



Washington State Auditor Troy Kelley

INDEPENDENT AUDITOR'S REPORT

July 17, 2014

Board of Commissioners
Kitsap County
Port Orchard, Washington

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Kitsap County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Kitsap County, Washington, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, County Roads, Real Estate Excise Tax and Mental Health Medicaid funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As described in Note 1, during the year ended December 31, 2013, the County has implemented the Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 16 and information on postemployment benefits other than pensions on pages 88 through 90 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 94 through 227 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated July 17, 2014, 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,



TROY KELLEY
STATE AUDITOR

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2013

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, 2013. 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 \$539.20 (net position). Of this amount, \$141.70 (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 \$ 25.30 with a \$24.63 increase on the Governmental side and a \$.68 increase on the Business-Type side. The Governmental side saw an increase of \$24.63 in large part to a Special Item, a \$16.1 receivable signed to repay the county for assuming debt in 2009. This had previously been recognized as a loss. Also the economy continues to show signs of recovery. Further details of these items can be found in the notes to the financial statements, see Note 15.
- As of the close of the current fiscal year, Kitsap County's governmental funds reported combined ending fund balances of \$92.21, an increase of \$5.43 from the prior year. Approximately \$18.13 of this amount is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$18.40, or 24.25 percent of the total general fund expenditures. \$1.10 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 \$5.30 (5 percent) during the current fiscal year. This represented 2013 principle payments, plus refunding bonds issued.

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.

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2013

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, 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, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2013

Kitsap County maintains one hundred and ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, county roads fund, real estate excise tax fund, mental health Medicaid fund and KC LTGO 2013 Refunding Bond fund, all of which are considered major funds.

Fifteen 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 ninety 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

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2013

support Kitsap County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on page 32 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 – 92 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 94 – 215 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 \$539.20 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 (77.1 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets to provide services to citizens; consequently, these assets are not available for future spending. Although Kitsap County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Kitsap County's Net Position						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
Assets:						
Current & other assets	\$ 139.26	\$ 163.88	\$ 91.68	\$ 76.03	\$ 230.94	\$ 239.91
Capital assets	399.68	393.74	91.63	108.08	491.31	501.82
Total assets	538.94	557.62	183.31	184.11	722.25	741.73
Deferred outflows						
Liabilities						
Other liabilities	50.18	29.8	5.97	7.62	56.15	37.42
Long-term liabilities	93.15	106.11	58.46	56.91	151.61	163.03
Total liabilities	\$143.33	135.91	64.43	64.53	207.76	200.46
Deferred inflows	2.14	2.08				2.08
Net position						
Invested in capital	325.88	319.65	53.33	61.48	379.21	381.13
Restricted	13.68	13.02	3.34	3.34	17.02	16.36
Unrestricted	53.90	86.96	62.21	54.74	116.11	141.70
Total net position	\$ 393.46	\$ 419.63	\$ 118.88	\$ 119.56	\$ 512.34	\$ 539.20

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2013

An additional portion of Kitsap County's net position (3.0 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$141.70) 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 \$25.30 during the current fiscal year. However, when excluding the special items detailed on page 3 and in Note 15 of the notes to the financial statements, the County actually had increases of \$9.20. The major reason was increase in sales tax as the economy began to rebound and the sale of the local mall.

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

The government's restricted net position decreased by 3.88% (from \$17.02 to \$16.36). This was caused by an overall reduction in outstanding debt. Unrestricted net position increased by 22.04% (from \$116.11 to \$141.70).

Governmental activities. Governmental activities increased the County's net position by \$24.63. The key elements of this net change are as follows:

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2013

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2013	2012	2013	2012	2013
Revenues:						
Program revenues						
Charges for services	\$ 23.66	\$ 23.38	\$ 35.59	\$ 37.71	\$ 59.25	\$ 61.09
Operating grants	66.45	66.65	0.99	1.16	67.44	67.81
Capital grants	2.56	3.04	1.92	1.19	4.48	4.23
General revenues						
Property taxes	56.25	57.36	-	-	56.25	57.36
Sales taxes	27.01	27.67	-	-	27.01	27.67
Other taxes	11.06	12.29	-	-	11.06	12.29
Investment earnings	1.68	1.51	0.65	0.44	2.33	1.95
Other income	3.43	3.36	-	-	3.43	3.36
Total revenues	192.10	195.26	39.15	40.50	231.25	235.76
Expenses						
General government	24.93	19.29	-	-	24.93	19.29
Judicial services	13.33	13.95	-	-	13.33	13.95
Public safety	49.14	49.93	-	-	49.14	49.93
Physical environment	3.29	3.34	-	-	3.29	3.34
Transportation	38.06	37.84	-	-	38.06	37.84
Health & human services	43.97	43.86	-	-	43.97	43.86
Economic environment	6.75	6.47	-	-	6.75	6.47
Culture & recreation	6.91	6.49	-	-	6.91	6.49
Interest on LT debt	5.40	4.72	-	-	5.40	4.72
Utilities	-	-	37.63	39.47	37.63	39.47
Total expenses	191.78	185.89	37.63	39.47	229.41	225.36
Incr (decr) in net position before	0.32	9.37	1.52	1.03	1.84	10.40
Special Items, Transfers & Extraordinary items						
Special items	(4.56)	14.90	-	-	(4.56)	14.90
Transfers	0.35	0.35	(0.35)	(0.35)	-	-
Extraordinary item	(1.08)	-	-	-	(1.08)	-
Incr (decr) in net position	(4.97)	24.62	1.17	0.68	(3.80)	25.30
Beginning Net position	398.44	393.47	117.42	118.88	515.86	512.35
Prior period adjustments	(0.01)	1.54	0.29	-	0.29	1.54
Ending Net position	\$ 393.47	\$ 419.63	\$ 118.88	\$ 119.56	\$ 512.35	\$ 539.20

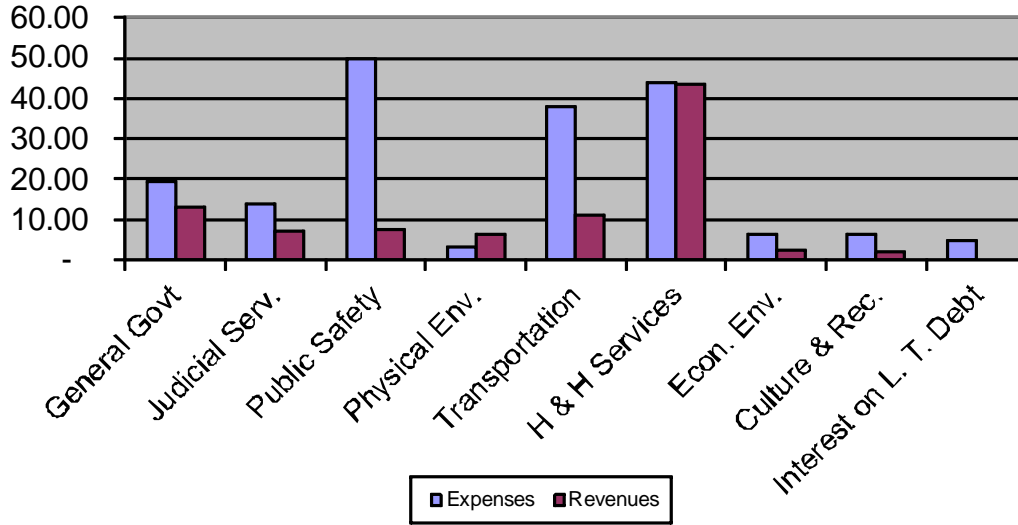
- o Recognized and additional loss of \$1.18 writing off receivable from KCCHA related to debt assumed by the county in 2009.
- o Housing Kitsap agreed to pay back the County was losses recognized by the County in prior years related to assuming their debt. This resulted in a receivable from Housing Kitsap for \$16.09.

Kitsap County, Washington

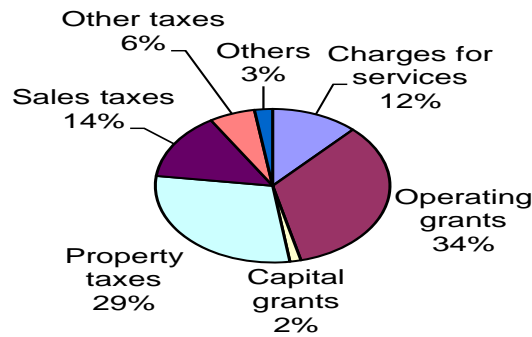
Management's Discussion and Analysis For the Year Ended December 31, 2013

Expenses and Program Revenues - Governmental

Activities



Revenues by Source – Governmental Activities



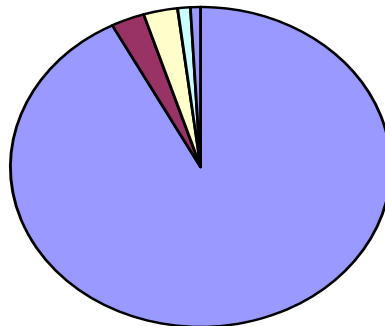
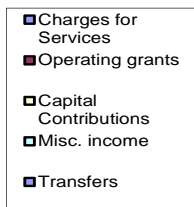
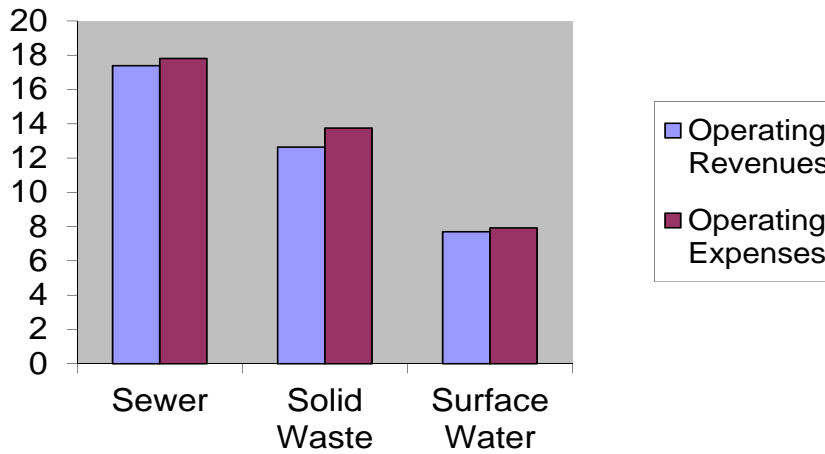
Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2013

Business-type activities. Business-type activities increased the County's net position by \$.68. 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, 2013

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 \$92.21, an increase of \$5.43 in comparison with the prior year.

The general fund is the chief operating fund of Kitsap County. At the end of the current fiscal year, unassigned fund balance of the general fund was \$18.40, while the total fund balance increased to \$18.81. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 24.25 percent of the total general fund expenditures.

Apart from the change noted in the previous paragraph, the fund balance of Kitsap County's general fund increased by \$.35 during the current fiscal year. The key factor was the cost cutting measures taken by the County to reverse declining fund balances. A portion of the 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 \$1.10 added to the general fund's balance in 2013, which was a decrease of \$2.23 from 2012. Excluding these funds the general fund balance actually increased by \$2.50 in 2013.

County Roads fund balance increased by \$2.94 primarily due to fewer capital projects in 2013.

Real Estate Excise Tax fund balance increased from \$2.49 in 2012 to \$3.01 in 2013. This was due a large commercial property being sold in 2013 helping increase Real Estate Excise Tax collected.

Mental Health Medicaid fund had a balance of \$2.43 in 2013 up from \$1.69 in 2012. This was due to increased state funding for the program.

Debt service funds have a total fund balance of \$10.46, all of which is reserved for the payment of debt service. This was a decrease of \$.05 from 2012.

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, 2013

The Sewer fund's total net position was \$73.05 in 2013, up \$.90 from 2012. This increase was caused by operating income as operating revenues exceeded operating expenses.

Solid Waste fund's total net position was \$24.44 for 2013, down \$.50 from 2012, as operating expenses exceeded operating revenues.

Surface Water fund's total net position was \$22.07 for 2013 up \$.90 from 2012. This was all due to operating income exceeding operating expenses.

General Fund Budgetary Highlights

Actual general fund revenues exceeded final budgeted revenues by \$1.48 during fiscal year 2013. The biggest reasons for this were property taxes exceeding budget by \$.43, sales taxes exceeding budget by \$.47 and other taxes exceeded budget by \$.66.

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 \$1.08 increase in appropriations between the original and final amended budget, however, the actual expenditures of the general fund came in well under the final budget total of \$77.06, with a total of \$775.83.

Capital Assets

At the end of fiscal year 2013, Kitsap County's investment in capital assets for its governmental activities was \$781.13 as reflected in the following schedule, which represents a net increase of \$9.54 or .1 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	
	2012	2013	2012	2013	2012	2013
Land	\$ 58.42	\$ 58.42	\$ 2.89	\$ 2.89	\$ 61.31	\$ 61.31
Infrastructure	482.61	485.85	-	-	482.61	485.85
Building	129.19	129.27	56.3	56.35	185.49	185.62
Building Improv	33.47	33.47	83.41	90.63	116.88	124.1
Machinery & Equipment	57.05	57.82	9.61	9.69	66.66	67.51
Construction in progress	10.85	16.31	14.84	29.54	25.69	45.85
Total	771.59	781.14	167.05	189.10	938.64	970.24
Less: accumulated depreciation	371.92	387.39	75.42	81.03	447.34	468.42
Net capital assets	\$ 399.67	\$ 393.75	\$ 91.63	\$ 108.07	\$ 491.30	\$ 501.82

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2013

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 \$3.13
- The County updated the Equipment Rental Fleet at a cost of \$4.51

Business-type activities.

Following are the major activities in this area in 2013:

- Infrastructure continues to make up the majority of construction in progress with projects in Central Kitsap about \$8.0

Long-term Liabilities

At year-end, the County had \$172.10 in long-term liabilities versus \$177.68 last year, a net decrease of \$5.58 and 3.1 percent.

Long-term liabilities, at Year-End

	2012	Additions	Reductions	2013
Government activities:				
Capital leases	\$ -	\$ 0.48	\$ -	\$ 0.48
Bonds Payable	84.64	48.28	34.03	98.89
Compensated absences	4.67	2.70	2.25	5.12
Internal Services debt	0.34	0.23	0.20	0.37
Notes Payable	22.06	0.22	20.20	2.08
Net OPEB Obligation	3.75	1.03	-	4.78
Other items	0.43	-	0.05	0.38
Total	\$ 115.89	\$ 52.94	\$ 56.73	\$ 112.10
Enterprise activities:				
Bonds Payable	\$ 48.65	\$ -	\$ 2.05	\$ 46.60
Compensated absences	0.59	0.40	0.38	0.60
Other items	12.38	1.62	1.20	12.80
Total	\$ 61.62	\$ 2.02	\$ 3.63	\$ 60.00
Total Debt	\$ 177.51	\$ 54.96	\$ 60.36	\$ 172.10

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

There were no major long-term debt additions for 2013.

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

The Standard and Poor's Corporation and Moody's Investors Service provided a bond rating of AA+ and Aa3 respectively for Kitsap County's debt as of April 2013.

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 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 \$374.91 remaining in debt capacity (non-voted). More detail information on capital assets and long-term debt are provided in the Notes to the Financial Statements (Notes 6, 10 and 12).

ECONOMIC FACTORS

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

Contacting the County's Financial Management

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

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

KITSAP COUNTY, WASHINGTON

Statement of Net Position December 31, 2013

	Governmental Activities	Business-type Activities	Total	Component Unit PFD
ASSETS				
Cash and Cash equivalents	\$ 96,170,766	\$ 5,490,191	\$ 101,660,957	124,471
Deposits with fiscal agents	58,889	-	58,889	-
Investments	12,715,646	63,268,587	75,984,233	635,481
Receivables(net)				
Property taxes	3,299,091	-	3,299,091	-
Special assessments	2,365	30,547	32,912	-
Accounts	49,332	2,620,898	2,670,230	-
Others	348,554	-	348,554	-
Due from agency agency fund	13,063	-	13,063	-
Internal balances	146,896	(146,895)	1	-
Due from other governments	7,699,948	789,482	8,489,430	-
Prepayments	361,067	-	361,067	-
Inventories	1,706,675	225,345	1,932,020	-
Restricted assets:				
Cash and cash equivalents	1,304,493	-	1,304,493	-
Deposits with fiscal agents	15,000	-	15,000	250,000
Investments	4,162,820	3,352,114	7,514,934	-
Notes/Contracts	11,021,327	-	11,021,327	-
Special Assessment Receivable		399,335	399,335	-
Long-term Receivable from Comp. Unit	8,710,000	-	8,710,000	-
Long-term Receivable from KCCHA	16,090,040		16,090,040	-
Capital assets, net (Note1)				
Land	58,419,033	2,889,181	61,308,214	-
Infrastructure	188,254,877	-	188,254,877	-
Buildings	92,722,891	22,964,709	115,687,600	-
Improvements & Other Buildings	18,995,235	50,080,321	69,075,556	-
Machinery & Equipment	19,040,905	2,601,997	21,642,902	-
Construction In Progress	16,310,809	29,541,820	45,852,629	-
Total assets	<u>557,619,722</u>	<u>184,107,632</u>	<u>741,727,354</u>	<u>1,009,952</u>
DEFERRED OUTFLOWS	-	-	-	-
LIABILITIES				
Accounts payable and accrued expenses	4,685,045	3,510,191	8,195,236	-
Due to agency fund	26,165		26,165	-
Due to other governments	832,345	257,719	1,090,064	-
Other liabilities	13,505,862	474,277	13,980,139	483
Debt interest payable		287,832	287,832	-
Unearned revenue	4,516,080	-	4,516,080	-
Non current Liabilities (Note 2):				
Due within one year	6,230,067	3,094,590	9,324,657	560,000
Due in more than one year	106,107,223	56,919,733	163,026,956	8,150,000
Total liabilities	<u>135,902,787</u>	<u>64,544,342</u>	<u>200,447,129</u>	<u>8,710,483</u>
DEFERRED INFLOWS				
Golf course service concession arrangement	2,083,245	-	2,083,245	-
NET POSITION				
Net investment in capital assets	319,653,790	61,483,031	381,136,821	-
Restricted:				
Capital Projects	2,560,705	-	2,560,705	-
Debt service	10,461,643	3,352,114	13,813,757	-
Unrestricted	86,957,552	54,728,145	141,685,697	(7,700,531)
Total net position	<u>\$ 419,633,690</u>	<u>\$ 119,563,290</u>	<u>\$ 539,196,980</u>	<u>\$ (7,700,531)</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, 2013

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	\$ 19,289,575	\$ 9,077,308	\$ 4,155,027	\$ -	\$ (6,057,239)	\$ -	\$ (6,057,239)	\$ -
Judicial Services	13,954,193	5,254,598	1,831,167	-	(6,868,429)	-	(6,868,429)	-
Public Safety	49,930,637	867,584	6,717,561	-	(42,345,492)	-	(42,345,492)	-
Physical Environment	3,342,421	4,361,227	1,909,747	-	2,928,552	-	2,928,552	-
Transportation	37,841,940	2,400,599	5,781,788	3,035,423	(26,624,130)	-	(26,624,130)	-
Health & Human Services	43,858,017	195,309	43,399,093	-	(263,615)	-	(263,615)	-
Economic Environment	6,459,374	100,280	2,154,799	-	(4,204,296)	-	(4,204,296)	-
Culture & Recreation	6,494,466	1,123,682	701,805	-	(4,668,979)	-	(4,668,979)	-
Interest on Long-term Debt	4,714,892	-	-	-	(4,714,892)	-	(4,714,892)	-
Total Governmental Activities	<u>185,885,517</u>	<u>23,380,587</u>	<u>66,650,987</u>	<u>3,035,423</u>	<u>(92,818,520)</u>	<u>0</u>	<u>(92,818,520)</u>	<u>-</u>
Business-type Activities								
Solid Waste	13,748,835	12,631,984	519,019	-	-	(597,832)	(597,832)	-
Sewer Utility	17,805,153	17,390,779	-	1,186,381	-	772,007	772,007	-
Surface Water	7,917,766	7,689,444	641,506	-	-	413,184	413,184	-
Total business-type activities	<u>39,471,754</u>	<u>37,712,207</u>	<u>1,160,525</u>	<u>1,186,381</u>	<u>-</u>	<u>587,359</u>	<u>587,359</u>	<u>-</u>
Total Primary Government	<u>\$ 225,357,271</u>	<u>\$ 61,092,794</u>	<u>\$ 67,811,512</u>	<u>\$ 4,221,804</u>	<u>(92,818,520)</u>	<u>587,359</u>	<u>(92,231,161)</u>	<u>-</u>
Component Units:								
Public Facility District(PFD)	467,606	-	-	-	-	-	-	(467,606)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					57,359,720	-	57,359,720	-
Property taxes, levied for debt service					-	-	-	-
Sales & use taxes					27,666,837	-	27,666,837	1,133,785
Other taxes					12,288,597	-	12,288,597	-
Investment earnings					1,512,553	442,431	1,954,984	3,278
Miscellaneous					3,356,700	-	3,356,700	3,275
Special item - gain(loss) write off remaining balance of KCCHA - Receivable					(1,181,099)	-	(1,181,099)	-
Special item - gain(loss) on receivable from Housing Kitsap					16,090,040	-	16,090,040	-
Transfers					350,194	(350,194)	-	-
Total general revenues, special items, and transfers					<u>117,443,541</u>	<u>92,237</u>	<u>117,535,778</u>	<u>1,140,338</u>
Change in net position					<u>24,625,021</u>	<u>679,596</u>	<u>25,304,617</u>	<u>672,732</u>
Net position - beginning					393,466,760	118,883,698	512,350,458	(8,373,263)
Prior Period Adjustments					1,541,910	-	1,541,910	-
Net position - ending					<u>\$ 419,633,690</u>	<u>\$ 119,563,292</u>	<u>\$ 539,196,984</u>	<u>\$ (7,700,531)</u>

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

Balance Sheet
 Governmental Funds
 December 31, 2013

	Special Revenue Funds		
	General Fund	County Roads	Real Estate Excise Tax
ASSETS			
Cash and Cash equivalents	\$ 18,876,122	\$ 29,878,005	\$ 1,507,675
Deposits with fiscal agents	-	-	58,889
Investments	429,460	2,671,946	1,447,949
Receivables(net)			
Property Taxes	2,015,733	1,190,393	-
Special assessments	-	1,622	-
Accounts	9,355	-	-
Notes/Contracts	-	2,196	4,470,000
Others	-	-	-
Due from other funds	234,376	25,976	-
Due from other governments	1,305,973	2,807,720	-
Interfund loan receivable	1,150,000	-	-
Prepayments	237,617	-	-
Advance to other funds	180,000	-	-
Total assets	<u>\$ 24,438,636</u>	<u>\$ 36,577,858</u>	<u>\$ 7,484,514</u>
DEFERRED OUTFLOWS			
Total assets and deferred outflows	<u>\$ 24,438,636</u>	<u>\$ 36,577,858</u>	<u>\$ 7,484,514</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	903,178	724,198	-
Due to other funds	252,493	288,698	-
Due to other governments	-	-	-
Other liabilities	2,372,719	533,085	-
Advance from other fund	-	-	-
Revenues collected in advance	5,569	400	7,480
Unearned revenue	-	-	4,470,000
Interfund loan payable	75,000	-	-
Total liabilities	<u>3,608,958</u>	<u>1,546,381</u>	<u>4,477,480</u>
DEFERRED INFLOWS			
	2,016,797	1,192,016	
Fund balances			
Nonspendable	417,617	-	-
Restricted	-	-	3,007,034
Committed	-	33,839,461	-
Assigned	-	-	-
Unassigned	18,395,264	-	-
Total fund balance	<u>18,812,880</u>	<u>33,839,461</u>	<u>3,007,034</u>
Total inflows, liabilities & fund balances	<u>\$ 24,438,636</u>	<u>\$ 36,577,858</u>	<u>\$ 7,484,514</u>

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

Balance Sheet

Governmental Funds

December 31, 2013

	Special Revenue Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
	Mental Health Medicaid Fund	KCLTGO 2013 Refund		
ASSETS				
Cash and Cash equivalents	\$ 1,055,961	\$ 284,273	\$ 15,104,701	\$ 66,706,737
Deposits with fiscal agents	-		15,000	73,889
Investments	1,410,537		10,918,573	16,878,466
Receivables(net)				
Property Taxes	-		91,343	3,297,469
Special assessments	-		742	2,365
Accounts	-		39,977	49,332
Notes/Contracts	-	16,090,040	15,259,131	35,821,367
Others	-		345,141	345,141
Due from other funds	-		464,880	725,232
Due from other governments	131,931	250,000	3,108,921	7,604,544
Interfund loan receivable	-		75,000	1,225,000
Prepayments	-		-	237,617
Advance to other funds	-		-	180,000
Total assets	\$ 2,598,429	\$ 16,624,313	\$ 45,423,409	\$ 133,147,159
DEFERRED OUTFLOWS				
			-	-
	\$ 2,598,429	\$ 16,624,313	\$ 45,423,409	\$ 133,147,159
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	139,963		2,401,560	4,168,899
Due to other funds	1,158		356,834	899,182
Due to other governments	-		832,345	832,345
Other liabilities	29,418		660,017	3,595,239
Advance from other fund	-		180,000	180,000
Revenues collected in advance	-		265,000	278,449
Unearned revenues	-		17,631	4,487,631
Interfund loan payable	-		1,150,000	1,225,000
Total liabilities	170,539	-	5,863,387	15,666,745
DEFERRED INFLOWS				
		16,090,040	5,971,217	25,270,070
Fund Balances				
Nonspendable	-		8,710,000	9,127,617
Restricted	2,427,890	534,273	23,677,307	29,646,503
Committed	-		1,469,313	35,308,775
Assigned	-			-
Unassigned	-		(267,814)	18,127,450
Total fund balances	2,427,890	534,273	33,588,806	92,210,344
Total inflows, liabilities and fund balances	\$ 2,598,429	\$ 16,624,313	\$ 45,423,409	\$ 133,147,159

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

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KITSAP COUNTY

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

December 31, 2013

Fund balances of governmental funds - page 20 \$ 92,210,344

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	781,131,787	
Depreciation	(387,388,037)	
Capital asset net of depreciation		393,743,750

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

Capital lease	476,168	
Bond payable	98,890,000	
Compensated absences	5,111,688	
Notes payable	2,083,245	
OPEB Liability	4,776,428	
PWTF Loans	378,026	
Long-term debt		(111,715,555)

Other assets not available to pay for current-period expenditures and, therefore, are deferred in the funds. 292,706

Taxes/Assessments receivable	3,299,091
Housing Kitsap receivable	16,090,040
Loans receivable CDBG and Home programs	3,795,886

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	33,030,429	
Liabilities	(11,113,001)	
Uses Other than Operations	-	
Asset less liabilities		21,917,428

Net position of governmental activities - page 17 \$ 419,633,690

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, 2013

	Special Revenue Funds		
	General Fund	County Roads	Real Estate Excise Tax
REVENUES:			
Property taxes	\$ 31,338,137	\$ 23,812,982	\$ -
Retail sales & use taxes	20,550,682	-	-
Other taxes	5,526,127	67,047	4,275,020
Licenses and permits	204,927	170,275	-
Intergovernmental	8,794,641	8,817,211	-
Charges for services	9,125,894	635,149	-
Fines & forfeits	2,394,366	-	-
Investment earnings	731,929	13,475	235,539
Miscellaneous	1,081,821	81,567	127,500
Total revenues	<u>79,748,524</u>	<u>33,597,706</u>	<u>4,638,059</u>
EXPENDITURES:			
Current:			
General government	22,756,891	-	-
Judicial Services	13,600,541	-	-
Public safety	35,289,005	-	-
Physical Environment	22,603	-	-
Transportation	-	25,142,020	-
Health & Human Services	-	-	-
Economic Environment	-	-	-
Culture & recreation	4,136,703	-	-
Debt service	-	-	-
Principal	-	47,253	41,667
Interest and other charges	416	2,126	77,032
Capital outlay	129,611	5,126,910	-
Total expenditures	<u>75,935,769</u>	<u>30,318,309</u>	<u>118,699</u>
Excess(deficiency) of revenues over expenditures	<u>3,812,755</u>	<u>3,279,397</u>	<u>4,519,360</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from BANS	-	-	-
Write off of Note	-	-	-
Proceeds from Refunding Bonds	-	-	-
Payment to bond refunding escrow agent	-	-	-
Sale of capital asset	-	73,985	-
Transfers in	2,232,357	-	-
Transfers out	(5,693,356)	(353,993)	(4,005,713)
Premiums on bonds	-	-	-
Total other financing sources & uses	<u>(3,460,999)</u>	<u>(280,008)</u>	<u>(4,005,713)</u>
SPECIAL ITEMS:			
Sales of pledged assets	-	-	-
Net change in fund balance	<u>351,756</u>	<u>2,999,390</u>	<u>513,647</u>
Fund balances-beginning	18,461,125	30,896,116	2,493,387
Prior period adjustments	-	(56,045)	-
Fund balances	<u>\$ 18,812,881</u>	<u>\$ 33,839,461</u>	<u>\$ 3,007,034</u>

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

Statement of Revenue, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2013

	Special Revenue Fund			
	Mental Health Medicaid Fund	KCLTGO 2013 Refund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property taxes	\$ -	\$ -	\$ 2,208,602	\$ 57,359,721
Retail sales & use taxes	-	-	7,116,155	27,666,837
Other taxes	-	-	2,420,403	12,288,597
Licenses and permits	-	-	2,541,726	2,916,928
Intergovernmental	23,509,285	540,311	28,024,960	69,686,408
Charges for services	-	-	4,807,061	14,568,104
Fines & forfeits	-	-	265,536	2,659,902
Investment earnings	7,103	559	523,950	1,512,554
Miscellaneous	-	-	2,051,898	3,342,786
Total revenues	23,516,388	540,869	49,960,291	192,001,837
EXPENDITURES:				
Current:				
General government	-	-	2,242,865	24,999,756
Judicial Services	-	-	337,689	13,938,230
Public safety	-	-	9,910,943	45,199,948
Physical Environment	-	-	3,319,818	3,342,421
Transportation	-	-	50,915	25,192,935
Health & Human Services	22,774,364	-	20,943,889	43,718,252
Economic Environment	-	-	6,455,348	6,455,348
Culture & recreation	-	-	1,129,029	5,265,731
Debt service				
Principal	-	750,000	22,217,709	23,056,629
Interest and other charges	-	1,220,597	3,252,611	4,552,782
Capital outlay	-	-	959,819	6,216,339
Total expenditures	22,774,364	1,970,597	70,820,636	201,938,373
Excess(deficiency) of revenues over expenditures	742,024	(1,429,727)	(20,860,345)	(9,936,537)
OTHER FINANCING SOURCES (USES):				
Proceeds from BANS	-	-	220,364	220,364
Write Off of Note	-	-	-	-
Proceeds from Refunding Bonds	-	53,277,617	-	53,277,617
Payment to bond refunding escrow agent	-	(37,914,468)	-	(37,914,468)
Sale of capital asset	-	-	43,000	116,985
Transfers in	-	1,476,025	27,873,893	31,582,275
Transfers out	-	(14,875,173)	(7,053,628)	(31,981,863)
Premiums on bonds	-	-	-	-
Total other financing sources & uses	-	1,964,001	21,083,629	15,300,911
SPECIAL ITEMS:				
Sales of pledged assets	-	-	121,392	121,392
Net change in fund balance	742,025	534,273	344,677	5,485,766
Fund balances-beginning	1,685,866	-	33,246,929	86,783,423
Prior period adjustments	-	-	(2,799)	(58,844)
Fund balances-ending	\$ 2,427,890	\$ 534,273	\$ 33,588,804	\$ 92,210,344

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, 2013

Net change in fund balances-total governmental funds - page 23	\$ 5,485,766
<p>Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of activities because:</p>	
<p>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.</p>	
Capital out-lay	6,216,339
Depreciation	(19,632,213)
<p>Capital Asset Transactions</p>	
Proceeds from the sale of capital assets not recognized in the Statement of Activity	(116,985)
<p>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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items</p>	
Proceeds from BANS	(220,364)
Receipts from bond sales	(53,277,617)
Receipts from sales of non-county contracted assets	(121,392)
Payment to bond funding escrow agent	37,914,468
Special item loss on write-off of KCCHA receivable	(1,181,099)
Other debt issuance costs amortized	(162,110)
Bond principal	23,056,629
Recording of Net OPEB Obligation	(1,026,511)
<p>Revenues in statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Accounts Receivable - Housing Kitsap	16,090,040
Property taxes receivable	3,297,469
Special Assessments	1,622
<p>Internal services Activities</p>	
Net Transfers	749,782
Depreciation already included above	2,191,575
Net profit	5,398,864
Change in net position of governmental activities - page 18	\$ 24,625,021

KITSAP COUNTY, WASHINGTON

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

General Fund

Year Ended December 31, 2013

2013

	Original Budget	Final Budget	Actual	Variance With Final Budget	Budget to GAAP Basis Differences	Actual GAAP Basis
REVENUES:						
Property taxes	\$ 30,663,245	\$ 30,904,245	\$ 31,338,098	\$ 433,853	\$ 39	\$ 31,338,137
Retail sales & use taxes	20,088,004	20,088,004	20,550,682	462,678	-	20,550,682
Other taxes	4,867,150	4,867,150	5,523,310	656,160	2,817	5,526,127
Licenses and permits	148,650	148,650	204,927	56,277	-	204,927
Intergovernmental	8,778,883	8,740,739	8,725,447	(15,292)	69,194	8,794,641
Charges for services	9,012,201	9,012,201	9,125,894	113,693	-	9,125,894
Fines & forfeits	2,506,893	2,506,893	2,393,353	(113,540)	1,013	2,394,366
Investment Earnings	825,415	829,015	729,766	(99,249)	2,163	731,929
Miscellaneous	1,092,127	1,092,953	1,080,462	(12,491)	1,359	1,081,821
	<u>77,982,568</u>	<u>78,189,850</u>	<u>79,671,939</u>	<u>1,482,089</u>	<u>76,585</u>	<u>79,748,524</u>
EXPENDITURES:						
Current:						
Administrative Services	\$ 725,875	\$ 746,021	\$ 738,435	\$ 7,586	\$ -	738,435
Assessor	2,087,069	2,162,363	2,058,331	104,032	-	2,058,331
Auditor	1,653,846	1,708,265	1,684,538	23,727	-	1,684,538
Commissioners	1,282,587	1,283,703	1,220,648	63,055	-	1,220,648
General Administration	6,172,189	4,498,077	5,457,849	(959,772)	-	5,457,849
Personnel & Human resources	1,166,345	1,196,893	1,122,105	74,788	-	1,122,105
Prosecuting attorney	7,750,772	8,128,361	8,059,266	69,095	-	8,059,266
Facilities Maintenance	1,679,735	1,716,465	1,614,331	102,134	-	1,614,331
Treasurer	822,406	850,704	801,388	49,316	-	801,388
Total general government	<u>23,340,824</u>	<u>\$ 22,290,852</u>	<u>22,756,891</u>	<u>(466,039)</u>	<u>-</u>	<u>22,756,891</u>
Judicial Services						
Clerk	\$ 2,839,025	\$ 2,966,767	\$ 2,915,223	\$ 51,544	\$ -	2,915,223
District court	2,488,092	2,572,374	2,553,350	19,024	-	2,553,350
Superior court	2,617,012	2,678,516	2,534,725	143,791	-	2,534,725
Juvenile	2,336,772	2,399,552	2,332,863	66,689	-	2,332,863
Public defense	2,719,007	3,248,411	3,264,381	(15,970)	-	3,264,381
Total Judicial services	<u>12,999,908</u>	<u>13,865,620</u>	<u>13,600,541</u>	<u>265,079</u>	<u>-</u>	<u>13,600,541</u>
Public safety						
Sheriff	\$ 17,714,259	\$ 18,208,935	\$ 17,384,103	\$ 824,832	\$ 1,532	17,385,635
Jail	11,988,261	12,552,457	12,439,732	112,725	-	12,439,732
Juvenile	4,692,022	4,802,246	4,508,418	293,828	-	4,508,418
Coroner	954,908	987,740	955,141	32,600	-	955,141
Personnel & Human Resources	-	-	79	(79)	-	79
Total Public Safety	<u>35,349,450</u>	<u>36,551,378</u>	<u>35,287,473</u>	<u>1,263,905</u>	<u>1,532</u>	<u>35,289,005</u>
Physical Environment					22,603	22,603
Culture & recreation						
Parks	\$ 3,422,918	\$ 3,503,484	\$ 3,433,770	\$ 69,714	\$ 78,967	3,512,737
Cooperative Extension	332,344	354,703	356,138	(1,435)	-	356,138
Personnel & Human Resources	270,856	274,610	267,828	6,782	-	267,828
Total Culture & Recreation	<u>4,026,118</u>	<u>4,132,797</u>	<u>4,057,736</u>	<u>75,061</u>	<u>78,967</u>	<u>4,136,703</u>
Interest and other charges	-	-	-	-	416	416
Capital outlay	264,783	221,627	129,611	92,016	-	129,611
Total expenditures	<u>75,981,083</u>	<u>77,062,274</u>	<u>75,832,251</u>	<u>1,230,023</u>	<u>103,519</u>	<u>75,935,769</u>
Excess(deficiency) of revenues over expenditures	2,001,485	1,127,576	3,839,688	2,712,112	(26,934)	3,812,754
OTHER FINANCING SOURCES (USES):						
Transfers in	2,406,775	2,475,728	2,232,357	(243,371)	-	2,232,357
Transfers out	(4,408,260)	(4,462,778)	(3,523,540)	939,238	(2,169,816)	(5,693,356)
Total other financing sources & uses	<u>(2,001,485)</u>	<u>(1,987,050)</u>	<u>(1,291,183)</u>	<u>695,867</u>	<u>(2,169,816)</u>	<u>(3,460,999)</u>
Net change in fund balance	-	(859,474)	2,548,505	3,407,979	(2,196,750)	351,755
Fund balances-beginning	15,230,661	15,230,661	15,230,661	-	3,230,465	18,461,126
Prior period adjustments	-	-	-	-	-	-
Fund balances-ending	<u>15,230,661</u>	<u>14,371,187</u>	<u>17,779,166</u>	<u>3,407,979</u>	<u>1,033,715</u>	<u>18,812,881</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, 2013

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 23,817,531	\$ 23,817,531	\$ 23,812,982	\$ (4,549)
Other taxes	30,000	30,000	67,047	37,047
Licenses and permits	120,000	120,000	170,275	50,275
Intergovernmental	9,003,776	9,003,776	8,817,211	(186,565)
Charges for services	615,947	615,947	635,149	19,202
Investment earnings	10,000	10,000	13,475	3,475
Miscellaneous	1,174,000	1,174,000	81,567	(1,092,433)
Total revenues	<u>34,771,254</u>	<u>34,771,254</u>	<u>33,597,706</u>	<u>(1,173,548)</u>
EXPENDITURES:				
Current:				
Transportation	29,885,549	29,885,549	25,142,020	4,743,529
Debt service				
Principal	48,000	48,000	47,253	747
Interest and other charges	2,600	2,600	2,126	474
Capital outlay	9,093,000	9,093,000	5,126,910	3,966,090
Total expenditures	<u>39,029,149</u>	<u>39,029,149</u>	<u>30,318,309</u>	<u>8,710,840</u>
Excess(deficiency) of revenues over expenditures	<u>(4,257,895)</u>	<u>(4,257,895)</u>	<u>3,279,397</u>	<u>7,537,292</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital asset			73,985	73,985
Transfers in	-	-	-	-
Transfers out	(353,902)	(479,459)	(353,993)	125,466
Total other financing sources & uses	<u>(353,902)</u>	<u>(479,459)</u>	<u>(280,008)</u>	<u>199,451</u>
Net change in fund balance	<u>(4,611,797)</u>	<u>(4,737,354)</u>	<u>2,999,390</u>	<u>7,736,744</u>
Fund balances-beginning	30,896,116	30,896,116	30,896,116	-
Prior period adjustments	-	-	(56,045)	(56,045)
Fund balances-ending	<u>\$ 26,284,319</u>	<u>\$ 26,158,762</u>	<u>\$ 33,839,461</u>	<u>\$ 7,680,699</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, 2013

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Other taxes	\$ 2,199,486	\$ 3,065,582	\$ 4,275,020	1,209,438
Investment earnings	249,978	249,978	235,539	(14,439)
Miscellaneous	127,506	127,506	127,500	(6)
Total revenues	<u>2,576,970</u>	<u>3,443,066</u>	<u>4,638,059</u>	<u>1,194,993</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Debt service	-	-	-	-
Principal	112,803	112,803	41,667	71,136
Interest and other charges	241,492	241,492	77,032	164,460
Capital Outlay	-	-	-	-
Total expenditures	<u>354,295</u>	<u>354,295</u>	<u>118,699</u>	<u>235,596</u>
Excess(deficiency) of revenues over expenditures	<u>2,222,675</u>	<u>3,088,771</u>	<u>4,519,360</u>	<u>1,430,589</u>
OTHER FINANCING SOURCES (USES):				
GO Bond proceeds	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(3,532,521)	(4,398,617)	(4,005,713)	392,904
Premiums on bonds	-	-	-	-
Total other financing sources & uses	<u>(3,532,521)</u>	<u>(4,398,617)</u>	<u>(4,005,713)</u>	<u>392,904</u>
Net change in fund balance	<u>(1,309,846)</u>	<u>(1,309,846)</u>	<u>513,647</u>	<u>1,823,493</u>
Fund balances-beginning	2,493,387	2,493,387	2,493,387	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 1,183,541</u>	<u>\$ 1,183,541</u>	<u>\$ 3,007,034</u>	<u>\$ 1,823,493</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, 2013

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 24,609,000	\$ 24,609,000	\$ 23,509,285	\$ (1,099,715)
Investment earnings	-	-	7,103	7,103
Miscellaneous	-	-	-	-
Total revenues	<u>24,609,000</u>	<u>24,609,000</u>	<u>23,516,388</u>	<u>(1,092,612)</u>
EXPENDITURES:				
Current:				
Health & Human Services	24,609,000	24,609,000	22,774,364	1,834,636
Total expenditures	<u>24,609,000</u>	<u>24,609,000</u>	<u>22,774,364</u>	<u>1,834,636</u>
Excess(deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>742,024</u>	<u>742,024</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	-	-
Total other financing sources & uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>742,024</u>	<u>742,024</u>
Fund balances-beginning	1,685,866	1,685,866	1,685,866	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 1,685,866</u>	<u>\$ 1,685,866</u>	<u>\$ 2,427,890</u>	<u>\$ 742,024</u>

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

KITSAP COUNTY, WASHINGTON

Statement of Net Position

Proprietary Funds

December 31, 2013

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal Services Funds
ASSETS					
Current assets:					
Cash and Cash equivalents	\$ 2,550,824	\$ 2,247,353	\$ 692,014	\$ 5,490,191	\$ 30,768,522
Deposits with fiscal agents	-	-	-	-	-
Investments	38,317,781	21,337,907	3,612,899	63,268,587	-
Receivables(net)					3,413
Special assessments	30,547	-	-	30,547	-
Accounts	1,626,028	909,178	85,692	2,620,898	-
Due from other funds	116,996	4,904	46,123	168,023	332,965
Due from other governments	-	224,544	564,938	789,482	95,404
Prepayments	-	-	-	-	123,450
Inventories	225,345	-	-	225,345	1,706,675
Restricted assets:					
Cash and cash equivalents	-	-	-	-	-
Deposits with fiscal agents	-	-	-	-	-
Investments	3,352,114	-	-	3,352,114	-
Total current assets	46,219,635	24,723,886	5,001,666	75,945,187	33,030,429
Noncurrent assets:					
Special Assessment Receivable	399,335			399,335	-
Capital assets					
Land	1,040,362	472,444	1,376,375	2,889,181	-
Buildings	55,493,066	802,991	62,235	56,358,292	-
Improvements & Other Buildings	77,193,445	1,651,625	11,785,363	90,630,433	-
Machinery & Equipments	9,330,371	150,629	210,759	9,691,759	32,711,596
Construction In Progress	20,692,333	63,519	8,785,968	29,541,820	414,505
Less accumulated depreciation	(75,160,661)	(1,778,762)	(4,094,034)	(81,033,457)	(18,729,357)
Total noncurrent assets	88,988,251	1,362,446	18,126,666	108,477,363	14,396,744
Total assets	135,207,886	26,086,332	23,128,332	184,422,550	47,427,173
LIABILITIES					
Current liabilities:					
Accounts payable & accrued expenses	2,357,490	739,679	413,022	3,510,191	516,146
Due to other funds	70,758	83,966	160,194	314,918	25,221
Due to other governments	7,452	29,719	220,548	257,719	-
Other liabilities	272,886	76,536	124,855	474,277	9,966,583
Debt interest payable	287,832	-	-	287,832	-
Current portion of long term liabilities	3,065,365	29,225	-	3,094,590	-
Total current liabilities	6,061,783	959,125	918,619	7,939,527	10,507,950
Non current Liabilities (Note 2):					
Due in more than one year	56,092,555	686,313	140,865	56,919,733	605,051
Total noncurrent liabilities	56,092,555	686,313	140,865	56,919,733	605,051
Total liabilities	62,154,338	1,645,438	1,059,484	64,859,260	11,113,001
NET POSITION					
Net investment in capital assets	41,993,916	1,362,446	18,126,666	61,483,028	14,396,744
Restricted:					
Debt service	3,352,114	-	-	3,352,114	-
Unrestricted	27,707,518	23,078,448	3,942,182	54,728,148	21,917,428
Total net position	\$ 73,053,548	\$ 24,440,894	\$ 22,068,848	\$ 119,563,290	\$ 36,314,172

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, 2013

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal Service Funds
Operating revenues:					
Charges for services	\$ 17,386,911	\$ 12,628,002	\$ 7,682,741	\$ 37,697,654	\$ 33,768,946
Miscellaneous	3,868	3,982	6,703	14,553	106,273
Total operating revenues	<u>17,390,779</u>	<u>12,631,984</u>	<u>7,689,444</u>	<u>37,712,207</u>	<u>33,875,219</u>
Operating expenses:					
Personal services	5,405,002	1,827,100	2,524,508	9,756,610	6,988,913
Contractual services	1,555,838	1,267,758	1,899,225	4,722,821	13,336,955
Utilities	1,215,679	9,950,402	72,994	11,239,075	27,158
Repair and maintenance	234,532	71,302	342,898	648,732	1,136,403
Other supplies and expenses	2,654,131	512,759	2,455,722	5,622,612	4,208,258
Insurance claims and expenses	24,289	8,472	76,046	108,807	2,075,954
Depreciation	4,957,915	111,042	546,376	5,615,333	2,191,859
Total operating expenses	<u>16,047,386</u>	<u>13,748,835</u>	<u>7,917,769</u>	<u>37,713,990</u>	<u>29,965,500</u>
Operating income (loss)	<u>1,343,393</u>	<u>(1,116,851)</u>	<u>(228,325)</u>	<u>(1,783)</u>	<u>3,909,719</u>
Nonoperating revenue (expenses)					
Interest and investment revenue	269,953	107,483	64,995	442,431	216
Miscellaneous revenue	-	519,019	641,506	1,160,525	-
Interest expense	(1,757,767)	-	-	(1,757,767)	-
Miscellaneous expense	-	-	-	-	(3,571)
Total nonoperating expenses	<u>(1,487,814)</u>	<u>626,502</u>	<u>706,501</u>	<u>(154,811)</u>	<u>(3,355)</u>
Income (loss) before contributions & transfers	(144,421)	(490,349)	478,176	(156,594)	3,906,364
Capital contributions	1,186,381	-	-	1,186,381	742,718
Transfers in	-	-	-	-	767,007
Transfers out	(137,357)	-	(212,837)	(350,194)	(17,225)
Change in net position	904,603	(490,349)	265,339	679,593	5,398,864
Total net position - beginning	72,148,945	24,931,243	21,803,509	118,883,697	29,367,958
Prior Period Adjustments	-	-	-	-	1,547,350
Total net position - ending	<u>\$ 73,053,547</u>	<u>\$ 24,440,894</u>	<u>\$ 22,068,848</u>	<u>\$ 119,563,290</u>	<u>\$ 36,314,172</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, 2013

	Business-type Activities - Enterprise Funds				Governmental Activities Internal service Funds
	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 17,412,015	\$ 12,668,576	\$ 7,527,544	\$ 37,608,135	\$ 34,281,418
Payments to suppliers	(4,017,344)	(11,947,001)	(5,123,242)	(21,087,587)	(19,535,701)
Payments to employees	(5,383,578)	(1,845,197)	(2,512,273)	(9,741,048)	(6,951,254)
Net cash provided by operating activities	8,011,093	(1,123,622)	(107,971)	6,779,500	7,794,463
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants received	-	431,868	501,716	933,584	-
Transfers in	-	-	-	-	767,007
Transfers out	(137,357)	-	(212,837)	(350,194)	(17,225)
Net cash provided by noncapital activities	(137,357)	431,868	288,879	583,390	749,782
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	1,121,257	-	-	1,121,257	-
Proceeds from sales of bonds	1,617,997	-	-	1,617,997	-
Purchases of capital assets	(16,092,564)	(49,443)	(5,880,303)	(22,022,310)	(4,274,362)
Principal paid on capital debt	(3,138,633)	-	-	(3,138,633)	-
Interest paid on capital debt	(1,757,767)	-	-	(1,757,767)	-
Net cash from related financing activities	(18,249,710)	(49,443)	(5,880,303)	(24,179,456)	(4,274,362)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	15,700,000	2,150,000	4,700,000	22,550,000	-
Purchase of investment	(9,147,096)	(1,107,481)	(1,929,757)	(12,184,334)	-
Interest and dividends	269,953	107,483	64,995	442,431	217
Net cash provided by investing activities	6,822,857	1,150,002	2,835,238	10,808,097	217
Net (decrease) in cash and cash equivalents	(3,553,117)	408,805	(2,864,157)	(6,008,469)	4,270,100
Balances - beginning of the year	6,103,941	1,838,548	3,556,171	11,498,660	26,498,422
Balances - end of the year	\$ 2,550,824	\$ 2,247,353	\$ 692,014	\$ 5,490,192	\$ 30,768,522
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 1,343,393	\$ (1,116,851)	(228,325)	\$ (1,783)	3,909,719
Accounts payable & accrued expenses					
net cash provided (used) by operating activities:					
Depreciation expense	4,957,915	111,042	546,376	5,615,333	2,191,859
Change in assets and liabilities:					
Receivables, net	(17,935)	(59,660)	3,440	(74,155)	(3,413)
Due from other funds	39,171	96,252	(165,340)	(29,917)	396,344
Due from other governments	-	-	-	-	27,411
Inventories	(9,473)	-	-	(9,473)	(14,142)
Prepaid	-	-	-	-	(87,998)
Accounts and other payables	1,659,191	(98,497)	(42,004)	1,518,690	249,334
Due to other funds	(21,339)	(28,568)	(434,579)	(484,486)	(57,194)
Due to other governments	(1,362)	2,339	179,110	180,087	-
Employee benefits	21,424	(18,097)	12,235	15,562	37,659
Accrued expenses	40,108	(11,582)	21,115	49,641	1,144,884
Net cash provided by operating activities	\$ 8,011,093	\$ (1,123,622)	\$ (107,972)	\$ 6,779,499	\$ 7,794,463

Noncash investing, capital and financing Activities

Contribution of capital assets 65,124 65,124 742,718

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

KITSAP COUNTY, WASHINGTON

Statement of Fiduciary Net Position

December 31, 2013

	Agency Funds
ASSETS	
Cash	\$ 25,142,161
Deposits with Fiscal Agents	20,000
Investments	205,059,268
Taxes Receivable	10,034,777
Other Current Receivables	308,624
Due From Other Funds	26,165
Due From Other Governments	259,719
Total Assets	<u>\$ 240,850,713</u>
LIABILITIES	
Warrants Payable	\$ 2,879,567
Accounts Payable	-
Sales Tax Payable	-
Other Accrued Liabilities	-
Due to Other Funds	13,063
Due to Other Governments	-
Interfund loans	-
Custodial Account	237,958,083
Total Liabilities	<u>\$ 240,850,713</u>

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

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Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

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, 2013

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 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

Kitsap County, Washington

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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 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:

Kitsap County, Washington

Notes to Financial Statements

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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:

- Human Resources Board Fund
- Cumulative Reserve Fund
- GMA Transportation Impact Fees Fund – Central Kitsap
- USDOJ BJA JAG Grants Fund
- Bucklin Ridge Park Development Fund
- Clear Creek Ed/Awareness Fund
- Indianola Forest Fund
- Service Area 1 Road Impact Fee Fund
- Service Area 2 Road Impact Fee Fund
- Service Area 3 Road Impact Fee Fund
- Service Area 4 Road Impact Fee Fund

Kitsap County, Washington

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Regional Service Area Roads Fund
McCormick Village Traffic Impact Fee Fund
McCormick Village Park Impact Fee Fund
Youth Commission Fund

Budgets were not adopted for these funds in 2013 because no expenditures were anticipated in 2013.

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

Kitsap County, Washington

Notes to Financial Statements

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with the accounting principles generally accepted in the United States on a basis 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. Fifteen Special Revenue funds did not meet the GASB 54 classification criteria and were rolled up into the General Fund. See Note 1.12.E 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	\$80,389,343	1,135,709	\$ 81,525,052
Major Funds	\$67,878,867	55,684,368	\$ 123,563,235
Non Major Funds	\$70,931,344	21,767,804	\$ 92,699,148
		\$78,587,881	

3. Excess of expenditures over appropriations

For the year ended December 31, 2013 expenditures did not exceed appropriations in any of the general fund departments.

4. Deficit Balance

At December 31, 2013, 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)	\$ 58,958
Fund #106	Kitsap Preparedness (KPREP)	\$115,599

The year-end fund balance deficit for the Department of Emergency Management was reversed in 2014.

Kitsap Preparedness (KPREP) anticipates that its fund balance deficit will also be reversed in 2014.

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, 2013, the Treasurer was holding \$ 117.49 million in short-term residual investments of surplus

Kitsap County, Washington

Notes to Financial Statements

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cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is credited to the General fund.

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

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, 2013, 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

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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 \$2,300,961. Of this amount, \$540,879 was included as part of the cost of capital assets under construction in connection sewer projects and \$2,315 was capitalized as part of the cost of a project that was completed during 2013.

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

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

The County implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011. Fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result,

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned or unassigned.

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

- *Nonspendable Fund Balance* includes items that cannot be spent because the related assets are not in spendable form or must be maintained intact. This includes nonspendable resources such as advances and prepaid amounts in the general fund and the long-term portion of notes receivable in a debt service fund.
- *Restricted Fund Balance* represents resources that have constraints placed upon their use either by external parties or imposed by law through a constitutional provision or enabling legislation.
- *Committed Fund Balance* includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the Kitsap County Board of Commissioners, the County's highest level of decision making authority. 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 2013.
- *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 2013 analysis of the County's special revenue funds, fifteen funds did not meet the special revenue fund definition of GASB 54 and their fund balances were reported as unassigned fund balance in the General Fund.

The following table shows the composition of the General Fund's fund balance as of December 31, 2013:

Kitsap County, Washington

Notes to Financial Statements

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Funds	Unassigned Fund Balance	Total Fund Balance
General Fund (prior to inclusion of other funds)	\$17,361,549	\$17,779,165
Disqualified funds		
Human Resources Board	70,726	70,726
Special Purpose Path	72,981	72,981
1% for Art Program	41,566	41,566
Cumulative Reserve Fund	-	-
Drug Forfeiture Enforcement	41,192	41,192
Wetland Mitigation	28,878	28,878
Bucklin Ridge Park	1,217	1,217
Clear Creek Education	2	2
Kingston Commuter Parking	26,438	26,438
Kitsap County Grants	54	54
Indianola Forest	270,644	270,644
McCormick Village Traffic	384,470	384,470
McCormick Village Park	165,544	165,544
USDOJ BJA JAG Grant	-	-
KC Forest Stewardship	(69,997)	(69,997)
General Fund (after inclusion of other funds)	\$18,395,264	\$18,812,880

The composition of the fund balances of the County's governmental funds for the fiscal year ended December 31, 2013 is presented on the following pages:

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

	General	County Roads	Real Estate Excise Tax	Mental Health Medicaid
Nonspendable:				
Advances	\$ 180,000			
Prepaid Items	237,617			
Note Receivable				
Total Nonspendable	417,617			
Restricted:				
Transportation		-		
General Government			3,007,034	
Health & Human Services				2,427,890
Public Safety				
Judicial Services				
Physical Environment				
Culture & Recreation				
Economic Environment	-			
Debt service				
Total Restricted	-	-	3,007,034	2,427,890
Committed:				
Transportation		33,839,461		
General Government				
Public Safety				
Physical Environment				
Culture & Recreation				
Economic Environment				
Total Committed	-	33,839,461	-	-
Unassigned:	18,395,264			
Total Fund Balance	\$ 18,812,881	\$ 33,839,461	\$ 3,007,034	\$ 2,427,890

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

Cencom	Emergency Services	Law Library	KPREP Fund	Election Reserve	Auditor's Document Preservation
3,248,956		175,373	-	152,407	404,128
3,248,956	-	175,373	-	152,407	404,128
-	-	-	-	-	-
	(58,958)		(115,599)		
\$ 3,248,956	\$ (58,958)	\$ 175,373	\$ (115,599)	\$ 152,407	\$ 404,128

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

	Housing Affordability	Westnet Fund	Boating Safety Program	Noxious Weed Control
Nonspendable:				
Advances				
Prepaid Items				
Note Receivable				
Total Nonspendable				
Restricted:				
Transportation				
General Government	2,753,403			
Health & Human Services				
Public Safety		373,534	201,119	
Judicial Services				
Physical Environment				228,217
Culture & Recreation				
Economic Environment				
Debt service				
Total Restricted	2,753,403	373,534	201,119	228,217
Committed:				
Transportation				
General Government				
Public Safety		281,789		
Physical Environment				
Culture & Recreation				
Economic Environment				
Total Committed	-	281,789	-	-
Unassigned:				
Total Fund Balance	\$ 2,753,403	\$ 655,323	\$ 201,119	\$ 228,217

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

Treasurer's M&O	Electronic Technology	Veterans Relief	Expert Witness	Conservation Futures	Community Service
909,588	178,078	200,191	46,561	1,111,652	-
909,588	178,078	200,191	46,561	1,111,652	-
-	-	-	-	-	95,500
\$ 909,588	\$ 178,078	\$ 200,191	\$ 46,561	\$ 1,111,652	\$ 95,500

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

	County Stadium	County Fair	Prisoner Commissary	SIU Revenue
Nonspendable:				
Advances				
Prepaid Items				
Note Receivable				
Total Nonspendable				
Restricted:				
Transportation				
General Government				
Health & Human Services				
Public Safety			92,319	511,034
Judicial Services				
Physical Environment				
Culture & Recreation	131,047			
Economic Environment				
Debt service				
Total Restricted	131,047	-	92,319	511,034
Committed:				
Transportation				
General Government				
Public Safety				
Physical Environment				
Culture & Recreation		91,595		
Economic Environment				
Total Committed	-	91,595	-	-
Unassigned:				
Total Fund Balance	\$ 131,047	\$ 91,595	\$ 92,319	\$ 511,034

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

Kitsap S.A.I.V.S	Anti- Profiteering	Family Court	Trial Court	Public Defense	Pooling Fees
34,556	12,386				402,369
		59,408	183,724	145,712	
34,556	12,386	59,408	183,724	145,712	402,369
-	-	-	-	-	-
\$ 34,556	\$ 12,386	\$ 59,408	\$ 183,724	\$ 145,712	\$ 402,369

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

	GMA Park Impact Fees	GMA Trans. Impact Fee Central Kitsap	County Parks Acq & Dev	Pt No Pt Lighthouse
Nonspendable:				
Advances				
Prepaid Items				
Note Receivable				
Total Nonspendable				
Restricted:				
Transportation		7,543		
General Government				
Health & Human Services				
Public Safety				
Judicial Services				
Physical Environment				
Culture & Recreation	140,390			41,828
Economic Environment				
Debt service				
Total Restricted	140,390	7,543	-	41,828
Committed:				
Transportation				
General Government				
Public Safety				
Physical Environment				
Culture & Recreation			208,945	
Economic Environment				
Total Committed	-	-	208,945	-
Unassigned:				
Total Fund Balance	\$ 140,390	\$ 7,543	\$ 208,945	\$ 41,828

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

Crime Prevention	Regional Septic Loan	Recovery Center	Dispute Resolution	CDBG Entitlement	HOME Entitlement
		1,623,288		10,590	
	97				5,213
-	97	1,623,288	10,590	-	5,213
101,938					
101,938	-	-	-	-	-
\$ 101,938	\$ 97	\$ 1,623,288	\$ 10,590	\$ -	\$ 5,213

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

	Kitsap Abatement	Community Development	Jail & Juvenile	Service Area 1 Road Impact
Nonspendable:				
Advances				
Prepaid Items				
Note Receivable				
Total Nonspendable				
Restricted:				
Transportation				176,290
General Government				
Health & Human Services				
Public Safety			1,123,757	
Judicial Services				
Physical Environment		-		
Culture & Recreation				
Economic Environment				
Debt service				
Total Restricted	-	-	1,123,757	176,290
Committed:				
Transportation				
General Government				
Public Safety				
Physical Environment	127,764			
Culture & Recreation				
Economic Environment		235,396		
Total Committed	127,764	235,396	-	-
Unassigned:			-	
Total Fund Balance	\$ 127,764	\$ 235,396	\$ 1,123,757	\$ 176,290

Kitsap County, Washington

Notes to Financial Statements

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Service Area 2 Road Impact	Service Area 3 Road Impact	Service Area 4 Road Impact	Regional Service Area Roads	PEG Fund	Mental Health
333,991	33,485	172,070	207,753		1,183,844
333,991	33,485	172,070	207,753	-	1,183,844
				101,734	
-	-	-	-	101,734	-
\$ 333,991	\$ 33,485	\$ 172,070	\$ 207,753	\$ 101,734	\$ 1,183,844

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

	Developmental Disabilities	Youth Services/ Juvenile Services	Substance Abuse	Mental Health Non-Medicaid
<hr/>				
Nonspendable:				
Advances				
Prepaid Items				
Note Receivable				
Total Nonspendable				
<hr/>				
Restricted:				
Transportation				
General Government				
Health & Human Services	1,147,848		269,341	995,704
Public Safety		59,511		
Judicial Services				
Physical Environment				
Culture & Recreation				
Economic Environment				
Debt service				
Total Restricted	1,147,848	59,511	269,341	995,704
<hr/>				
Committed:				
Transportation				
General Government				
Public Safety				
Physical Environment				
Culture & Recreation				
Economic Environment				
Total Committed	-	-	-	-
<hr/>				
Unassigned:				
Total Fund Balance	\$ 1,147,848	\$ 59,511	\$ 269,341	\$ 995,704
<hr/>				

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

Commuter Trip Reduction	Area Agency On Aging	Employment & Training	KRCC	ARRA EECBG	Debt Service
					8,710,000
					8,710,000
-					
	590,101	120,920			
				6,645	
					1,751,643
-	590,101	120,920	-	6,645	1,751,643
122,252					
			102,399		
122,252	-	-	102,399	-	-
\$ 122,252	\$ 590,101	\$ 120,920	\$ 102,399	\$ 6,645	\$ 10,461,643

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

	<u>Capital Projects</u>
Nonspendable:	
Advances	
Prepaid Items	
Note Receivable	
Total Nonspendable	
Restricted:	
Transportation	63,558
General Government	1,763
Health & Human Services	
Public Safety	19,678
Judicial Services	
Physical Environment	831,021
Culture & Recreation	1,644,685
Economic Environment	
Debt service	
Total Restricted	2,560,705
Committed:	
Transportation	
General Government	
Public Safety	
Physical Environment	
Culture & Recreation	
Economic Environment	
Total Committed	-
Unassigned:	
Total Fund Balance	\$ 2,560,705

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

13. Service Concession Arrangements

The County implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, in 2012. See Note 18, *Service Concession Arrangements* for more information.

14. Deferred Outflows, Deferred Inflows and Net Position, Items Previously Reported as Assets and Liabilities

The County implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in 2012 and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* in 2013. See Note 17 for more information.

Also see Note 21, *Other Note Disclosures* for more information about Accounting and Reporting Changes.

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

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

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

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

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

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

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.

As of December 31, 2013, 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+	2.17	14.8%	\$ 60.17	\$ 29.46	\$ 30.67	\$ 60.13
FFCB	AAA/AA+	2.33	14.8%	\$ 60.07	\$ 29.38	\$ 30.58	\$ 59.96
FHLMC	AAA/AA+	1.77	20.5%	\$ 83.36	\$ 40.90	\$ 42.56	\$ 83.46
FNMA	AAA/AA+	2.64	15.5%	\$ 63.13	\$ 30.81	\$ 32.07	\$ 62.87
US Treasuries	AAA/AA+	4.50	2.4%	\$ 9.94	\$ 4.73	\$ 4.92	\$ 9.65
Money Mkt Svgs	NR	0.50	5.3%	\$ 21.57	\$ 10.57	\$ 11.00	\$ 21.57
WA ST LGIP	NR	0.50	19.2%	\$ 77.96	\$ 38.20	\$ 39.76	\$ 77.96
Certificate of Deposit	NR	0.50	1.2%	\$ 5.07	\$ 2.48	\$ 2.59	\$ 5.07
Municipal Securities	A1*	1.21	6.3%	\$ 25.43	\$ 12.47	\$ 12.98	\$ 25.45
		Years	100%	\$ 406.69	\$ 199.00	\$ 207.12	\$ 406.12

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

money market accounts either covered by the FDIC or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. The County did not hold any mortgage-backed securities or commercial paper of any type.

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

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

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

NOTE 5. PROPERTY TAX

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

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

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

Kitsap County, Washington

Notes to Financial Statements

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The County's regular levy for the year 2013 was \$1.1534 per \$1,000 on an assessed valuation of \$26,119,626,948 for a total regular levy of \$30,180,428.

The County's road levy for the year 2013 was \$1.6186 per \$1,000 on an assessed valuation of \$15,974,350,029 for total road levy of \$25,920,903.

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

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

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

NOTE 6. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013 was as follows:

Governmental activities	Beginning Balance 1/1/2013	Increases	Decreases	Ending Balance 12/31/2013
Capital assets, not being depreciated:				
Land	\$ 58,419,033	\$ -	\$ -	\$ 58,419,033
Land - Infrastructure	69,451,228	2,792,137	2,687,240	69,556,126
Construction in progress	10,852,540	8,713,312	3,255,042	16,310,809
Total capital assets, not being depreciated	\$ 138,722,801	\$ 11,505,449	\$ 5,942,282	\$ 144,285,968
Capital assets, being depreciated:				
Buildings	\$ 129,194,495	\$ 71,334		\$ 129,265,829
Building Improvements	33,467,580			33,467,580
Machinery and equipment	57,048,533	5,107,213	4,338,345	57,817,402
Infrastructure	413,160,971	3,177,785	43,749	416,295,007
Total capital assets being depreciated	\$ 632,871,579	\$ 8,356,332	\$ 4,382,093	\$ 636,845,819
Less accumulated depreciation for:				
Buildings	\$ 36,687,740	\$ 2,917,901		\$ 39,605,641
Building Improvements	13,048,173	1,495,506		14,543,679
Machinery and equipment	38,059,667	4,103,254	4,155,293	38,007,628
Infrastructure	284,121,661	11,115,553	6,125	295,231,089
Total accumulated depreciation	\$ 371,917,241	\$ 19,632,213	\$ 4,161,418	\$ 387,388,037
Total capital assets, being depreciated, net	\$ 260,954,338	\$ (11,275,881)	\$ 220,675	\$ 249,457,783
Governmental activities capital assets, net	\$ 399,677,139	\$ 229,569	\$ 6,162,957	\$ 393,743,750

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

Business-type activities	Beginning Balance 1/1/2013	Increase	Decrease	Ending Balance 12/31/2013
Capital assets, not being depreciated				
Land	\$ 2,889,181	\$ -	\$ -	\$ 2,889,181
Construction in progress	14,841,666	20,903,320	6,203,166	29,541,820
Total capital assets, not being depreciated	\$ 17,730,847	\$ 20,903,320	\$ 6,203,166	\$ 32,431,001
Capital assets, being depreciated				
Buildings	\$ 56,301,536	\$ 56,756	\$ -	\$ 56,358,292
Building Improvements	83,410,563	7,219,870	-	90,630,433
Equipment & Machinery	9,609,734	82,025	-	9,691,759
Total capital assets being depreciated	\$ 149,321,833	\$ 7,358,651	\$ -	\$ 156,680,484
Less accumulated depreciation for:				
Buildings	\$ 31,261,539	\$ 2,132,044	\$ -	\$ 33,393,583
Building Improvements	37,818,082	2,732,030	-	40,550,112
Machinery and equipment	6,338,503	751,259	-	7,089,762
Total accumulated depreciation	\$ 75,418,124	\$ 5,615,333	\$ -	\$ 81,033,457
Total business-type assets, being depreciated, net	\$ 73,903,709	\$ 1,743,318	\$ -	\$ 75,647,027
Business-type activities capital assets, net	\$ 91,634,556	\$ 22,646,638	\$ 6,203,166	\$ 108,078,028

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

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

Governmental Activities:	
General government	\$ 1,880,542
Judicial Services	15,963
Public safety	3,704,178
Transportation	12,659,005
Health & Human service	139,765
Economic environment	4,026
Culture & recreation	1,228,735
Total Depreciation - Governmental Activities	\$ 19,632,213

Business-Type Activities:	
Utilities	\$ 5,615,333
Total Depreciation - Business Type Activities	\$ 5,615,333

Construction commitments

The County had no active construction projects as of December 31, 2013.

NOTE 7. PENSION PLANS

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

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

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

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.

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.

Kitsap County, Washington

Notes to Financial Statements

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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.

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2013

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.

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

Kitsap County, Washington

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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 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, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Non-vested	44,273
Total	263,347

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

Kitsap County, Washington

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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, 2013, are as follows:

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 0.16%.
- ** Plan 3 defined benefit portion only.
- *** Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$ 143,925	\$ 3,592,658	\$ 837,723
2012	\$ 142,413	\$ 3,145,886	\$ 694,608
2011	\$ 127,928	\$ 2,597,672	\$ 555,682

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

Plan Description

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

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

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

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 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

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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.

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A one-time duty-related death benefit is provided to 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, 2012:

Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members Nonvested	2,633
Total	27,784

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 2013, the state contributed \$54.2 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, 2013, are as follows:

	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%.

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

	LEOFF Plan 1	LEOFF Plan 2
2013	\$ 0	\$ 470,850
2012	\$ 0	\$ 474,611
2011	\$ 111	\$ 456,254

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.

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

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rate specified by the Director of DRS. During DRS' fiscal year 2013, 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 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, 2012:

Retirees and Beneficiaries Receiving Benefits	27
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	60
Active Plan Members Vested	2,083
Active Plan Members Nonvested	2,167
Total	4,337

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.

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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, 2013, 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 the County and the employees made the required contributions. The County's required contributions for the years ended December 31 were as follows:

	PSERS Plan 2
2013	\$ 410,675
2012	\$ 346,727
2011	\$ 332,799

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 2013, 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

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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, 2013, 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, 2013, the County's estimated total undiscounted outstanding liability for the workers' compensation program is \$2,824,705.

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

Following is a summary of the changes in the self-insurance fund liabilities for estimated claim settlements for the years ended December 2013 and 2012:

Workers Compensation	Year ended	
	12/31/2012	12/31/2013
Claims liability, beginning of fiscal year	\$ 2,252,566	\$ 2,659,365
Estimated claims (including IBNRs)	1,404,648	1,474,144
Claims payments	(997,849)	(1,308,804)
Claims liability, end of fiscal year	\$ 2,659,365	\$ 2,824,705

General Liability	Year ended	
	12/31/2012	12/31/2013
Claims liability, beginning of fiscal year	\$ 5,116,306	\$ 6,085,972
Estimated claims (including IBNRs)	1,117,224	1,152,992
Claims payments	(147,558)	(349,318)
Claims liability, end of fiscal year	\$ 6,085,972	\$ 6,889,646

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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.

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. SHORT-TERM DEBT

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

NOTE 10. LONG-TERM DEBT

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

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

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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, 2013 the debt limits for the County were as follows:

	Without a Vote	With a Vote	
		2.50%	5.00%
Legal Limit	\$ 391,794,404	\$ 652,990,674	\$ 1,305,981,347
Applicable Outstanding Debt	101,827,439	101,827,439	101,827,439
Margin Available	\$ 289,966,966	\$ 551,163,235	\$ 1,204,153,909

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
2004 - Gen. Govt. - Refunding	7/1/14	4.00	\$ 20,664,719	580,000
2005 - Refunding	7/1/14 - 7/1/25	5.0	18,995,000	1,075,000 - 1,500,000
2006 - Improve Bldgs & Parks	7/1/14 - 7/1/31	4.4 - 5.0	18,085,000	505,000 - 880,000
2010 - Refunding; Coroner's Bldg & CKCC; BAN (Prop.Acq.)	12/1/14 - 12/1/30	3.0 - 4.0	9,220,000	190,000 - 530,000
2011 - Refunding	12/1/14 - 12/1/27	2.0 - 4.0	20,370,000	500,000 - 1,550,000
2013 - Refunding	12/1/14 - 12/1/34	3.0 - 4.0	48,280,000	530,000 - 5,265,000
2001 - Rds PWTF Ln # PW-01- 691-037 - Anderson Hill	7/1/14 - 7/1/21	0.5	897,812	47,253
Total			\$ 136,512,531	

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2014	\$ 5,425,000	\$ 3,910,628
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
2019-2023	37,335,000	11,139,890
2024-2028	25,250,000	4,212,388
2029-2033	6,320,000	678,413
2034	610,000	22,113
Total	\$ 98,890,000	\$ 33,664,074

Year Ending December 31	PWTF Loan	
	Principal	Interest
2014	\$ 47,253	\$ 1,890
2015	47,253	1,654
2016	47,253	1,418
2017	47,253	1,181
2018	47,253	945
2019-2021	141,760	1,418
Total	\$ 378,025	\$ 8,506

During 2013, the County currently refunded the following obligations:

- 2003B general obligation refunding bond
- 2004 general obligation refunding bond
- 2009 long term general obligation BAN (Bank of America loan)
- 2009 long term general obligation BAN (Key Bank loan)
- KCCHA 2003 revenue Bonds (Bremerton Government Center), issued by Kitsap County Consolidated Housing Authority (KCCHA) dba Housing Kitsap

The County issued \$48,280,000 general obligation refunding bonds.

A portion of the net proceeds was used along with other funds of the County and Housing Kitsap to provide resources to purchase \$25,540,000 of County government securities and \$9,015,000 of KCCHA government securities. The proceeds were placed in an irrevocable trust on April 25, 2013 for the purpose of generating resources for redemption of the 2003B, 2004 and KCCHA 2003 bonds on their respective dates.

The remainder of the net proceeds was used with other funds of the County to pay off \$13,725,000 of County bond anticipation notes (Bank of America and Key Bank lines of credit).

As a result, the refunded County debt and bond anticipation notes were paid in full and the liability has been removed from the County's long-term debt. A note payable to KCCHA for the County's portion of the KCCHA 2003 revenue bonds (Bremerton Government Center) has also

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been removed from the County's long-term debt, as this obligation is now part of the 2013 refunding debt.

Housing Kitsap entered into an Amended Loan and Repayment Agreement with Kitsap County in May 2013 for its portion of the refunded 2003 revenue bonds (Bremerton Government Center) and other payments the County made in connection with the Harborside Condominiums and other obligations that Housing Kitsap was unable to meet. See Note 15 for more information.

This current and advance refunding was undertaken to reduce total debt service payments over the next twenty-one years by \$4,772,704 and to obtain an economic gain of \$4,057,268 (County); to reduce total debt service payments over the next twenty-one years by \$1,140,916 and to obtain an economic gain of \$895,962 (Housing Kitsap); and to issue long-term debt to pay off bond anticipation notes which matured in April 2013.

B. Notes Payable

The County has a note payable of \$2.08 million due to the Rolling Hills Golf Course Partnership from the purchase of the Rolling Hills Golf Course in March 2011. Principal and interest payments are due annually for 20 years, beginning in October 2012.

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2014	\$ 64,148	\$ 135,852
2015	68,331	131,669
2016	72,787	127,213
2017	77,534	122,466
2018	82,590	117,410
2019-2023	501,114	498,886
2024-2028	687,252	312,748
2029-2031	529,489	70,511
Total	\$ 2,083,245	\$ 1,516,755

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	7/1/14 - 7/1/16	5.25 - 5.625	\$ 13,075,000	1,450,000 - 1,620,000
Sewer Refunding 2010A	12/1/14 - 12/1/18	3.0 - 4.0	5,775,000	705,000 - 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	5/1/14 - 5/1/25	1.5	14,188,000	303,064 - 599,355
PWTF Loan PW-01-691-036	7/1/14 - 7/1/21	0.5	2,605,000	150,816
PWTF Loan PC-12-951-040	6/1/14 - 6/1/31	1.0	5,205,000	243,631
Total			\$ 79,078,000	

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

Year Ending December 31	Revenue Bonds	
	Principal	Interest
2014	\$ 2,155,000	\$ 2,094,929
2015	2,260,000	1,994,029
2016	2,365,000	1,886,066
2017	780,000	1,768,866
2018	805,000	1,737,666
2019-2023	0	8,527,331
2024-2028	2,200,000	8,527,331
2029-2033	12,420,000	7,082,211
2034-2038	15,585,000	3,910,909
2039-2040	8,025,000	494,444
Total	\$ 46,595,000	\$ 38,023,782

Year Ending December 31	Ecology & PWTF Loans	
	Principal	Interest
2014	\$ 910,365	\$ 142,813
2015	918,157	133,673
2016	926,067	122,573
2017	934,096	111,353
2018	942,247	100,012
2019-2023	4,536,236	326,325
2024-2028	2,120,573	86,702
2029-2031	730,892	14,618
Total	\$ 12,018,633	\$ 1,038,069

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 \$631,225 in 2013 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.

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NOTE 11. 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 (scanners, printers, computers)	\$ 106,131

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, 2013 were as follows:

Year Ending December 31	Governmental Activities
2014	\$ 100,028
2015	100,028
2016	100,028
2017	100,028
2018	100,028
Total Minimum Lease Payments	500,141
Less: Interest	23,973
Present Value of Minimum Lease Payments	\$ 476,168

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NOTE 12. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
General obligation bonds	\$ 84,644,091	\$ 48,280,000	\$ 34,034,091	\$ 98,890,000	\$ 5,425,000
Total bonds payable	84,644,091	48,280,000	34,034,091	98,890,000	5,425,000
Capital leases	-	476,168	-	476,168	92,124
Compensated absences	4,665,175	2,700,980	2,254,466	5,111,688	564,368
Internal services comp.	334,075	233,866	196,207	371,735	37,173
Notes payable	22,063,999	220,364	20,201,118	2,083,245	64,148
Net OPEB obligation	3,749,917	1,026,511	-	4,776,428	-
Other liabilities	425,279	-	47,253	378,026	47,253
Governmental-activities Long-term liabilities	<u>\$ 115,882,536</u>	<u>\$ 52,937,889</u>	<u>\$ 56,733,135</u>	<u>\$ 112,087,289</u>	<u>\$ 6,230,067</u>
<u>Business-type activities</u>					
Bonds payable:					
Revenue bonds	48,650,000	-	2,055,000	46,595,000	2,155,000
Unamortized premium/ discount	244,205	-	79,795	164,410	79,795
Total bonds payable	48,894,205	-	2,134,795	46,759,410	2,234,795
Other liabilities	12,141,640	1,617,997	1,109,778	12,649,859	939,590
Compensated absences	589,493	398,740	383,179	605,054	80,804
Business-type activities Long-term liabilities	<u>\$ 61,625,338</u>	<u>\$ 2,016,737</u>	<u>\$ 3,627,752</u>	<u>\$ 60,014,322</u>	<u>\$ 3,255,189</u>
Total	\$ 177,507,874	\$ 54,954,626	\$ 60,360,888	\$ 172,101,612	\$ 9,485,256

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 \$371,735 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.

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NOTE 13. CONTINGENCIES AND LITIGATIONS

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

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

NOTE 14. INTER-FUND BALANCES AND TRANSFERS

1. Advances To/From other funds

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

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

2. Due from other funds/Due to other funds

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

DUE FROM OTHER FUNDS										
Due to Other Funds	General Fund	County Roads	Ment Hlth Medicaid	Non Major	Solid Waste	Sewer Utility	Surface Storm	Internal Service	Agency Funds	Total
General Fd	68,953	29,020	872	58,030	514	1,245	57,618	5,061	13,063	234,376
County Rds	2,866	-	-	-	1,742	4,699	8,958	7,712	-	25,977
Mental Hlth	-	-	-	-	-	-	-	-	-	-
Non Major	18,637	142,998	285	265,396	19,632	-	-	12,154	-	459,102
Solid Waste	-	1,276	-	-	-	1,929	1,699	-	-	4,904
Sewer Utility	-	190	-	-	47,168	-	69,638	-	-	116,996
Surface Strm	-	11,371	-	-	12,921	21,537	-	294	-	46,123
Internal Serv.	160,538	103,843	-	4,072	1,990	40,839	21,682	-	-	332,964
Agency	1,499	-	-	23,558	-	510	598	-	-	26,165
Total	252,493	288,698	1,157	351,056	83,967	70,759	160,193	25,221	13,063	1,246,607

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3. Transfers

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

TRANSFERS-FUND FINANCIAL STATEMENTS							
IN	General	County	KCLTGO	Non	Internal	Agency	
OUT	Fund	Roads	2013 Refun	Major	Service	Fund	Total
General Fund	68,953	-	-	4,857,396	767,007	-	5,693,356
County Roads	-	-	-	353,993	-	-	353,993
REET	-	-	1,206,327	2,799,386	-	-	4,005,713
KCLTGO 2013 Refund	-	-	-	14,875,173	-	-	14,875,173
Nonmajor	2,163,404	-	269,698	4,620,526	-	-	7,053,628
Solid Waste	-	-	-	-	-	-	-
Surface Stormwater	-	-	-	212,837	-	-	212,837
Sewer	-	-	-	137,357	-	-	137,357
Nonmajor Ent	-	-	-	-	-	-	-
Int. Serv	-	-	-	17,225	-	-	17,225
Total	2,232,357	-	1,476,025	27,873,893	767,007	-	32,349,282

NOTE 15. RECEIVABLES AND PAYABLES

Federal grants and assistance awards

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

Public Facility District receivable

The County has an \$8.71 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 \$16.09 million long-term receivable due from Housing Kitsap.

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Housing Kitsap entered into loan and note agreements to finance the costs of the Harborside Condominiums Project and the Poplars Apartments Project. The County signed Contingent Loan Agreements for these loans and notes.

In 2009, Housing Kitsap determined that it was unable to repay or restructure these loans. In order to repay the loans and notes which matured in 2009, The County, together with Housing Kitsap, entered into Tri-Party Credit Agreements with Bank of America and Key Bank, the loan and note holders. Each bank extended to the County a four-year loan, maturing April 30, 2013 ("Credit Facility") that was to be used to repay Housing Kitsap's debt.

The County and Housing Kitsap entered into a loan repayment agreement (County Loan Agreement) establishing the loan and repayment terms and granting the County control of the sale and management of the Harborside condominiums and other properties in order to repay the loans.

In April 2013 when the loans with Bank of America and Key Bank matured, the County issued Long Term General Obligation Refunding 2013 bonds and repaid the loans.

Housing Kitsap and the County entered into an Amended County Loan and Repayment Agreement. The Agreement restated the amount that was owed to the County by Housing Kitsap; provided for repayment of the debt to the County; provided for reimbursement to the County for lost investment income associated with the bonds attributable to Housing Kitsap; and provided funding for a reserve for Housing Kitsap, to be used for the management, marketing and sale of the remaining collateral properties.

The receivable was established at \$16.48 million in April 2013. The receivable balance as of December 31, 2013 was 16.09 million. The term of the note receivable is 41 years, maturing June 30, 2053.

NOTE 16. DEFERRED COMPENSATION

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

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

It is the opinion of the County's legal counsel that the County has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

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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, 2013, are as follows:

Investment company	Fair Value
Nationwide	\$ 14,960,180
ING	7,343,440
Mass Mutual	7,356,337
ICMA	1,134,430
Total	\$ 30,794,387

NOTE 17. 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	\$ 2,016,797
County Roads Fund - taxes	1,192,016
Noxious Weed Control - taxes	15,202
Veterans Relief Fund - taxes	14,478
Conservation Futures - taxes	61,663
CDBG Entitlement - loans	300,000
HOME Entitlement - loans	3,495,886
Parks Capital - service concession arrangement	2,083,245
2013 LTGO Refunding - loan	16,090,040
Crid #39 - taxes	742
Total	\$ 25,270,070

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 \$16.09 million. For further details of this transaction and see Note 15, *Receivables and Payables*.

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NOTE 18. 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 \$2,083,245 as of December 31, 2013.

The cost of the golf course was \$2,200,400 of which \$2,112,855 was capitalized. The County reports the golf course and related equipment as a capital asset which had a net book value of \$2,013,768 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 \$2,083,245 as of December 31, 2013.

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 19. 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

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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, 2013 there were 44 active participants in this closed plan.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The Annual Required Contribution (ARC) represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2008. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB. The net OPEB obligation of \$4,776,428 is included as a noncurrent liability on the Statement of Net Position. The actuarial valuation was performed on December 31, 2013.

Other Post Employment Benefits Obligation	Year Ended 12/31/2013
Determination of Annual Required Contribution:	
Normal Cost at year end	\$ -
Amortization of UAAL*	1,598,714
Annual Required Contribution (ARC)	\$ 1,598,714
Determination of Net OPEB Obligation:	
Annual Required Contribution	\$ 1,598,714
Interest on prior year Net OPEB Obligation	149,997
Adjustment to ARC	(337,272)
Annual OPEB Cost	\$ 1,411,439
Contributions	384,928
Increase in Net OPEB Obligations	\$ 1,026,511
Net OPEB Obligation - beginning of year	\$ 3,749,917
Increase in Net OPEB Obligations	\$ 1,026,511
Net OPEB Obligation - end of year	\$ 4,776,428
*Unfunded Actuarial Accrued Liability	

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

Year Ended	Annual Cost	Contribution	Percentage of Annual OPEB cost contributed	Net OPEB Obligations
2008	\$ 1,328,020	\$ 489,157	37%	\$ 1,597,464
2009	1,072,127	450,113	42%	2,219,478
2010	984,620	472,936	48%	2,731,162
2011	885,327	474,752	54%	3,141,737
2012	1,025,832	417,652	41%	3,749,917
2013	\$ 1,411,439	\$ 384,928	27%	\$ 4,776,428

Funding Status

As of December 31, 2013 the most recent alternative method measurement date, the plan was 0% funded. The accrued liability for benefits was \$17,775,124 and the actuarial value of assets was \$0 resulting in a UAAL of \$17,775,124. 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 2013. 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

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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 20. 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 \$1,803,500 in September 2013, for the years 2014 - 2034. The Solid Waste Fund recognized a liability of \$631,225 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 21. OTHER NOTE DISCLOSURES

A. Accounting and Reporting Changes

The County implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* which clarified the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Please see Note 17 for further details of changes in reporting as a result of this pronouncement.

B. Special Items

As reported in the 2009 Comprehensive Annual Financial Report, Kitsap County agreed to assume debt issues of the Kitsap County Consolidated Housing Authority (KCCHA) dba Housing Kitsap. As a result of this agreement certain Housing Kitsap properties were pledged to be sold to pay off these debt issues. During 2013, sales of these properties were reported as a Special Item totaling \$0.12 million in the Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental funds.

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The Housing Kitsap related debt and other County and Housing Kitsap debt issues were refunded by the County on April 25, 2013. As a result of the refunding, the County wrote off the remaining receivable related to the 2009 agreement with Housing Kitsap, \$1.18 million, and established a new receivable in the amount of \$16.48 million. The remaining balance of this receivable as of December 31, 2013 was \$16.09 million. See Note 15, *Receivables and Payables* for more information.

C. Subsequent Event

Loan from the General Fund to Department of Community Development Fund 168 for the amount of \$1,150,000, was forgiven on February 24, 2014 by resolution of the Board of County Commissioners.

D. Prior Period Adjustments

1. Employer Benefits Fund. Prior to 2010, County departments and offices were charged the actual cost of their employees' medical insurance premiums. Effective 2010, the County began charging departments a composite rate of expected claims and expenses known as the "benefits bucket" rate rather than the actual costs. The County used the funds collected (and employee contributions and COBRA payments) to pay employees' medical insurance premiums and related expenses.

The County established a self-funded employee welfare benefit plan in 2013, in an effort to control the cost of employees' medical insurance. Departments continued to be charged the composite ("benefits bucket") rate and the County paid an administrative fee for each enrolled employee and actual medical claims (see Note 8, *Risk Management* for more information).

In 2010, the County accounted for this activity in a suspense fund. In 2011, Employer Benefits Fund (internal service fund) was established and the net fund balance from the suspense fund was transferred to the new fund.

Net Position for the years 2011 and 2012 was understated because the Fund's revenues (benefits bucket contributions, employee contributions and COBRA payments) were netted with expenses (medical insurance premiums and expenses) and were netted on the Statement of Net Position when they should have been reported on the Statement of Revenues, Expenses and Changes in Net Position. The Fund is reporting a prior period adjustment of \$1,547,350 in 2013 to correct prior years' Net Position and is correctly reporting revenues and expenses in 2013.

2. Grant Revenue Accruals. The County Roads and Parks Capital Improvements Fund reported prior period adjustments of \$56,045 and \$2,799 respectively to correct 2011 grant revenue accruals.