813,013)	0	(95,813,013)	-
Business-type Activities								
Solid Waste	14,259,437	13,776,927	501,544	-	-	19,034	19,034	-
Sewer Utility	16,986,054	19,878,366	22,534	903,308	-	3,818,154	3,818,154	-
Surface Water	8,060,285	8,310,645	1,740,832	-	-	1,991,192	1,991,192	-
Total business-type activities	39,305,776	41,965,938	2,264,910	903,308	-	5,828,380	5,828,380	-
Total Primary Government	\$ 238,058,152	\$ 64,989,220	\$ 80,717,573	\$ 2,366,726	(95,813,013)	5,828,380	(89,984,633)	-
Component Units:								
Public Facility District(PFD)	850,923	-	-	-	-	-	-	(850,923)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					58,720,145	-	58,720,145	-
Property taxes, levied for debt service					-	-	-	-
Sales & use taxes					32,383,038	-	32,383,038	1,207,398
Other taxes					11,958,420	-	11,958,420	-
Investment earnings					1,540,659	346,369	1,887,028	8,581
Miscellaneous					3,741,489	-	3,741,489	1,872
Transfers					378,091	(378,091)	-	-
Total general revenues, special items, and transfers					108,721,843	(31,722)	108,690,121	1,217,851
Change in net position								
Net position - beginning					12,908,830	5,796,658	18,705,488	366,928
Prior Period Adjustments					419,633,690	119,563,292	539,196,982	(7,700,531)
Net position - ending					(410,115)	270,172	(139,943)	460
					\$ 432,132,404	\$ 125,630,120	\$ 557,762,526	\$ (7,333,143)

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

Balance Sheet  
 Governmental Funds  
 December 31, 2014

	Special Revenue Funds		
	General Fund	County Roads	Real Estate Excise Tax
<b>ASSETS</b>			
Cash and Cash equivalents	\$ 22,497,487	\$ 33,968,206	\$ 2,195,019
Deposits with fiscal agents	-	-	58,889
Investments	431,652	2,682,886	1,455,345
Receivables(net)			
Property Taxes	1,765,926	967,448	-
Special assessments	-	1,622	-
Accounts	62,149	-	-
Notes/Contracts	-	1,196	4,255,004
Others	-	-	-
Due from other funds	188,706	493,446	-
Due from other governments	1,458,211	-	-
Interfund loan receivable	-	-	-
Prepayments	226,617	-	-
Advance to other funds	160,000	-	-
Total assets	<u>\$ 26,790,748</u>	<u>\$ 38,114,804</u>	<u>\$ 7,964,257</u>
<b>DEFERRED OUTFLOWS</b>			
Total assets and deferred outflows	<u>\$ 26,790,748</u>	<u>\$ 38,114,804</u>	<u>\$ 7,964,257</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	815,517	343,230	107
Due to other funds	232,116	321,056	-
Due to other governments	2,934	-	-
Other liabilities	2,839,665	626,190	-
Advance from other fund	-	-	-
Revenues collected in advance	5,580	400	7,480
Unearned revenue	-	-	4,255,004
Interfund loan payable	151,236	-	-
Total liabilities	<u>4,047,048</u>	<u>1,290,876</u>	<u>4,262,591</u>
<b>DEFERRED INFLOWS</b>			
	1,768,079	969,070	
<b>Fund balances</b>			
Nonspendable	386,617	-	-
Restricted	-	-	3,701,666
Committed	-	35,854,858	-
Assigned	-	-	-
Unassigned	20,589,004	-	-
Total fund balance	<u>20,975,621</u>	<u>35,854,858</u>	<u>3,701,666</u>
Total inflows, liabilities & fund balances	<u>\$ 26,790,748</u>	<u>\$ 38,114,804</u>	<u>\$ 7,964,257</u>

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

Balance Sheet

Governmental Funds

December 31, 2014

	Special Revenue Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
	Mental Health Medicaid Fund	KCLTGO 2013 Refund		
<b>ASSETS</b>				
Cash and Cash equivalents	\$ 2,118,634	\$ 978,806	\$ 18,248,786	\$ 80,006,937
Deposits with fiscal agents	-		15,000	73,889
Investments	1,417,742	110,244	11,351,810	17,449,679
Receivables(net)				
Property Taxes	-		63,425	2,796,799
Special assessments	-		12,592	14,214
Accounts	-		58,408	120,557
Notes/Contracts	-	17,084,114	14,693,953	36,034,267
Others	-		19,766	19,766
Due from other funds	-		216,826	898,978
Due from other governments	-	250,000	2,985,191	4,693,401
Interfund loan receivable	-		151,236	151,236
Prepayments	-		-	226,617
Advance to other funds	-		-	160,000
<b>Total assets</b>	<b>\$ 3,536,376</b>	<b>\$ 18,423,164</b>	<b>\$ 47,816,992</b>	<b>\$ 142,646,341</b>
<b>DEFERRED OUTFLOWS</b>				
	<b>\$ 3,536,376</b>	<b>\$ 18,423,164</b>	<b>\$ 47,816,992</b>	<b>\$ 142,646,341</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	40,845		2,344,539	3,544,239
Due to other funds	-		156,329	709,501
Due to other governments	-		829,854	832,788
Other liabilities	32,293		1,106,288	4,604,436
Advance from other fund	-		160,000	160,000
Revenues collected in advance	-		265,591	279,051
Unearned revenues	-		18,241	4,273,245
Interfund loan payable	-		-	151,236
<b>Total liabilities</b>	<b>73,138</b>	<b>-</b>	<b>4,880,842</b>	<b>14,554,495</b>
<b>DEFERRED INFLOWS</b>				
		17,084,114	5,949,970	25,771,233
<b>Fund Balances</b>				
Nonspendable	-		8,150,000	8,536,617
Restricted	3,463,238	1,339,050	27,416,512	35,920,466
Committed	-		1,555,534	37,410,392
Assigned	-			-
Unassigned	-		(135,867)	20,453,137
<b>Total fund balances</b>	<b>3,463,238</b>	<b>1,339,050</b>	<b>36,986,180</b>	<b>102,320,612</b>
<b>Total inflows, liabilities and fund balances</b>	<b>\$ 3,536,376</b>	<b>\$ 18,423,164</b>	<b>\$ 47,816,992</b>	<b>\$ 142,646,349</b>

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

**KITSAP COUNTY**  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
December 31, 2014

Fund balances of governmental funds - page 20 \$ 102,320,612

Amounts reported for the governmental activities in the statement of net position are different because:

Capital assets net of depreciation have not been included as financial resources in governmental fund activity.

Capital assets	793,755,361	
Depreciation	(404,775,988)	
Capital assets net of depreciation		388,979,373

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

Capital lease	384,044	
Bond payable	93,465,000	
Compensated absences	5,255,058	
Notes payable	2,019,097	
OPEB Liability	5,545,555	
PWTF Loans	330,773	
Long-term debt		(106,999,527)

Other assets not available to pay for current-period expenditures and, therefore, are deferred in the funds. 733,171

Taxes/Assessments receivable	2,796,799
Housing Kitsap receivable	17,084,114
Loans receivable CDBG and Home programs	3,854,856

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 position.

Assets	34,487,766	
Liabilities	(11,124,761)	
Uses Other than Operations	-	
Assets less liabilities		23,363,005

Net position of governmental activities - page 17 \$ 432,132,403

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

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

Governmental Funds

For the Year Ended December 31, 2014

	Special Revenue Funds		
	General Fund	County Roads	Real Estate Excise Tax
<b>REVENUES:</b>			
Property taxes	\$ 32,585,595	\$ 23,898,814	\$ -
Retail sales & use taxes	21,809,366	-	-
Other taxes	5,483,252	53,101	3,738,493
Licenses and permits	193,181	183,925	-
Intergovernmental	9,738,627	7,153,679	-
Charges for services	9,040,816	877,042	-
Fines & forfeits	2,263,700	-	-
Investment earnings	819,876	13,641	167,112
Miscellaneous	1,055,338	45,849	144,996
<b>Total revenues</b>	<b>82,989,751</b>	<b>32,226,051</b>	<b>4,050,601</b>
<b>EXPENDITURES:</b>			
Current:			
General government	24,213,894	-	-
Judicial Services	13,688,485	-	-
Public safety	36,579,530	-	-
Physical Environment	-	-	-
Transportation	-	25,889,038	-
Health & Human Services	-	-	-
Economic Environment	-	-	-
Culture & recreation	4,279,206	-	-
Debt service			
Principal	-	47,253	-
Interest and other charges	1,236	1,890	17,259
Capital outlay	47,320	3,918,385	-
<b>Total expenditures</b>	<b>78,809,671</b>	<b>29,856,566</b>	<b>17,259</b>
Excess(deficiency) of revenues over expenditures	<b>4,180,080</b>	<b>2,369,485</b>	<b>4,033,342</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Sale of capital asset		-	-
Transfers in	2,343,963	-	-
Transfers out	(4,366,983)	(354,089)	(2,953,949)
<b>Total other financing sources &amp; uses</b>	<b>(2,023,020)</b>	<b>(354,089)</b>	<b>(2,953,949)</b>
<b>Net change in fund balance</b>	<b>2,157,060</b>	<b>2,015,396</b>	<b>1,079,393</b>
Fund balances-beginning	18,812,881	33,839,461	3,007,034
Prior period adjustments	5,681	-	(384,761)
<b>Fund balances</b>	<b>\$ 20,975,622</b>	<b>\$ 35,854,857</b>	<b>\$ 3,701,666</b>

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

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

Governmental Funds

For the Year Ended December 31, 2014

	Special Revenue Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
	Mental Health Medicaid Fund	KCLTGO 2013 Refund		
<b>REVENUES:</b>				
Property taxes	\$ -	\$ -	\$ 2,235,737	\$ 58,720,146
Retail sales & use taxes	-		10,573,672	32,383,038
Other taxes	-		2,683,574	11,958,420
Licenses and permits	-		2,938,135	3,315,241
Intergovernmental	29,363,709	1,216,907	32,443,160	79,916,081
Charges for services	-		4,452,330	14,370,188
Fines & forfeits	-		277,355	2,541,055
Investment earnings	7,204	4,393	528,431	1,540,657
Miscellaneous	-		2,758,715	4,004,898
<b>Total revenues</b>	<b>29,370,913</b>	<b>1,221,300</b>	<b>58,891,108</b>	<b>208,749,724</b>
<b>EXPENDITURES:</b>				
Current:				
General government	-		3,034,489	27,248,383
Judicial Services	-		356,605	14,045,090
Public safety	-		9,738,873	46,318,403
Physical Environment	-	6,620	3,486,816	3,493,436
Transportation	-		47,487	25,936,525
Health & Human Services	28,335,566		20,592,109	48,927,675
Economic Environment	-		6,999,958	6,999,958
Culture & recreation	-		1,168,182	5,447,388
Debt service				
Principal	-	1,325,000	4,816,272	6,188,525
Interest and other charges	-	1,777,225	2,561,697	4,359,307
Capital outlay	-		7,301,007	11,266,711
Total expenditures	28,335,566	3,108,845	60,103,496	200,231,402
Excess(deficiency) of revenues over expenditures	1,035,347	(1,887,545)	(1,212,387)	8,518,322
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital asset			1,659,441	1,659,441
Transfers in	-	2,682,257	9,394,017	14,420,237
Transfers out	-	-	(6,402,299)	(14,077,320)
Total other financing sources & uses	-	2,682,257	4,651,159	2,002,358
Net change in fund balance	1,035,348	794,713	3,438,772	10,520,680
Fund balances-beginning	2,427,890	534,273	33,588,802	92,210,341
Prior period adjustments		10,065	(41,397)	(410,412)
<b>Fund balances-ending</b>	<b>\$ 3,463,237</b>	<b>\$ 1,339,050</b>	<b>\$ 36,986,174</b>	<b>\$ 102,320,610</b>

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

## KITSAP COUNTY

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2014

Net change in fund balances-total governmental funds - page 23 \$ 10,520,680

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	11,266,221
Depreciation	(19,211,129)

Capital Asset Transactions

Loss on disposal of fixed assets not recognized in the Statement of Activity	(1,936,574)
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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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items

Receipts from bond sales	-
Bond principal	6,188,525
Recording of Net OPEB Obligation	(769,127)

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

Accounts Receivable - Housing Kitsap	-
Property taxes receivable	2,796,799
Special Assessments	14,214

Internal services Activities

Net Transfers	35,173
Depreciation already included above	2,235,492
Net profit	1,768,554

Change in net position of governmental activities - page 18	\$ 12,908,829
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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, 2014

2014

	Original Budget	Final Budget	Actual	Variance With Final Budget	Budget to GAAP Basis Differences	Actual GAAP Basis
<b>REVENUES:</b>						
Property taxes	\$ 32,325,753	\$ 32,325,753	\$ 32,585,573	\$ 259,820	\$ 22	\$ 32,585,595
Retail sales & use taxes	20,501,591	20,501,591	21,809,366	1,307,775	-	21,809,366
Other taxes	5,216,798	5,216,798	5,480,484	263,686	2,768	5,483,252
Licenses and permits	170,125	170,125	193,181	23,056	-	193,181
Intergovernmental	8,690,627	8,723,999	9,645,264	921,265	93,362	9,738,627
Charges for services	9,532,412	9,582,412	9,040,816	(541,596)	-	9,040,816
Fines & forfeits	2,509,801	2,509,801	2,263,700	(246,101)	-	2,263,700
Investment Earnings	726,140	726,140	817,683	91,543	2,193	819,876
Miscellaneous	986,091	1,005,191	1,025,308	20,117	30,030	1,055,338
	<u>80,659,338</u>	<u>80,761,810</u>	<u>82,861,375</u>	<u>2,099,565</u>	<u>128,376</u>	<u>82,989,751</u>
<b>EXPENDITURES:</b>						
Current:						
Administrative Services	\$ 787,215	\$ 767,082	\$ 691,909	\$ 75,173	\$ -	691,909
Assessor	2,152,180	2,152,180	2,100,027	52,153	-	2,100,027
Auditor	1,779,953	1,779,953	1,768,964	10,989	-	1,768,964
Commissioners	1,444,149	1,444,149	1,292,463	151,686	15,237	1,307,700
General Administration	4,418,246	4,398,957	6,058,410	(1,659,453)	-	6,058,410
Personnel & Human resources	1,362,563	1,362,563	1,218,152	144,411	-	1,218,152
Prosecuting attorney	8,601,238	8,601,238	8,508,058	93,180	-	8,508,058
Facilities Maintenance	1,749,707	1,778,401	1,691,586	86,815	-	1,691,586
Treasurer	879,499	909,499	869,087	40,412	-	869,087
Total general government	<u>23,174,750</u>	<u>\$ 23,194,022</u>	<u>24,198,657</u>	<u>(1,004,635)</u>	<u>15,237</u>	<u>24,213,894</u>
Judicial Services						
Clerk	\$ 3,014,001	\$ 3,140,278	\$ 3,007,200	\$ 133,078	\$ -	3,007,200
District court	2,674,421	2,674,421	2,663,125	11,296	-	2,663,125
Superior court	2,734,880	2,860,915	2,558,802	302,113	-	2,558,802
Juvenile	2,432,322	2,518,346	2,415,825	102,521	-	2,415,825
Public defense	2,702,854	3,044,999	3,043,532	1,467	-	3,043,532
Total Judicial services	<u>13,558,478</u>	<u>14,238,959</u>	<u>13,688,485</u>	<u>550,474</u>	<u>-</u>	<u>13,688,485</u>
Public safety						
Sheriff	\$ 19,298,631	\$ 19,328,211	\$ 18,392,127	\$ 936,084	\$ 34,739	18,426,865
Jail	12,773,303	12,773,303	12,599,574	173,729	-	12,599,574
Juvenile	4,935,069	4,936,569	4,535,265	401,304	-	4,535,265
Coroner	1,019,288	1,081,588	1,017,826	63,762	-	1,017,826
Personnel & Human Resources	-	-	-	-	-	-
Total Public Safety	<u>38,026,291</u>	<u>38,119,671</u>	<u>36,544,791</u>	<u>1,574,880</u>	<u>34,739</u>	<u>36,579,530</u>
Physical Environment						
Culture & recreation						
Parks	\$ 3,599,782	\$ 3,647,893	3,552,956	\$ 94,937	\$ 144,379	3,697,334
Cooperative Extension	357,499	357,499	353,664	3,835	-	353,664
Personnel & Human Resources	242,819	242,819	228,207	14,612	-	228,207
Total Culture & Recreation	<u>4,200,100</u>	<u>4,248,211</u>	<u>4,134,827</u>	<u>113,384</u>	<u>144,379</u>	<u>4,279,206</u>
Interest and other charges	-	-	-	-	1,236	1,236
Capital outlay	243,783	265,175	47,320	217,855	-	47,320
Total expenditures	<u>79,203,402</u>	<u>80,066,038</u>	<u>78,614,081</u>	<u>1,451,957</u>	<u>195,590</u>	<u>78,809,671</u>
Excess(deficiency) of revenues over expenditures	1,455,936	695,772	4,247,294	3,551,522	(67,214)	4,180,081
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	2,530,241	2,747,300	2,343,963	(403,337)	-	2,343,963
Transfers out	(3,986,177)	(4,490,177)	(4,366,983)	123,194	-	(4,366,983)
Total other financing sources & uses	<u>(1,455,936)</u>	<u>(1,742,877)</u>	<u>(2,023,020)</u>	<u>(280,143)</u>	<u>-</u>	<u>(2,023,020)</u>
Net change in fund balance	-	(1,047,105)	2,224,274	3,271,379	(67,214)	2,157,061
Fund balances-beginning	17,779,166	17,779,166	17,779,166	-	1,033,715	18,812,881
Prior period adjustments			5,681	5,681		5,681
Fund balances-ending	<u>17,779,166</u>	<u>16,732,061</u>	<u>20,009,121</u>	<u>3,277,060</u>	<u>966,501</u>	<u>20,975,623</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, 2014

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 23,455,316	\$ 23,455,316	\$ 23,898,814	\$ 443,498
Other taxes	30,000	30,000	53,101	23,101
Licenses and permits	120,000	120,000	183,925	63,925
Intergovernmental	5,485,594	5,485,594	7,153,679	1,668,085
Charges for services	390,947	390,947	877,042	486,095
Investment earnings	10,000	10,000	13,641	3,641
Miscellaneous	5,000	5,000	45,849	40,849
Total revenues	<u>29,496,857</u>	<u>29,496,857</u>	<u>32,226,051</u>	<u>2,729,194</u>
<b>EXPENDITURES:</b>				
Current:				
Transportation	27,502,480	27,502,480	25,889,038	1,613,442
Debt service				
Principal	48,000	48,000	47,253	747
Interest and other charges	2,600	2,600	1,890	710
Capital outlay	<u>12,272,000</u>	<u>12,272,000</u>	<u>3,918,385</u>	<u>8,353,616</u>
Total expenditures	<u>39,825,080</u>	<u>39,825,080</u>	<u>29,856,566</u>	<u>9,968,514</u>
Excess(deficiency) of revenues over expenditures	<u>(10,328,223)</u>	<u>(10,328,223)</u>	<u>2,369,485</u>	<u>12,697,708</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital asset			-	-
Transfers in	-	-	-	-
Transfers out	<u>(354,098)</u>	<u>(354,098)</u>	<u>(354,089)</u>	<u>9</u>
Total other financing sources & uses	<u>(354,098)</u>	<u>(354,098)</u>	<u>(354,089)</u>	<u>9</u>
Net change in fund balance	<u>(10,682,321)</u>	<u>(10,682,321)</u>	<u>2,015,396</u>	<u>12,697,717</u>
Fund balances-beginning	33,839,461	33,839,461	33,839,461	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 23,157,140</u>	<u>\$ 23,157,140</u>	<u>\$ 35,854,857</u>	<u>\$ 12,697,717</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, 2014

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Other taxes	\$ 3,120,309	\$ 3,120,309	\$ 3,738,493	618,184
Investment earnings	155,256	155,256	167,112	11,856
Miscellaneous	221,600	221,600	144,996	(76,604)
Total revenues	<u>3,497,165</u>	<u>3,497,165</u>	<u>4,050,601</u>	<u>553,436</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	-
Debt service	-	-	-	-
Principal	112,803	112,803	-	112,803
Interest and other charges	191,797	191,797	17,259	174,538
Capital Outlay	-	-	-	-
Total expenditures	<u>304,600</u>	<u>304,600</u>	<u>17,259</u>	<u>287,341</u>
Excess(deficiency) of revenues over expenditures	<u>3,192,565</u>	<u>3,192,565</u>	<u>4,033,342</u>	<u>840,777</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Issuance of GO bonds	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(3,033,748)	(3,033,748)	(2,953,949)	79,799
Premiums on bonds	-	-	-	-
Total other financing sources & uses	<u>(3,033,748)</u>	<u>(3,033,748)</u>	<u>(2,953,949)</u>	<u>79,799</u>
Net change in fund balance	<u>158,817</u>	<u>158,817</u>	<u>1,079,393</u>	<u>920,576</u>
Fund balances-beginning	3,007,034	3,007,034	3,007,034	-
Prior period adjustments	-	-	(384,761)	(384,761)
Fund balances-ending	<u>\$ 3,165,851</u>	<u>\$ 3,165,851</u>	<u>\$ 3,701,666</u>	<u>\$ 535,815</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, 2014

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 26,160,000	\$ 30,160,000	\$ 29,363,709	\$ (796,291)
Investment earnings	-	-	7,204	7,204
Miscellaneous	-	-	-	-
<b>Total revenues</b>	<b>26,160,000</b>	<b>30,160,000</b>	<b>29,370,913</b>	<b>(789,087)</b>
<b>EXPENDITURES:</b>				
Current:				
Health & Human Services	26,160,000	30,160,000	28,335,566	1,824,434
Total expenditures	26,160,000	30,160,000	28,335,566	1,824,434
Excess(deficiency) of revenues over expenditures	-	-	1,035,347	1,035,347
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	-	-	-	-
Total other financing sources & uses	-	-	-	-
Net change in fund balance	-	-	1,035,347	1,035,347
Fund balances-beginning	2,427,890	2,427,890	2,427,890	-
Prior period adjustments	-	-	-	-
<b>Fund balances-ending</b>	<b>\$ 2,427,890</b>	<b>\$ 2,427,890</b>	<b>\$ 3,463,237</b>	<b>\$ 1,035,347</b>

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

# KITSAP COUNTY, WASHINGTON

## Statement of Net Position

Proprietary Funds

December 31, 2014

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal Service Funds
<b>ASSETS</b>					
Current assets:					
Cash and Cash equivalents	\$ 6,957,143	\$ 2,403,217	\$ 1,001,395	\$ 10,361,755	\$ 31,702,594
Deposits with fiscal agents	-	-	-	-	-
Investments	17,285,224	21,545,453	2,135,740	40,966,417	-
Receivables(net)	-	-	-	-	-
Special assessments	23,868	-	-	23,868	-
Accounts	1,905,437	978,278	54,761	2,938,476	503,182
Due from other funds	191,774	7,582	39,522	238,878	434,617
Due from other governments	-	224,744	1,042,876	1,267,620	111,619
Prepayments	-	-	-	-	126,995
Inventories	237,430	-	-	237,430	1,608,759
Restricted assets:					
Cash and cash equivalents	1,071,511	-	-	1,071,511	-
Deposits with fiscal agents	-	-	-	-	-
Investments	3,369,234	-	-	3,369,234	-
Total current assets	<u>31,041,621</u>	<u>25,159,274</u>	<u>4,274,294</u>	<u>60,475,189</u>	<u>34,487,766</u>
Noncurrent assets:					
Special Assessment Receivable	335,071	-	-	335,071	-
Capital assets					
Land	1,040,362	472,444	1,376,375	2,889,181	-
Buildings	55,493,066	802,991	178,556	56,474,613	-
Improvements & Other Buildings	77,768,800	1,651,625	14,016,682	93,437,107	722,841
Machinery & Equipment	9,373,470	81,234	205,899	9,660,603	33,325,883
Construction In Progress	39,939,518	63,519	9,741,289	49,744,326	-
Less accumulated depreciation	(80,354,790)	(1,824,421)	(4,746,613)	(86,925,824)	(19,329,003)
Total noncurrent assets	<u>103,595,497</u>	<u>1,247,392</u>	<u>20,772,188</u>	<u>125,615,077</u>	<u>14,719,721</u>
Total assets	<u>134,637,118</u>	<u>26,406,666</u>	<u>25,046,482</u>	<u>186,090,266</u>	<u>49,207,487</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accrued expenses	672,154	903,706	223,812	1,799,672	410,531
Due to other funds	29,892	114,416	561,203	705,511	171,974
Due to other governments	9,266	34,608	91,676	135,550	-
Other liabilities	278,375	90,347	141,940	510,662	10,067,392
Debt interest payable	246,195	-	-	246,195	-
Current portion of long term liabilities	3,191,126	29,365	-	3,220,491	-
Total current liabilities	<u>4,427,008</u>	<u>1,172,442</u>	<u>1,018,631</u>	<u>6,618,081</u>	<u>10,649,897</u>
Non current Liabilities					
Due in more than one year	53,029,256	666,750	146,060	53,842,066	474,864
Total noncurrent liabilities	<u>53,029,256</u>	<u>666,750</u>	<u>146,060</u>	<u>53,842,066</u>	<u>474,864</u>
Total liabilities	<u>57,456,264</u>	<u>1,839,192</u>	<u>1,164,691</u>	<u>60,460,147</u>	<u>11,124,761</u>
<b>NET POSITION</b>					
Net investment in capital assets	58,115,426	1,247,392	20,772,188	80,135,006	14,719,721
Restricted:					
Debt service	4,440,745	-	-	4,440,745	-
Unrestricted	14,624,683	23,320,082	3,109,603	41,054,368	23,363,005
Total net position	<u>\$ 77,180,854</u>	<u>\$ 24,567,474</u>	<u>\$ 23,881,791</u>	<u>\$ 125,630,119</u>	<u>\$ 38,082,726</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 Position

### Proprietary Funds

For the Year Ended December 31, 2014

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal Service Funds
<b>Operating revenues:</b>					
Charges for services	\$ 19,874,172	\$ 13,710,437	\$ 8,304,491	\$ 41,889,100	\$ 37,335,095
Miscellaneous	4,194	66,490	6,154	76,838	285,299
Total operating revenues	<u>19,878,366</u>	<u>13,776,927</u>	<u>8,310,645</u>	<u>41,965,938</u>	<u>37,620,394</u>
<b>Operating expenses:</b>					
Personal services	5,477,625	1,895,657	2,705,278	10,078,560	7,345,907
Contractual services	711,393	1,706,069	2,600,420	5,017,882	15,629,702
Utilities	1,177,701	9,896,368	65,300	11,139,369	25,344
Repair and maintenance	172,021	59,004	318,720	549,745	1,210,261
Other supplies and expenses	2,437,564	578,812	1,602,965	4,619,341	7,834,463
Insurance claims and expense	24,289	8,472	76,046	108,807	1,828,296
Depreciation	5,194,129	115,055	691,556	6,000,740	2,235,492
Total operating expenses	<u>15,194,722</u>	<u>14,259,437</u>	<u>8,060,285</u>	<u>37,514,444</u>	<u>36,109,465</u>
Operating income	<u>4,683,644</u>	<u>(482,510)</u>	<u>250,360</u>	<u>4,451,494</u>	<u>1,510,929</u>
<b>Nonoperating revenue (expenses)</b>					
Interest and investment revenue	187,532	107,546	51,291	346,369	-
Miscellaneous revenue	22,534	501,544	1,740,832	2,264,910	11,099
Interest expense	(1,791,332)	-	-	(1,791,332)	-
Miscellaneous expense	-	-	-	-	-
Total nonoperating expenses	<u>(1,581,266)</u>	<u>609,090</u>	<u>1,792,123</u>	<u>819,947</u>	<u>11,099</u>
Income (loss) before contributions & transfers	3,102,378	126,580	2,042,483	5,271,441	1,522,028
Capital contributions	903,308	-	-	903,308	211,353
Transfers in	-	-	-	-	191,872
Transfers out	<u>(166,525)</u>	<u>-</u>	<u>(211,566)</u>	<u>(378,091)</u>	<u>(156,699)</u>
Change in net position	3,839,161	126,580	1,830,917	5,796,658	1,768,554
Total net position - beginning	73,053,547	24,440,894	22,068,848	119,563,289	36,314,172
Prior Period Adjustments	288,146	-	(17,974)	270,172	-
Total net position - ending	<u>\$ 77,180,853</u>	<u>\$ 24,567,474</u>	<u>\$ 23,881,791</u>	<u>\$ 125,630,119</u>	<u>\$ 38,082,726</u>

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, 2014

	Business-type Activities - Enterprise Funds			Total	Governmental Activities Internal Service Funds
	Sanitary Sewer	Solid Waste	Surface Water Utility		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 19,530,858	\$ 13,705,149	\$ 8,348,177	\$ 41,584,184	\$ 37,000,962
Payments to suppliers	(6,253,952)	(12,035,408)	(4,563,439)	(22,852,799)	(26,471,389)
Payments to employees	(5,464,777)	(1,888,655)	(2,700,083)	(10,053,515)	(7,294,223)
Net cash provided by operating activities	7,812,129	(218,914)	1,084,655	8,677,870	3,235,350
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Operating grants received	22,535	474,778	1,244,920	1,742,233	11,099
Transfers in	-	-	-	-	191,872
Transfers out	(166,525)	-	(211,566)	(378,091)	(156,699)
Net cash provided by noncapital activities	(143,990)	474,778	1,033,354	1,364,142	46,272
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Capital contributions	750,480	-	-	750,480	-
Proceeds from sales of bonds	-	-	-	-	-
Purchases of capital assets	(18,885,994)	-	(3,337,077)	(22,223,071)	(2,347,550)
Principal paid on capital debt	(3,065,365)	-	-	(3,065,365)	-
Interest paid on capital debt	(2,192,399)	-	-	(2,192,399)	-
Net cash from related financing activities	(23,393,278)	-	(3,337,077)	(26,730,355)	(2,347,550)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investr	25,000,067	500,000	4,491,629	29,991,696	-
Purchase of Investment	(3,984,630)	(707,546)	(3,014,471)	(7,706,647)	-
Interest and dividends	187,532	107,546	51,291	346,369	-
Net cash provided by investing activities	21,202,969	(100,000)	1,528,449	22,631,418	-
Net (decrease) in cash and cash equiva	5,477,830	155,864	309,381	5,943,075	934,072
Balances - beginning of the year	2,550,824	2,247,353	692,014	5,490,191	30,768,522
Balances - end of the year	\$ 8,028,654	\$ 2,403,217	\$ 1,001,395	\$ 11,433,267	\$ 31,702,594
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 4,683,644	\$ (482,510)	250,360	\$ 4,451,494	1,510,929
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	5,194,129	115,055	691,556	6,000,740	2,235,492
Change in assets and liabilities:					
Receivables, net	(272,730)	(69,100)	30,931	(310,899)	(499,769)
Due from other funds	(74,778)	(2,678)	6,601	(70,855)	(101,652)
Due from other governments	-	-	-	-	(16,215)
Inventories	(12,085)	-	-	(12,085)	97,916
Prepaid	-	-	-	-	(3,545)
Accounts and other payables	(1,685,336)	164,027	(189,210)	(1,710,519)	(79,009)
Due to other funds	(40,866)	30,450	401,009	390,593	146,753
Due to other governments	1,814	4,889	(128,872)	(122,169)	-
Employee benefits	12,848	7,002	5,195	25,045	51,684
Accrued expenses	5,489	13,951	17,085	36,525	(107,234)
Net cash provided by operating activities	\$ 7,812,129	\$ (218,914)	\$ 1,084,655	\$ 8,677,870	\$ 3,235,350

### Noncash investing, capital and financing Activities

Contribution of capital assets	152,828	152,828	211,353
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The notes to the financial statements are an integral part of this statement.

# KITSAP COUNTY, WASHINGTON

## Statement of Fiduciary Net Position

December 31, 2014

	Agency Funds
<b>ASSETS</b>	
Cash	\$ 32,469,385
Deposits with Fiscal Agents	20,000
Investments	216,405,573
Taxes Receivable	8,016,981
Other Current Receivables	312,906
Due From Other Funds	501
Due From Other Governments	45,874
Total Assets	<u>\$ 257,271,219</u>
<b>LIABILITIES</b>	
Warrants Payable	\$ 3,292,154
Accounts Payable	-
Sales Tax Payable	-
Other Accrued Liabilities	-
Due to Other Funds	376
Due to Other Governments	-
Interfund loans	-
Custodial Account	253,978,690
Total Liabilities	<u>\$ 257,271,219</u>

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

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TABLE OF CONTENTS

<b>NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b> .....	34
A. Reporting entity .....	34
B. Government-Wide and Fund Financial Statements .....	35
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation .....	35
D. Budgetary Information .....	37
E. Assets, Liabilities and Equity .....	39
<b>NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS</b> .....	46
<b>NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY</b> .....	46
<b>NOTE 4. DEPOSITS AND INVESTMENTS</b> .....	46
<b>NOTE 5. PROPERTY TAX</b> .....	48
<b>NOTE 6. CAPITAL ASSETS</b> .....	48
<b>NOTE 7. PENSION PLANS</b> .....	51
Plan Description .....	51
<b>NOTE 8. RISK MANAGEMENT</b> .....	63
<b>NOTE 9. LONG-TERM DEBT</b> .....	65
A. General Obligation Bonds .....	66
B. Notes Payable .....	67
C. Revenue bonds .....	67
D. Pollution Remediation Obligation .....	68
E. Compensated absences .....	68
<b>NOTE 10. LEASES</b> .....	69
<b>NOTE 11. CHANGES IN LONG-TERM LIABILITIES</b> .....	70
<b>NOTE 12. CONTINGENCIES AND LITIGATIONS</b> .....	71
<b>NOTE 13. INTER-FUND BALANCES AND TRANSFERS</b> .....	71
<b>NOTE 14. RECEIVABLES AND PAYABLES</b> .....	72
<b>NOTE 15. DEFERRED COMPENSATION</b> .....	73
<b>NOTE 16. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES</b> .....	74
<b>NOTE 17. SERVICE CONCESSION ARRANGEMENT</b> .....	75
<b>NOTE 18. OTHER POST-EMPLOYMENT BENEFITS</b> .....	75
<b>NOTE 19. POLLUTION REMEDIATION OBLIGATION</b> .....	78
<b>NOTE 20. OTHER NOTE DISCLOSURES</b> .....	78

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### A. Reporting entity

Kitsap County is a municipal corporation of Washington State, governed under the commissioner form of government. The accompanying financial statements present the government and entities for which the government is considered to be financially accountable. The voters of Kitsap County elected the three-member board on a partisan basis to serve overlapping 4-year terms. The Board of County Commissioners is the legislative body and also has a quasi-judicial role in dealing with land use matters. The body is also responsible for all administrative duties of running the County, which are not expressly given to any other County position. As required by generally accepted accounting principles the financial statements present Kitsap County, the primary government, and its component units. The component units discussed below are included in the County reporting entity because of the significance of their operational or financial relationships with the County.

Discretely presented component units. The Public Facility District (PFD) is governed by the seven member board appointed by the Board of County Commissioners. It is a legally separate entity. The PFD was responsible for the construction of the Kitsap Conference Center at Bremerton Harborside (City of Bremerton) and the County's Event Center, using sales tax revenues. The PFD was created and the Kitsap County Board of Commissioners appointed its board members, therefore the County is financially responsible for its operations. The County financed the PFD projects through an \$11.395 million bond issue and the PFD pledged its tax revenues to the County through an interlocal government agreement. The debt is reported on the County's books. The component unit does not issue separate financial statements, therefore, we have included these statements in our basic Financial Statement section.

Blended component units. The Industrial Development Corporation of Kitsap County was created and approved by the Kitsap County Board of County Commissioners on May 17, 1999 to construct and maintain industrial facilities throughout Kitsap County. All three County Commissioners are on its board of directors, therefore, the County is financially responsible for the operation of the corporation. IDC sold \$2 million in non-recourse revenue bonds in 2003 which neither the County, nor IDC is responsible to repay under the loan agreement. The issuer (IDC) loaned the proceeds of the bonds to CARA Group, LLC, a Washington limited liability company (the Borrower) pursuant to a loan agreement dated March 1, 2003. The Borrower is obligated to make payments to the trustee in amounts sufficient to pay the principal and premium, if any, interest on the bonds, and certain 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

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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available. The corporation did not have any activity during the current year; therefore there is nothing to report.

## B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

## C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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be available if they are collected within 60 days of the end of the current fiscal period. The County considers property taxes as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered measurable and available only when cash is received by the County.

The County reports the following major governmental funds:

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

The County Roads Fund receives most of its revenue from property taxes and federal and state grants. The 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 2013 LTGO Refunding Bonds Fund is used to account for activity related to the issuance of refunding bonds in 2013.

The County reports the following major proprietary funds:

The Solid Waste Fund is used to account for the costs of providing solid waste services to the residents of Kitsap County.

The Sanitary Sewer Fund is used to account for the costs of providing sewage disposal services to the residents of Kitsap County.

The Surface Water Utility Fund 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 Equipment Rental & Revolving fund services, Building Repair & Replacement fund services, Self Insurance program services, Elections fund

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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services, Employer Benefits program services, and Information & Computer fund services to other departments or agencies of the County 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, recreation districts, the public health district, the library district, cities and towns, ports, water districts, fire districts and sewer districts.

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

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

Indirect costs are allocated by either the number of staff, or the square footage of the office occupancy. Insurance costs are allocated by the number of staff covered, and information services costs that are not direct costs are allocated by the number of users.

*Proprietary funds* distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are use charges for sewer, collection fees for solid waste, and use charges for surface water. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

## D. Budgetary Information

### 1. Scope of Budget

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

- Special Purpose Path
- Electronic Technology Excise Fund
- GMA Transportation Impact Fee, Central Kitsap Fund
- Wetland Mitigation Bank
- KNAT Kitsap Abatement Team Fund
- Service Area 1 Road Impact Fee Fund
- Service Area 2 Road Impact Fee Fund
- Service Area 3 Road Impact Fee Fund

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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Service Area 4 Road Impact Fee Fund  
Regional Service Area Roads Fund  
McCormick Village Traffic Impact Fee Fund  
ARRA EECBG

Budgets were not adopted for these funds in 2014 because no expenditures were anticipated in 2014.

Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for one fiscal year. Budgets for these types of funds are adopted every year throughout the lives of the debt issues or projects.

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

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

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

## 2. Amending the Budget

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

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

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

The budgets are integrated into the accounting system. The budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the budgetary comparison statement for the General fund and Special Revenue funds present actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

consistent with the legally adopted budgets as amended. The General Fund statement includes information about Budget to Actual Basis Differences which arose as a result of including non-qualifying Special Revenue funds in the General Fund for financial statement presentation purposes. Thirteen Special Revenue funds did not meet the GASB 54 classification criteria and were rolled up into the General Fund. See Note 1. E. 12 Fund Balance Classification, for further details.

## Budget revisions

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

Fund Description	Original Budget	Budget Change	Final Budget
General Fund	\$83,189,579	1,366,636	\$ 84,556,215
Major Funds	\$71,823,150	4,000,000	\$ 75,823,150
Non Major Funds	\$70,458,509	3,068,572	\$ 73,527,081
		\$ 8,435,208	

### 3. Excess of expenditures over appropriations

For the year ended December 31, 2014 expenditures did not exceed appropriations in any of the general fund departments.

### 4. Deficit Balance

At December 31, 2014, the following fund reported a deficit balance of fund net position, which is a violation of state statute:

Fund #104	Department of Emergency Management (DEM)	\$ 24,396
Fund #106	Kitsap Preparedness (KPREP)	\$111,471

The year-end fund balance deficit for the Department of Emergency Management was reversed in 2015.

Kitsap Preparedness (KPREP) anticipates that its fund balance deficit will also be reversed in 2015.

## E. Assets, Liabilities and Equity

### 1. Cash and Cash Equivalents

It is the County's policy to invest all temporary cash surpluses. At December 31, 2014, the Treasurer was holding \$148.84 million in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is credited to the General fund.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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For purposes of the statement of cash flows, the County considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

## 2. Investments

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

## 3. Receivables

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

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2014, no special assessments receivables were delinquent.

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

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

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

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

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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## 5. Inventories and Prepaid Items

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

Inventories in proprietary funds are valued at cost using the weighted average method. The County pays annual insurance premiums for various insurance policies it purchases during the year. The portion of these premiums that covers future periods are recorded as prepaid insurance.

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

## 6. Restricted Assets and Liabilities

Certain proceeds of the County's enterprise fund revenue bonds, capital project funds, and debt service funds as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because they are maintained in separate funds and their use is limited by applicable bond covenants. They are mainly resources for construction and debt service.

## 7. Capital Assets (See Note 6, Capital Assets)

Capital assets include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), and are reported in applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as items with an initial, individual cost of more than \$5,000 for capital assets and \$25,000 for infrastructure assets (amounts not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

The costs for normal maintenance and repairs are not capitalized.

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. During the current fiscal year, the total interest expense incurred by County proprietary funds attributable to capital projects was \$1,791,332. Of this amount, \$401,067 was included as part of the cost of capital assets under construction in connection sewer projects and \$169 was capitalized as part of the cost of a project that was completed during 2014.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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

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

8. Compensated Absences

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

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

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

10. Long-Term Debt

See *Note 10, Long Term Debt*.

11. Unearned Revenues

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

12. Fund Balance Classification

Fund balances are reported as nonspendable, restricted, committed, assigned or unassigned.

Each year, Special Revenue fund balances are analyzed; funds not meeting the GASB Statement No. 54 definition of Special Revenue funds are reclassified and reported with the General Fund (see *Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, General Fund*, page 25).

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

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

- *Nonspendable Fund Balance* includes items that cannot be spent because the related assets are not in spendable form or must be maintained intact. This includes nonspendable resources such as advances and prepaid amounts in the general fund and the long-term portion of notes receivable in a debt service fund.
- *Restricted Fund Balance* represents resources that have constraints placed upon their use either by external parties or imposed by law through a constitutional provision or enabling legislation.
- *Committed Fund Balance* includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the Kitsap County Board of Commissioners, the County's highest level of decision making authority. By formal action (Resolution #203-2011 dated 12/19/2011), the Board of County Commissioners identified committed fund balances.
- *Assigned Fund Balance* represents amounts that are constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. Use of assigned fund balance may be established by the Board of County Commissioners or an official designated by the Board, for this purpose. The County had no Assigned Fund Balance in 2014.
- *Unassigned fund balance* is the residual amount of the General Fund not included in the four categories described above. Any deficit fund balances within governmental fund types are also reported as unassigned.

As a result of 2014 analysis of the County's special revenue funds, thirteen funds did not meet the special revenue fund definition of GASB 54 and their fund balances were reported as unassigned fund balance in the General Fund.

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

The following table shows the composition of the General Fund's fund balance as of December 31, 2014:

<u>Funds</u>	<u>Unassigned Fund Balance</u>	<u>Total Fund Balance</u>
General Fund (prior to inclusion of other funds)	\$ 19,622,504	\$ 20,009,121
Disqualified Funds		
Human Resources Board	74,359	74,359
Special Purpose Path	73,211	73,211
1% for Art Program	31,011	31,011
Drug Forfeiture Enforcement	40,944	40,944
Wetland Mitigation	18,025	18,025
Bucklin Ridge Park	1,217	1,217
Clear Creek Education	2	2
Kingston Commuter Parking	11,201	11,201
Kitsap County Grants	54	54
Indianola Forest	270,644	270,644
KC Forest Stewardship	(106,144)	(106,144)
McCormick Village Traffic	386,433	386,433
McCormick Village Park	165,544	165,544
General Fund (after inclusion of other funds)	<u>\$ 20,589,006</u>	<u>\$ 20,975,623</u>

The County's governmental fund balances are reported according to the relative constraints that control how the funds can be spent (see description of fund balance types, above).

As of December 31, 2014, nonspendable fund balance was \$8.15 million, restricted fund balance totaled \$36.17 million, committed fund balance was \$37.41 million and unassigned fund balance was \$20.42 million. The County had no assigned fund balance in 2014.

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

A summary of the County's governmental fund balances as of December 31, 2014 is presented in the table below:

Fund Balances	General	Special Revenue		Mental Health Medicaid	Debt Service KCLTGO 2013 Refunding	Nonmajor Governmental Funds
		County Roads	Real Estate Excise Tax			
Nonspendable:						
Petty Cash, Change Funds						
Advances	\$160,000					
Prepaid Items	226,617					
Note Receivable						\$8,150,000
Total Nonspendable	\$386,617					\$8,150,000
Restricted for:						
Transportation						\$1,235,328
General Government			\$3,701,666			2,173,338
Affordable Housing						2,297,980
Health & Human Services						662,580
Veterans Relief Programs						163,358
Mental Health Programs				\$3,463,238		4,581,203
Substance Abuse Prev						268,594
Developmental Disabilities						1,000,157
Public Safety						1,214,939
Cencom						3,820,165
Recovery Center						1,532,406
Jail & Juvenile Programs						1,468,500
Judicial Services						545,403
Physical Environment						1,214,987
Conservation Futures						1,443,534
Culture & Recreation						2,453,834
Economic Environment						21,346
Debt Service					\$1,349,115	1,560,624
Total Restricted	-	-	\$3,701,666	\$3,463,238	\$1,349,115	\$27,658,277
Committed for:						
Transportation		\$35,854,858				\$144,111
General Government						110,920
Public Safety						269,977
Physical Environment						179,093
Culture & Recreation						404,552
Economic Environment						446,881
Total Committed	-	\$35,854,858	-	-	-	\$1,555,534
Unassigned:	\$20,589,006					(\$135,867)
<b>Total Fund Balance</b>	<b>\$20,975,623</b>	<b>\$35,854,858</b>	<b>\$3,701,666</b>	<b>\$3,463,238</b>	<b>\$1,349,115</b>	<b>\$35,672,410</b>

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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## **NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

### A. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position

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

### B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

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

## **NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

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

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

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

All securities purchased by the County are held by a third-party custody provider, the Bank of New York Mellon.

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

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

As of December 31, 2014, the County had the following investments:

Investment Type	Rating	Weighted Average Maturities	%	Amortized Cost	Fair Value of County's Investments	Fair Value of Investments Held by County as Agent for Other Local Governments	Total Fair Value
FHLB	AAA/AA+	2.08	15.8%	\$ 67.33	\$ 33.19	\$ 34.08	\$ 67.27
FFCB	AAA/AA+	1.75	18.5%	\$ 79.12	\$ 38.97	\$ 40.01	\$ 78.99
FHLMC	AAA/AA+	1.43	16.4%	\$ 70.08	\$ 34.58	\$ 35.50	\$ 70.07
FNMA	AAA/AA+	2.04	13.0%	\$ 55.45	\$ 27.30	\$ 28.03	\$ 55.33
US Treasuries	AAA/AA+	3.85	6.6%	\$ 28.27	\$ 13.89	\$ 14.26	\$ 28.15
Money Mkt Svgs	NR	0.50	2.5%	\$ 10.53	\$ 5.19	\$ 5.33	\$ 10.53
WA ST LGIP	NR	0.50	24.3%	\$ 103.88	\$ 51.26	\$ 52.62	\$ 103.88
Municipal Securities	A1*	1.90	3.0%	\$ 12.69	\$ 6.27	\$ 6.44	\$ 12.71
		Years	100%	\$ 427.32	\$ 210.66	\$ 216.26	\$ 426.92

Both Cost and Fair Value include accrued interest of \$0.86; amortized cost and total fair value stated in millions.

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

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

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

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

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

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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## **NOTE 5. PROPERTY TAX**

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

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

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. The balance of taxes receivable includes related interest and penalties. No allowance for uncollectible taxes 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 2014 was \$1.1861 per \$1,000 on an assessed valuation of \$26,119,626,948 for a total regular levy of \$30,789,414.

The County's road levy for the year 2014 was \$1.6619 per \$1,000 on an assessed valuation of \$15,974,350,029 for total road levy of \$26,385,504.

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.

## **NOTE 6. CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2014 was as follows:

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

Governmental activities	Beginning Balance 1/1/2014	Increases	Decreases	Ending Balance 12/31/2014
Capital assets, not being depreciated:				
Land	\$ 58,419,033	\$ 6,788,503	\$ 197,680	\$ 65,009,855
Land - Infrastructure	69,556,126	282,540	-	69,838,666
Construction in progress	16,310,809	6,705,962	12,252,097	10,764,674
<b>Total capital assets, not being depreciated</b>	<b>\$ 144,285,968</b>	<b>\$ 13,777,005</b>	<b>\$ 12,449,777</b>	<b>\$ 145,613,196</b>
Capital assets, being depreciated:				
Buildings	\$ 129,265,829	\$ -	\$ -	\$ 129,265,829
Building Improvements	33,467,580	385,835	2,902	33,850,513
Machinery and equipment	57,817,402	3,161,450	1,900,219	59,078,633
Infrastructure	416,295,007	9,652,182	-	425,947,189
<b>Total capital assets being depreciated</b>	<b>\$ 636,845,818</b>	<b>\$ 13,199,467</b>	<b>\$ 1,903,121</b>	<b>\$ 648,142,166</b>
Less accumulated depreciation for:				
Buildings	\$ 39,605,641	\$ 2,918,524		\$ 42,524,165
Building Improvements	14,543,679	1,468,278	2,902	16,009,055
Machinery and equipment	38,007,628	3,946,569	1,820,276	40,133,922
Infrastructure	295,231,089	10,877,757	-	306,108,845
<b>Total accumulated depreciation</b>	<b>\$ 387,388,037</b>	<b>\$ 19,211,129</b>	<b>\$ 1,823,178</b>	<b>\$ 404,775,988</b>
<b>Total capital assets, being depreciated, net</b>	<b>\$ 249,457,782</b>	<b>\$ (6,011,661)</b>	<b>\$ 79,943</b>	<b>\$ 243,366,179</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 393,743,750</b>	<b>\$ 7,765,344</b>	<b>\$ 12,529,720</b>	<b>\$ 388,979,374</b>

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

Business-type activities	Beginning Balance 1/1/2014	Increase	Decrease	Ending Balance 12/31/2014
Capital assets, not being depreciated				
Land	\$ 2,889,181	\$ -	\$ -	\$ 2,889,181
Construction in progress	29,541,820	22,455,777	2,253,271	49,744,327
<b>Total capital assets, not being depreciated</b>	<b>\$ 32,431,001</b>	<b>\$ 22,455,777</b>	<b>\$ 2,253,271</b>	<b>\$ 52,633,508</b>
Capital assets, being depreciated				
Buildings	\$ 56,358,292	\$ 116,320	\$ -	\$ 56,474,612
Building Improvements	90,630,433	2,806,673	-	93,437,106
Equipment & Machinery	9,691,759	77,216	108,372	9,660,603
<b>Total capital assets being depreciated</b>	<b>\$ 156,680,484</b>	<b>\$ 3,000,209</b>	<b>\$ 108,372</b>	<b>\$ 159,572,322</b>
Less accumulated depreciation for:				
Buildings	\$ 33,393,583	\$ 2,130,303	\$ -	\$ 35,523,885
Building Improvements	40,550,111	3,111,269	-	43,661,380
Machinery and equipment	7,089,762	759,169	108,372	7,740,559
<b>Total accumulated depreciation</b>	<b>\$ 81,033,455</b>	<b>\$ 6,000,740</b>	<b>\$ 108,372</b>	<b>\$ 86,925,824</b>
<b>Total business-type assets, being depreciated, net</b>	<b>\$ 75,647,029</b>	<b>\$ (3,000,531)</b>	<b>\$ -</b>	<b>\$ 72,646,498</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 108,078,030</b>	<b>\$ 19,455,246</b>	<b>\$ 2,253,271</b>	<b>\$ 125,280,006</b>

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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

Governmental Activities:	
General government	\$ 1,846,126
Judicial Services	17,888
Public safety	3,522,605
Transportation	12,499,582
Health & Human service	139,718
Economic environment	4,193
Culture & recreation	1,181,018
Total Depreciation - Governmental Activities	\$ 19,211,129

Business-Type Activities:	
Utilities	\$ 6,000,740
Total Depreciation - Business Type Activities	\$ 6,000,740

## Construction commitments

The County had no active construction projects as of December 31, 2014.

## **NOTE 7. PENSION PLANS**

Substantially all County full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

### **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; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

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

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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.

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

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

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

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PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

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

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, 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.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

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

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.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
<b>Total</b>	<b>368,272</b>

### Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

### Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

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

\*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

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

### Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

\* The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* Plan 3 defined benefit portion only.

\*\*\* Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$ 138,561	\$ 3,823,054	\$ 1,009,806
2013	\$ 143,925	\$ 3,592,658	\$ 837,723
2012	\$ 142,413	\$ 3,145,886	\$ 694,608

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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

### Plan Description

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

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

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

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

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

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

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

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 there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

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receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

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

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

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

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

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

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

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

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

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

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

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

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

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

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, 2013:

Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Terminated Plan Members Nonvested	1,600
<b>Total</b>	<b>29,640</b>

### Funding Policy

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

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2014, the state contributed \$55.6 million to LEOFF Plan 2.

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	5.23%**
Employee	0.00%	8.41%
State	N/A	3.36%

\*The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\* The employer rate for ports and universities is 8.59%.

Both County and the employees made the required contributions. The County's required contributions to LEOFF Plan 2 for the years ended December 31 were as follows:

	LEOFF Plan 2
2014	\$ 500,846
2013	\$ 470,850
2012	\$ 474,611

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

### Plan Description

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

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

PSERS membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

Covered employers include:

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

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

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

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

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2014, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PSERS-covered employment.

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

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

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

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

PSERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	43
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	119
Active Plan Members Vested	4,513
Terminated Plan Members Nonvested	1,383
<b>Total</b>	<b>6,058</b>

### Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

	PSERS Plan 2
Employer*	10.54%
Employee	6.36%

\* The employer rate includes an employer administrative expense fee of 0.18%.

Both 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
2014	\$ 468,193
2013	\$ 410,675
2012	\$ 346,727

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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## **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 plan administrator to process medical and dental claims made against its workers' compensation program. In 2014, the County began self-insuring its employees' medical benefits and contracted with a claims administrator to administer the 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 October 2010, when it made the determination to withdraw from the risk pool in order to have more control over decisions made with respect to risk management activities.

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

### 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 and public officials' liability. As of December 31, 2014, the County's estimated total undiscounted outstanding liability for general liability is \$6,889,646.

### Property insurance

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

### Crime/dishonesty insurance

The employee crime/dishonesty policy has a \$5,000 deductible and \$1,000,000 in coverage. This policy is endorsed to include a Position bond, which provides certain elected officials with bond coverage as required by the State statute.

### Workers compensation

The County assumes risk for workers' compensation of up to \$500,000 per occurrence, as allowed by State statute. 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, 2014, the County's estimated total undiscounted outstanding liability for the workers' compensation program is \$2,824,705.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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## 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. The County's unemployment program is managed by the Human Resources department.

## Self Insured Workers Compensation and General Liability Claims Activity

The County maintains a balance in a liability account within the Self Insurance fund to provide for claims payments. An actuarial review of the County's self-funded property and liability programs that was completed in 2014 indicated that the County was funded in excess of the 90% confidence levels (confidence levels are a typical funding adequacy measurement used to gauge the whether the program has adequate reserves to cover anticipated claims). Claims liability is not being adjusted in 2014 because the current level is adequate.

Following is a summary of the changes in the self-insurance fund liabilities for estimated claim settlements for the years ended December 2013 and 2014:

Workers Compensation	Year Ended	
	12/31/2013	12/31/2014
Claims liability, beginning of year	\$ 2,659,365	\$ 2,824,705
Estimated claims (including IBNRs)	\$ 1,474,144	\$ 1,280,536
Claims payments	(\$ 1,308,804)	(\$ 1,280,536)
Claims liability, end of year	\$ 2,824,705	\$ 2,824,705

General Liability	Year Ended	
	12/31/2013	12/31/2014
Claims liability, beginning of year	\$ 6,085,972	\$ 6,889,646
Estimated claims (including IBNRs)	\$ 1,152,992	\$ 213,234
Claims payments	(\$ 349,318)	(\$ 213,234)
Claims liability, end of year	\$ 6,889,646	\$ 6,889,646

## Self Funded Employee Welfare Benefit Plan

In 2013, Kitsap County established a self funded employee welfare benefit plan to provide certain health care benefits to eligible employees and their dependents. The County contracted with Premera Blue Cross and Group Health to perform administrative services to process medical claims. Activity related to the program is accounted for in the Employer Benefits Fund, an internal service fund.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

In order to limit its financial liability for large claims, the County purchased a Stop Loss insurance policy. The policy reimburses the County for medical claims in excess of \$165,000 per covered person, per calendar year.

The County's self funded employee welfare benefit plan covers eligible employees and their dependents for medical costs. The County purchases dental, life, AD&D and LTD insurance.

Interfund medical premiums are established based upon a composite rate of expected claims and expenses prior to the beginning of the fiscal year and are charged to departments on an employee by employee basis, each month.

Depending upon the plan and level of coverage selected by an employee, there may be employee contributions towards premiums. These contributions are collected by the Employer Benefits Fund and are used to offset claims expenses.

## **NOTE 9. 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, 2014 the debt limits for the County were as follows:

	Without a Vote	With a Vote	
		2.5%	5.0%
Legal Limit	\$ 388,663,580	\$ 647,772,633	\$ 1,295,545,265
Applicable Outstanding Debt	\$ 96,198,914	\$ 96,198,914	\$ 96,198,914
Margin Available	\$ 292,464,666	\$ 551,573,719	\$ 1,199,346,352

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

## A. General Obligation Bonds

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

General obligation bonds currently outstanding are as follows:

Issued Name and Purpose	Maturity Range	Interest Rate %	Original Amount	Amount of Installment
2005 - Refunding	7/1/15 - 7/1/25	5.0	18,995,000	1,075,000 - 1,500,000
2006 - Improve Bldgs & Parks & CKCC; BAN (Prop.Acq.)	7/1/15 - 7/1/31	4.4 - 5.0	18,085,000	530,000 - 880,000
	12/1/15 - 12/1/30	3.0 - 4.0	9,220,000	190,000 - 530,000
2011 - Refunding	12/1/15 - 12/1/27	2.0 - 4.0	20,370,000	500,000 - 1,550,000
2013 - Refunding	12/1/15 - 12/1/34	3.0 - 4.0	48,280,000	530,000 - 5,265,000
691-037 - Anderson Hill	7/1/15 - 7/1/21	0.5	897,812	47,253
Total			\$ 115,847,812	

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2015	5,645,000	3,722,078
2016	5,850,000	3,531,278
2017	6,105,000	3,332,928
2018	6,350,000	3,114,358
2019	9,075,000	2,871,058
2020 - 2024	34,280,000	9,585,880
2025 - 2029	21,615,000	3,168,065
2030 - 2034	4,545,000	427,800
Total	\$ 93,465,000	\$ 29,753,445

Year Ending December 31	PWTF Loan	
	Principal	Interest
2015	\$ 47,253	\$ 1,655
2016	47,253	1,418
2017	47,253	1,181
2018	47,253	945
2019	47,253	709
2020 - 2021	94,507	709
Total	\$ 330,773	\$ 6,616

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

## B. Notes Payable

The County has a note payable of \$2.02 million due to the Rolling Hills Golf Course Partnership from the purchase of the Rolling Hills Golf Course in March 2011. Principal and interest payments are due annually for 20 years, beginning in October 2012. The note matures in 2031.

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2015	68,331	131,669
2016	72,787	127,213
2017	77,534	122,466
2018	82,590	117,410
2019	87,976	112,024
2020 - 2024	533,792	466,208
2025 - 2029	732,069	267,931
2030 - 2031	364,018	35,982
<b>Total</b>	<b>\$ 2,019,097</b>	<b>\$ 1,380,903</b>

## C. Revenue bonds

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

Issued Name and Purpose	Maturity Range	Interest Rate %	Original Amount	Amount of Installment
Sewer Refunding 2001	7/1/15 - 7/1/16	5.625	\$ 13,075,000	1,530,000 - 1,620,000
Sewer Refunding 2010A	12/1/15 - 12/1/18	3.0 - 4.0	5,775,000	730,000 - 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	5/1/15 - 5/1/25	1.5	14,188,000	303,064 - 599,355
PWTF Loan PW-01-691-036	7/1/15 - 7/1/21	0.5	2,605,000	150,816
PWTF Loan PC-12-951-040	6/1/15 - 6/1/31	1.0	5,205,000	256,600
<b>Total</b>			<b>\$ 79,078,000</b>	

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

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

Year Ending December 31	Revenue Bonds	
	Principal	Interest
2015	2,260,000	1,994,029
2016	2,365,000	1,886,066
2017	780,000	1,768,866
2018	805,000	1,737,666
2019	0	1,705,466
2020 - 2024	0	8,527,331
2025 - 2029	4,475,000	8,450,502
2030 - 2034	12,985,000	6,514,921
2035 - 2039	16,670,000	3,177,946
2040	4,100,000	166,058
Total	\$ 44,440,000	\$ 35,928,851

Year Ending December 31	Ecology & PWTF Loans	
	Principal	Interest
2015	931,126	103,103
2016	939,036	93,856
2017	947,065	84,431
2018	955,216	74,885
2019	963,489	65,216
2020 - 2024	4,493,546	178,860
2025 - 2029	1,586,062	18,318
2030 - 2031	513,199	1,925
Total	\$ 11,328,738	\$ 620,592

### D. Pollution Remediation Obligation

In 2011, the Solid Waste fund recorded a liability of \$742,805 which represents the County's share of cleanup costs of the Hansville Landfill. The liability was adjusted to \$604,800 in 2014 as a result of recalculation of the costs. The Washington State Department of Ecology identified the County and Waste Management, Inc. as Potentially Liable Parties (PLPs) for remediation of the site. See Note 20, *Pollution Remediation Obligation* for additional information.

### E. 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, 2014

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## **NOTE 10. LEASES**

### Operating leases

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

### Capital Leases

The County entered into a lease agreement for financing a ballot counting system in April 2013. The system was purchased from Hart InterCivic for \$467,168 and the purchase was financed through SunTrust Equipment Finance and Lease Corp.

The installment loan has a five year term with the first installment payment due on April 8, 2014 and annually on the anniversary date, thereafter. The annual payment amount is \$100,028 and the installment loan bears interest at a rate of 1.66% per annum.

This lease agreement qualifies as a capital lease for accounting purposes, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The assets (capital and non-capitalized) acquired through the capital lease are as follows:

Asset	Governmental Activities
Computer equipment – non-capitalized	\$ 29,987
Computer equipment – capitalized	\$ 76,144
Less: accumulated depreciation	(\$ 31,727)
Computer equipment, net	\$ 44,417
Total	\$ 74,404

The remainder of the system cost was for software, installation, licensing and support.

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2014 were as follows:

Year Ending December 31	Governmental Activities
2015	\$ 100,028
2016	\$ 100,028
2017	\$ 100,028
2018	\$ 100,028
Total minimum lease payments	\$ 400,112
Less: Interest	(\$ 16,069)
Present value of minimum lease payments	\$ 384,044

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

## **NOTE 11. CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
General obligation bonds	\$ 98,890,000	\$ -	\$ 5,425,000	\$ 93,465,000	\$ 5,645,000
Total bonds payable	98,890,000	-	5,425,000	93,465,000	5,645,000
Capital leases	476,168	-	92,124	384,044	93,653
Compensated absences	5,111,688	4,517,131	4,373,761	5,255,058	568,834
Internal services comp.	371,735	356,698	305,016	423,417	42,342
Notes payable	2,083,245	-	64,148	2,019,097	68,331
Net OPEB obligation	4,776,428	769,127	-	5,545,555	-
Other liabilities	378,026	-	47,253	330,773	47,253
Governmental-activities Long-term liabilities	<u>\$ 112,087,289</u>	<u>\$ 5,642,957</u>	<u>\$ 10,307,302</u>	<u>\$ 107,422,944</u>	<u>\$ 6,465,413</u>
<u>Business-type activities</u>					
Bonds payable:					
Revenue bonds	46,595,000	-	2,155,000	44,440,000	2,260,000
Unamortized premium/ discount	164,410	-	79,795	84,615	79,795
Total bonds payable	46,759,410	-	2,234,795	44,524,615	2,339,795
Other liabilities	12,649,859	220,470	936,790	11,933,538	960,491
Compensated absences	605,054	595,774	596,425	604,403	69,439
Business-type activities Long-term liabilities	<u>\$ 60,014,322</u>	<u>\$ 816,244</u>	<u>\$ 3,768,010</u>	<u>\$ 57,062,557</u>	<u>\$ 3,369,724</u>
<b>Total</b>	<b>\$ 172,101,612</b>	<b>\$ 6,459,201</b>	<b>\$ 14,075,312</b>	<b>\$ 164,485,501</b>	<b>\$ 9,835,137</b>

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 \$423,417 of internal service funds' compensated absences are included in the above amounts. The general fund generally liquidates the claims, judgments, compensated absences and OPEB obligations from governmental activities.

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

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

## **NOTE 12. 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 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 13. 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, 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	\$ 160,000	\$ -	\$ 160,000
Total	\$ 160,000	\$ -	\$ 160,000

### 2. Due from other funds/Due to other funds

The outstanding balances between funds result mainly from the time lag between the dates that a) interfund goods and services are provided; b) transactions are recorded in the accounting system; and c) payments between funds are made.

DUE FROM OTHER FUNDS									
Due to Other Funds	General Fund	County Roads	Non Major	Solid Waste	Sewer Utility	Surface Storm	Internal Service	Agency Funds	Total
General Fd	-	9,036	76,028	-	19	12,272	90,984	368	188,706
County Rds	5,804	-	-	2,650	5,288	443,360	36,343	-	493,446
Non Major	20,771	157,064	-	-	-	-	32,778	8	210,620
Solid Waste	391	3,519	1,136	-	673	1,865	-	-	7,583
Sewer Utility	-	-	2,000	97,775	-	84,455	7,544	-	191,774
Surface Strm	-	9,361	1,000	11,523	13,615	-	4,023	-	39,522
Internal Serv.	205,031	142,077	55,531	2,468	9,955	19,252	303	-	434,617
Agency	119	-	40	-	341	-	-	-	501
Total	232,116	321,057	135,734	114,416	29,892	561,203	171,974	376	1,566,768

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

### 3. Transfers

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

TRANSFERS - FUND FINANCIAL STATEMENTS					
IN	General	KC LTGO	Non	Internal	
OUT	Fund	2013 Refndg	Major	Service	Total
General Fund	-	800,000	3,405,111	161,872	4,366,983
County Roads	-	-	354,089	-	354,089
REET	-	1,465,291	1,488,658	-	2,953,949
Non Major	2,343,963	416,966	3,641,369	-	6,402,298
Surface Stormwater	-	-	211,566	-	211,566
Sewer Utility	-	-	136,525	30,000	166,525
Internal Service	-	-	156,699	-	156,699
Total	2,343,963	2,682,257	9,394,017	191,872	14,612,109

### **NOTE 14. 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 receivables) and revenues in the year in which the related expenditure or expenses are incurred.

#### Public Facility District receivable

The County has an \$8.15 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.

#### Housing Kitsap receivable

The County has a \$17.08 million long-term receivable due from Housing Kitsap.

The County and Housing Kitsap entered into a loan and repayment agreement in 2013, following issuance of Kitsap County LTGO Refunding bonds to settle loans in connection with Housing Kitsap's Harborside Condominiums and Poplars Apartments projects, for which the

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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County became liable when Housing Kitsap found that it was unable to repay or restructure the loans.

The original receivable amount was reported as \$16.48 million. During 2013, principal in the amount of \$389,000 was applied against the receivable resulting in an ending balance of \$16.09 million. The original receivable excluded the cost of reoffering premiums that were paid upon issuance of the bonds in 2013 because the County viewed the premiums as a component of the interest to be collected over the life of the receivable rather than as a separate obligation by Housing Kitsap. The County paid reoffering premiums in the amount of \$1.8 million.

The County has since revised Housing Kitsap's receivable to include the premiums paid; Housing Kitsap is obligated to repay the County for the premiums in addition to the principal and interest on the bonds and the Key Bank loan. The restated original receivable is \$18.32 million:

Par amount of bonds	\$16,380,000
Prior Key Bank loan	99,619
Original receivable	<u>\$16,479,619</u>
Add:	
Reoffering premiums	1,837,255
Revised receivable	<u>\$18,316,874</u>

As a result of inclusion of the premiums in the receivable balance, principal applied in 2013 was recalculated and revised from \$389,000 to \$379,000. The \$10,000 reduction in principal applied (increase in interest) is being reported as a prior period adjustment (see Note 21). The revised receivable balance as of 1/1/2014 was \$17.94 million.

During 2014, the County received payments of \$1.23 million, of which \$853,000 was applied to principal and \$377,000 was applied to interest. The receivable balance as of December 31, 2014 was \$17.08 million. The term of the note receivable is 41 years, maturing June 30, 2053.

## **NOTE 15. DEFERRED COMPENSATION**

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

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the County (without being restricted to the provisions of the benefits under the plan). The amounts are subject only to the claims of the County's general creditors. Participants' rights under the plan are equal to those of general creditors of the County in an amount equal to the fair value of the deferred account for each participant.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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, 2014, are as follows:

Investment company	Fair Value
Nationwide	\$ 15,485,317
Voya	7,748,182
Mass Mutual	7,533,702
ICMA	1,266,642
Total	\$ 32,033,844

## **NOTE 16. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

The County implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Under GASB 65, a number of items previously reported as assets and liabilities are now reported as deferred outflows and inflows of resources.

For Kitsap County the following items previously reported as Liabilities, are now reported as Deferred Inflows:

Items Previously Reported as Liabilities	
General Fund - taxes	\$ 1,768,079
County Roads Fund - taxes	969,070
Noxious Weed Control - taxes	12,592
Veterans Relief Fund - taxes	11,852
Conservation Futures - taxes	51,573
CDBG Entitlement - loans	300,000
HOME Entitlement - loans	3,554,856
Parks Capital - service concession arrangement	2,019,097
2013 LTGO Refunding - loan	17,084,114
Total	\$ 25,771,235

On April 23, 2013, Housing Kitsap (formerly known as Kitsap County Consolidated Housing Authority) agreed to repay debt previously assumed by the County, resulting in a Note Receivable and an offsetting Deferred Inflow of \$17.08 million. For further details of this transaction and see Note 15, *Receivables and Payables*.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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## **NOTE 17. SERVICE CONCESSION ARRANGEMENT**

In March 2011, the County purchased a golf course property consisting of approximately 104 acres encompassing the golf course, clubhouse, outbuildings and storage sheds, and various property and equipment items necessary to operate the golf course and clubhouse. The purchase was financed by a note payable to the seller, the terms of which are annual payments of \$200,000 for a period of 20 years. The note bears interest at 6.5% and the note balance was \$2,019,097 as of December 31, 2014.

The cost of the golf course was \$2,200,400 of which \$2,112,855 was capitalized. The County reports the golf course and related equipment as a capital asset which had a net book value of \$1,978,797 at year-end.

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

Beginning in October 2012 and annually thereafter, RHGC will pay the County installment payments of \$200,000 over the course of the arrangement; the present value of these installment payments at the time the agreement was entered into were estimated to be \$2,200,000. Deferred inflows related to the golf course are \$2,019,097 as of December 31, 2014.

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

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

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

### Plan Description

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

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

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, 2014 there were 38 inactive participants in this closed plan.

### Funding Policy

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

### Annual OPEB Cost and Net OPEB Obligation

The Annual Required Contribution (ARC) represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2008. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB. The net OPEB obligation of \$5,545,555 is included as a noncurrent liability on the Statement of Net Position. The actuarial valuation was performed on December 31, 2014.

Other Post Employment Benefits Obligation	Year Ended 12/31/2014
Determination of Annual Required Contribution:	
Normal Cost at year end	\$ -
Amortization of UAAL*	1,405,018
Annual Required Contribution (ARC)	\$ 1,405,018
Determination of Net OPEB Obligation:	
Annual Required Contribution	\$ 1,405,018
Interest on prior year Net OPEB Obligation	191,057
Adjustment to ARC	(429,597)
Annual OPEB Cost	\$ 1,166,478
Contributions	397,351
Increase in Net OPEB Obligations	\$ 769,127
Net OPEB Obligation - beginning of year	\$ 4,776,428
Increase in Net OPEB Obligations	\$ 769,127
Net OPEB Obligation - end of year	\$ 5,545,555
*Unfunded Actuarial Accrued Liability	

# Kitsap County, Washington

## Notes to Financial Statements

December 31, 2014

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

Year Ended	Annual Cost	Contribution	Percentage of Annual OPEB cost	Net OPEB Obligations
2009	\$ 1,072,127	\$ 450,113	42%	\$ 2,219,478
2010	\$ 984,620	\$ 472,936	48%	\$ 2,731,162
2011	\$ 885,327	\$ 474,752	54%	\$ 3,141,737
2012	\$ 1,025,832	\$ 417,652	41%	\$ 3,749,917
2013	\$ 1,411,439	\$ 384,928	27%	\$ 4,776,428
2014	\$ 1,166,478	\$ 397,351	34%	\$ 5,545,555

### Funding Status

As of December 31, 2014 the most recent alternative method measurement date, the plan was 0% funded. The accrued liability for benefits was \$15,621,539 and the actuarial value of assets was \$0 resulting in a UAAL of \$15,621,539. Historically Kitsap County has used a pay-as-you-go approach to funding. If Kitsap County were to contribute the ARC to the plan every year, a liability would not be recorded. If the ARC is not fully funded in a given year, a liability is reported for the unpaid portion of the ARC.

### Actuarial Methods and Assumptions

The County's annual other post employment benefit (OPEB) cost is calculated based upon the Annual Required Contribution (ARC), an amount determined using the alternative method permitted under GASB No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the actuarial liability. Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the June 30, 2011 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 2014. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purpose of this valuation. The healthcare cost inflation rates were the only assumed inflation rates considered.

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

The Schedule of Funding Progress for this postemployment defined benefit plan is detailed in the Required Supplementary Information section of this report immediately following the notes to the financial statements. This schedule presents multi-year trend information about whether

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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the actuarial value of the plan assets is increasing or decreasing relative to the actuarial accrued liability for the benefits over time.

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

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

### Hansville Landfill

The Hansville Landfill closed in 1989. 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). The Cleanup Action Plan (CAP) providing for Natural Attenuation of Groundwater with Enhanced Monitoring and Institutional Controls was approved by the Washington State Department of Ecology in 2011 as part of the Amended Consent Decree.

The current closure cost estimate for the Hansville Landfill site was revised to \$1,728,000 in September 2014, for the years 2015 - 2034. The Solid Waste Fund recognized a liability of \$604,800 for its share of the estimated costs remaining to be recognized as determined by the Washington State Department of Ecology.

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

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

### A. Subsequent Events

On January 26, 2015, the Board of County Commissioners approved Resolution No. 019-2015, authorizing the issuance and sale of Sewer Revenue Bonds in the aggregate principal amount of not to exceed \$34.2 million, the purpose of which is to finance certain capital improvements to the County's sanitary sewage collection and treatment system. The Kitsap County Sewer Revenue Bonds, 2015, par amount \$17.36 million, were issued on April 7, 2015.

On February 23, 2015, the Board of County Commissioners approved Resolution No. 040-2015, authorizing the issuance and sale of Limited Tax General Obligation Bonds in the aggregate principal amount of not to exceed \$24.5 million, the purpose of which is to refund all or a portion of the County's Limited Tax General Obligation Refunding Bonds, Series 2005 and Limited Tax General Obligation Bonds, Series 2006. The Kitsap County Limited General Obligation Refunding Bonds, 2015, par amount \$21.635, were issued on April 16, 2015.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2014

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In 2015, the County will be amending its 2013 loan and repayment agreement with Housing Kitsap to clarify terms, specifically regarding the reoffering premium (for more information about this agreement, see *Note 14, Receivables and Payables, Note 16 Deferred Outflows and Inflows of Resources* and *Note 20B, Other Notes Disclosures, Prior Period Adjustments*).

The current agreement includes language stating that Housing Kitsap is responsible for repaying the County the reoffering premium it paid when the bonds were issued in 2013, \$1.84 million. The reoffering premiums were not included in the Note Receivable balance on the County's 2013 CAFR. In 2014, the County adjusted the Note Receivable balance to include the reoffering premiums and conform with the agreement.

Upon further discussion with Bond Counsel and Housing Kitsap, it was determined that the intent of the parties to the agreement was that Housing Kitsap's payments on the note receivable already include the premiums (in the form of a higher than market interest rate) and the premiums should therefore not be added to the principal balance.

The County will adjust the Note Receivable balance when the amendment is executed.

## B. Prior Period Adjustments

The Housing Affordability Fund reported a prior period adjustment of \$41,100 to adjust current year expenditures and fund balance to reflect payment of invoices for services rendered in prior years that were paid in 2014.

The Real Estate Excise Tax (REET) fund reported a prior period adjustment of \$384,761 to correct an error in real estate excise tax distributions made to the County's four cities in years prior to 2014. During 2014, the cities of Bainbridge Island, Bremerton and Poulsbo received payments and overpaid taxes were collected from the city of Port Orchard for taxes attributable to prior years. The distribution error resulted from a software programming issue which has since been corrected. As an additional measure to ensure that real estate excise taxes are correctly distributed, the cities are being provided with monthly reports that they can use to reconcile the payments they receive from the County as well as from other sources.

The general fund reported a prior period adjustment of \$5,681 to correct an error in Treasurer administrative fees as a result of the real estate excise tax distribution error noted above.

The Sewer Construction Fund reported a prior period adjustment of \$115,743 to adjust the balance of construction in progress to include payments made in 2013 that were omitted from the account.

The Surface Stormwater Fund reported a prior period adjustment of \$17,974 to correct 2013 state grant revenue accruals.

The KC LTGO Refunding Bonds fund reported a prior period adjustment of \$10,065 as a result of recalculation of the principal portion of payments received from Housing Kitsap during 2013 on a note receivable. The prior year amount was recalculated because of an adjustment to the receivable balance. See *Note 14, Receivables and Payables* for more information.