



**KITSAP COUNTY
COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

County Auditor
Honorable Walter E. Washington

Financial Services Manager
Dave Schureman, CPA

For The Fiscal Year Ended
December 31, 2008

Prepared by the Auditor's Office

KITSAP COUNTY, WASHINGTON
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended December 31, 2008

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INTRODUCTORY SECTION



Office of the
KITSAP COUNTY AUDITOR

Walter E. Washington, Auditor

614 Division Street, MS-31 • Port Orchard, WA 98366-4687 • www.kitsapgov.com/aud

June 10, 2008

To the Honorable Board of County Commissioners and Citizens of Kitsap County:

We are pleased to present to you the 2008 Comprehensive Annual Financial Report (CAFR) of Kitsap County, Washington. State law requires that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended December 31, 2008. The CAFR is also developed in order to provide meaningful financial information to legislative bodies, creditors, investors, teachers and students of public finance and the public.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that is established for this purpose. Since the cost of the internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements.

The Washington State Auditor's Office, an independent arm of the State of Washington, led by an independently elected official has issued an unqualified (no findings) opinion on the Kitsap County financial statements for the year ended December 31, 2008. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

THE COUNTY

Kitsap County occupies a unique portion of the State of Washington, directly between the urban areas of Seattle and Tacoma and the wilderness of the Olympic Mountains. It is bounded by the Hood Canal on the west, Puget Sound on the east, and Mason and Pierce Counties to the south.

The topography is mostly low, flat-topped rolling hills separated by valleys and bays, with altitudes from sea level to 600 feet above, except for Green and Gold mountains, which rise to 1,761 feet above sea level. The climate is moderate,

Elections
(360) 337-7128
FAX: 337-5769

Vehicle Licensing
(360) 337-4440
FAX: 337-4645

Records/Marriage
(360) 337-4935
FAX: 337-4645

II - I
Accounts Payable
(360) 337-7122
FAX: 337-7016

Payroll
(360) 337-7123
FAX: 337-4645

Administration
(360) 337-7129
FAX: 337-4645

with mild, wet winters and cool, dry summers. Mean annual precipitation ranges from 26 inches in the north to nearly 80 inches in the mountains.

Kitsap County was incorporated in 1857 as a statutory county. This means that the organization of the County is prescribed by the state statute. Locally elected officials include the County Assessor, Auditor, Clerk, Prosecuting Attorney, Sheriff, Treasurer, eight Superior Court Judges, four District Court Judges, and a three member Board of County Commissioners. Policy-making and legislative authority are vested in the governing Board of County Commissioners, which are all elected at-large on a partisan basis for four-year terms and the chair is elected by the majority vote of the Board members. The Board appoints the County Administrator. The County Administrator serves the Board by overseeing its departments and providing leadership for the general administration of the County.

Kitsap County provides a full range of services contemplated by statute, including public safety; construction and maintenance of highways, streets, and other infrastructure; judicial administration; planning and development; parks and recreation; health and social services; sewer services; conveying the people's voice in selecting their representative government and ensuring the integrity of the people's historic birth, death, marriage, real estate and election records; and general administrative services.

LOCAL ECONOMY

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the County's specific environment within which it operates.

Population. Kitsap County has the sixth largest population of Washington State's 39 counties. In 2008, the County's population rose to an estimated 246,800 (+3,400 from 2007).

Although Kitsap County appears to be rural due to the vistas of water, mountains and trees, it actually has the third highest population density in the state of Washington, only surpassed by Clark and King Counties.

Of the four incorporated cities in Kitsap County, the largest city is Bremerton with a 2007 population of 34,075 (-4.8% from the 2006 estimate). The 2007 population for Port Orchard is 7,940 (-4.9% from 2006); Poulsbo 7,895 (+4.4% from 2006); and Bainbridge Island 21,854(-5.3% from 2006). Population is expected to remain fairly constant through the current economic climate.

Employment. Total employment decreased to 121,600 in 2007 (-2,700 from 2006) while unemployment was at 4.3%. All employment categories experienced

decreases in 2008 with the unemployment rate rising to 5.9% as of the end of December 2008. Unemployment continued to rise in 2009 to over 9% in April. Kitsap County's strongest economic asset is the availability of a well-trained, highly motivated workforce. The strong work ethic of a labor pool associated with military employment continues to attract attention from national employers. With the addition of well-qualified students from Olympic College and private training institutes, the County remains a desirable location for prospective employers.

Construction. New construction activity is an important economic indicator that greatly affects County operations and workload in areas such as planning, permits, land services, public works and public construction.

In 2008, new construction property values dropped to \$591 million (-28.19% from 2007), and the decrease in assessed value of all properties totaled \$32.59 billion (-.18% from 2007).

The number and value of permits issued is an indicator of future growth in the county property tax base. In 2008, the County issued 1,661 building permits. This represented a 45% decrease from 2007. This trend continued for the first several months of 2009 with additional decreases of building permits issued of 27% compared with the same period in 2008.

Kitsap County's lower valued real estate has attracted buyers from more affluent markets in previous years. Once the current economic downturn is over, it is projected the County will again experience moderate growth due to the lower median cost of homes compared to the Seattle and Tacoma housing markets.

Sales Tax Revenue. Sales tax revenue dropped by 8.14% in 2008 to a total of \$29,641,742 (-\$2,628,057 from 2007). The overall condition of the economy led to a drop in consumer confidence, which led to decreased retail sales and therefore sales tax for 2008. Based on current economic forecasts, total sales tax revenues are expected to continue to decrease throughout 2009.

MAJOR INITIATIVES

The Board of County Commissioners continue to be committed to providing quality service to its citizens and improving the quality of life throughout the county at a reasonable cost. Their visions for the county continue to be:

- Safe and Healthy Communities
- Protected Natural Resources and Systems
- Thriving Local Economy
- Inclusive Government
- Effective and Efficient County Services

Their 2008 priorities continued to emphasize park infrastructure financing and sustained funding to support the Methamphetamine Task Force and Kitsap Nuisance Abatement Team. Other priorities included a transportation needs analysis and sub-area planning for Silverdale.

The County spent over \$34 million on road maintenance and construction in 2008 and has a budget of \$42 million for road maintenance and construction in 2009. Emphasis on safe communities is evidenced by an increasingly large percentage of the General Fund budget going to the Law and Justice Programs. Expenditures in these programs were \$50.48 million in 2008 and are budgeted at \$61.70 million in 2009, up by \$19 million from six years ago.

Over the past five years, the County has issued more than \$60 million in Limited Tax General Obligation bonds for construction, parks and open space purchases. The Public Works building renovation was completed in early 2008. The Courthouse, which has housed the administrative functions, along with the Law and Justice functions will now become a true Law and Justice Center housing only Law and Justice functions. The County also is in the process of building a new state-of-the-art Morgue facility to be completed in 2009.

Kitsap County has more saltwater shoreline than any other county in the State of Washington. In the last year, the County has made strategic moves to accumulate saltwater access for the public throughout the county. Most notably, the county purchased Forbes Landing, a pristine sandy beach, in the Hansville area of North Kitsap, and the Olalla boat ramp in South Kitsap County. The county also purchased open space forested land in Central Kitsap County to ensure that preserved forests are available to the public and to create a wildlife corridor through the Central Kitsap area. The County also secured the last piece of land for the Central Kitsap (Silverdale) Campus.

Kitsap County's strong fiscal management remains its hallmark. Moody's Investors Service assigned a rating of A-1, and Standard and Poor's assigned a rating of AA to Kitsap County's General Obligation Bonds in June of 2006. The County's highly favorable ratings are a reflection of good financial management as indicated by the strong reserve balance, moderate and manageable debt burden with limited future capital needs.

RELEVANT FINANCIAL POLICIES

Internal Controls. The County's internal accounting controls are designed to provide reasonable assurance that assets are safeguarded and that the financial records are reliable for preparing the financial statements and maintaining accountability of assets. Since the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Budgetary Controls. The County's annual budget serves as the foundation for Kitsap County's financial planning and control. State law (RCW 36.40) establishes the general requirements of Kitsap County's biennial budget process.

The law requires that the Board of County Commissioners adopt a final budget by no later than the close of the fiscal year. The budget is adopted and systematically monitored on the fund level for special revenue and capital project funds and on a department level for the general fund. Personnel service costs in each fund are controlled by position. The acquisition of capital items is approved on an item-by-item basis in accordance with a long-term capital acquisition plan. Budget-to-actual comparisons are provided in the report for each individual governmental fund of which an appropriate annual budget has been adopted. For the General Fund and major Special Revenue Funds, this comparison is presented as part of the basic financial statements. For other governmental fund, this comparison is presented in the non-major governmental fund subsection.

Cash Management. The Kitsap County Treasurer is empowered by state law to invest cash holdings as directed on behalf of Kitsap County and other taxing districts. Investments are made in the Washington State Investment Pool, (which is regulated by the State Treasurer, Governor, State Auditor and Joint legislative audit and review committee), the United States Government or its agencies, commercial paper and certificates of deposit.

The County's investment policy is designed to maximize the productive use of assets entrusted to its care and to invest and manage those funds wisely and prudently. Criteria for selecting investments and the order of priority are (1) safety, (2) liquidity and, (3) yield. The underlying principle of the County's investment policy is to ensure that cash is available when needed while at the same time reaping the highest and best return on the County's investment portfolio.

Risk Management. Kitsap County is a member of the Washington Counties Risk Pool (pool). State law authorizes governmental entities to form or join a pool for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services. All pool joint self-insurance liability coverage, including public officials' errors and omissions, are on an 'occurrence' basis.

The County maintains an active risk management program emphasizing loss prevention, safety, and insurance purchase coordination. The Self-Insurance Fund is responsible for assessing charges to county funds, paying claim settlements and purchasing risk insurance policies. Interfund charges are based primarily on the loss experience of the various contributing funds. The County is self-insured for the first \$50,000 of claims on property insurance, \$250,000 on industrial

insurance (workers compensation) claims and \$5,000 on employee crime/dishonesty insurance.

AWARDS AND ACKNOWLEDGEMENTS

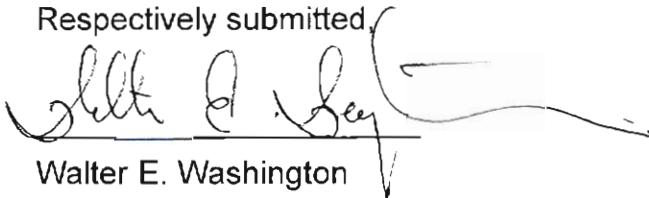
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Kitsap County for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2007. Kitsap County has received this prestigious award for the last eleven consecutive years. GFOA awards a certificate to governmental entities that exemplify excellence in financial reporting and conform to the stringent reporting requirements promulgated by the Association, GAAP and other applicable legal requirements.

A Certificate is valid for a period of only one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

We express our appreciation to everyone in the County who assisted with and contributed to the preparation of this report. The preparation of this report could not have been accomplished without the professional, efficient, and dedicated services of the entire staff of the Auditor's Financial Services Division. We extend special recognition to the Treasurer's and Assessor's staff. We also recognize the professional efforts of the State Auditor's Office in their audit, and in the direction, and advice they provide to us throughout the year.

Finally, we express our sincere appreciation to the Board of County Commissioners for their continued support, their leadership in planning and conducting the financial affairs of the County in a responsible and progressive manner, and their tireless efforts in working for the betterment of the community, and in making Kitsap County a great place to work and live.

Respectively submitted,



Walter E. Washington

County Auditor



David G. Schureman, CPA

Financial Services Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Kitsap County
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "M. L. Post".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

KITSAP COUNTY
List of Elected and Appointed Officials
December 31, 2008

Elected Officials

<u>TITLE</u>	<u>INCUMBENT</u>	<u>END OF TERM</u>
Assessor	Jim Avery	12/31/10
Auditor	Walter Washington	12/31/10
Clerk	Dave Peterson	12/31/10
Commissioner, District #1	Steve Bauer	12/31/12
Commissioner, District #2	Charlotte Garrido	12/31/12
Commissioner, District #3	Josh Brown	12/31/10
Coroner	Greg Sandstrom	12/31/10
District Court Judge, #1	James Riehl	12/31/10
District Court Judge, #2	Jeffrey J. Jahns	12/31/10
District Court Judge, #3	Marilyn Paja	12/31/10
District Court Judge, #4	Stephen J. Holman	12/31/10
Prosecuting Attorney	Russ Hauge	12/31/10
Sheriff	Steve Boyer	12/31/10
Superior Court Judge, #1	Jeanette Dalton	12/31/12
Superior Court Judge, #2	Leila Mills	12/31/12
Superior Court Judge, #3	Anna Laurie	12/31/12
Superior Court Judge, #4	Theodore F. Spearman	12/31/12
Superior Court Judge, #5	Jay B. Roof	12/31/12
Superior Court Judge, #6	Russell W. Hartman	12/31/12
Superior Court Judge, #7	M. Karlynn Haberly	12/31/12
Superior Court Judge, #8	Sally F. Olsen	12/31/12
Treasurer	Barbara Stephenson	12/31/10

Appointed Officials

<u>TITLE</u>	<u>INCUMBENT</u>
County Administrator	Nancy Buonanno-Grennan
Director of Public Works	Randy Casteel
Director of Administrative Services	Shawn Gabriel
Director of Personnel & Human Resources	Bert Furuta
Director of Community Development	Larry Keeton
Director of Parks and Recreation	Chip Faver
Director of Information Services	Bud Harris

Kitsap County Organization 2008

