



FINANCIAL SECTION



Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT

June 16, 2010

Board of Commissioners
Kitsap County
Port Orchard, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Kitsap County, Washington, as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Kitsap County, Washington, as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Road, Real Estate Excise Tax, Home Entitlement and Mental Health Medicaid funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue our report dated June 16, 2010, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report will be issued under separate cover in the County's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide



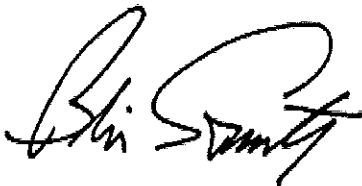
an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 13 and information on postemployment benefits other than pensions on page 72 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying information listed as combining and individual fund statements and schedules and supplementary schedules on pages 73 through 216 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is written in a cursive, flowing style.

BRIAN SONNTAG, CGFM
STATE AUDITOR



MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion and Analysis

As management of Kitsap County, we offer readers of the Kitsap County's financial statements this narrative overview and analysis of the financial activities of Kitsap County for the fiscal year ended December 31, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found section II of this report. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

- The assets of Kitsap County exceeded its liabilities at the close of the most recent fiscal year by \$518.69 (net assets). Of this amount, \$112.32 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$12.37, with a \$17.59 decrease on the Governmental side and a \$5.22 increase on the Business-Type side. The major cause of the decrease on the Governmental side was the county assuming debt of another governmental entity. This decreased net assets by \$10.33. The County also retired assets mostly due to annexation, which resulted in a \$2.17 decrease in net assets.
- As of the close of the current fiscal year, the Kitsap County governmental funds reported combined ending fund balances of \$76.18, a decrease of \$9.50 from the prior year. Approximately \$73.00 of this amount is available for spending at the government discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$5.11, or 6.32 percent of the total general fund expenditures.
- The Kitsap County's total general obligation debt decreased by \$2.65 (2.6 percent) during the current fiscal year. This represented 2009 principle payments and one new bond issue.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the

related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

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

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

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

Kitsap County adopts an annual appropriated budget for all its funds, with the exception of those listed in the notes to the financial statements, see Note D1. A budgetary comparison statement has been provided for each of the major funds to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages **18 – 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 Kitsap County various functions. Kitsap County uses internal service funds to account for its management information systems, self-insurance activities, and fleet of equipment. Because all these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Solid Waste, and Sewer funds and Surface Water Utility, which are considered major funds of Kitsap County. Conversely, all the internal service funds are combined into single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages **29 – 34** of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support Kitsap County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages **35 – 36** 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 **37 – 70** 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 **73 – 196** of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Kitsap County, assets exceeded liabilities by \$518.69 at the close of the most recent fiscal year. The County's fiscal condition remains stable.

The largest portion of Kitsap County's net assets (73.5 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets to provide services to citizens; consequently, these assets are not available for future spending. Although Kitsap County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Kitsap County's Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2009	2008	2009	2008	2009
Assets:						
Current & Other Assets	130.15	143.63	69.58	70.65	199.73	214.28
Capital assets	428.50	423.54	71.76	73.88	500.26	497.42
	558.65	567.17	141.34	144.53	699.99	711.70
Liabilities						
Other liabilities	28.93	34.38	4.42	4.78	33.35	39.16
Long-term liabilities	108.72	129.38	26.86	24.47	135.58	153.85
Total liabilities	137.65	163.76	31.28	29.25	168.93	193.01
Net assets						
Invested in capital	336.65	337.42	42.90	47.51	379.55	384.93
Restricted	13.84	21.40	0.04	0.04	13.88	21.44
Unrestricted	70.51	44.58	67.12	67.73	137.63	112.31
Total net asset	\$ 421.00	\$ 403.40	\$ 110.06	\$ 115.28	\$ 531.06	\$ 518.69

An additional portion of the Kitsap County's net assets (4.1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$112.32) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The government's net assets decreased by \$12.37 during the current fiscal year. The decrease was mostly due to the County assuming debt of another governmental entity per a prior commitment. This decreased total net assets by \$10.33. For further information on this matter, refer to the notes to the financial statements (Note 18c).

Refer to the notes to the financial statements (Note 6) for a more in depth discussion of capital assets.

The government's restricted net assets increased by 54% (from \$13.88 to \$21.44). Most of this change was caused by the shifting of a long-term receivable from the General fund to Debt Service Fund 286. For further information on this reporting change, refer to the notes to the financial statements (Note 18b). As a result of the items noted in notes 18b and 18c, the unrestricted net assets decreased by 18.4% (from \$137.63 to \$112.32).

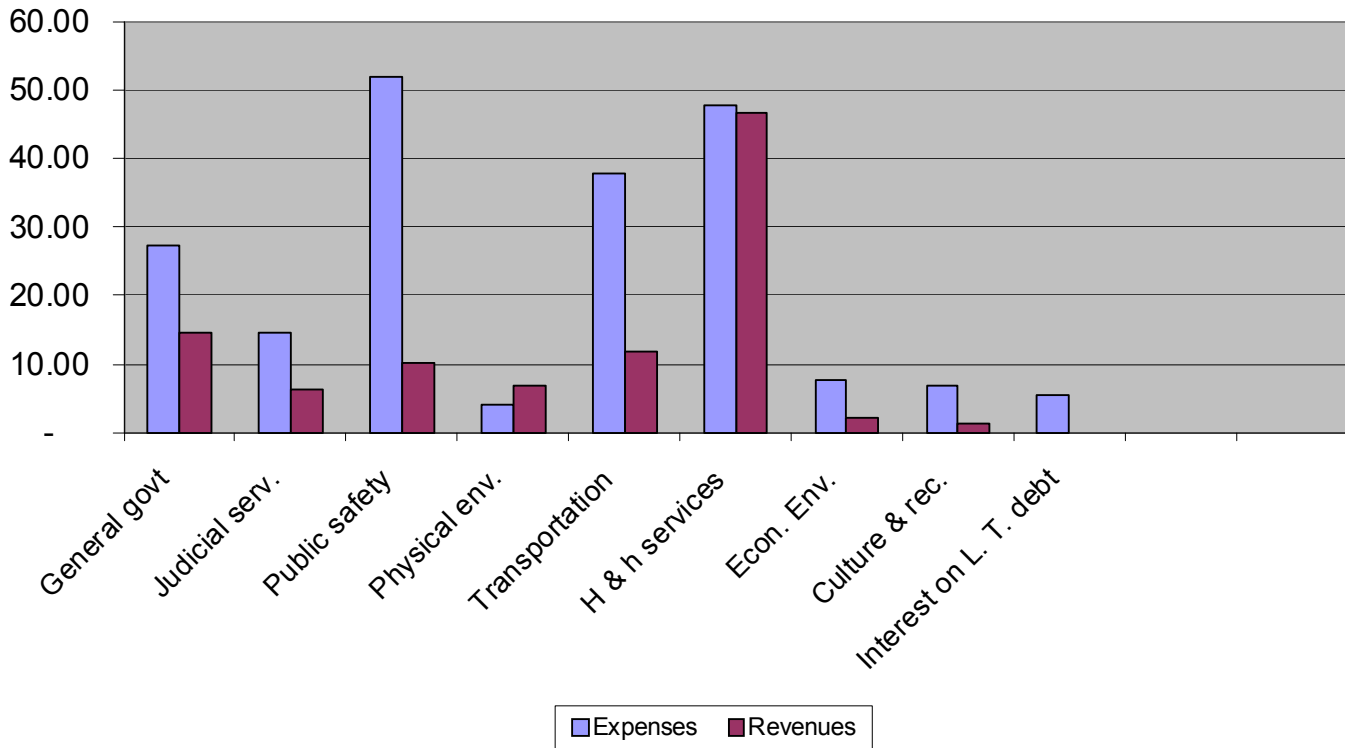
Governmental activities. Governmental activities decreased the County's net assets by \$17.88. The key elements of this net change are as follows:

	Governmental Activities		Business-type Activities		Total Primary government	
	2008	2009	2008	2009	2008	2009
Revenues:						
Program revenues						
Charges for services	\$ 24.32	\$ 24.03	\$ 35.36	\$ 34.41	\$ 59.68	\$ 58.44
Operating grants	72.12	71.83	0.83	-	72.95	71.83
Capital grants	3.80	4.05	-	3.12	3.80	7.17
General revenues						
Property taxes	51.81	52.82		-	51.81	52.82
Sales taxes	29.64	27.34		-	29.64	27.34
Other taxes	9.77	9.29		-	9.77	9.29
Investment earning	4.74	3.06	2.03	1.19	6.77	4.25
Other income	5.09	5.13	0.84	0.77	5.93	5.90
Total revenues	201.29	197.55	39.06	39.49	240.35	237.04
Expenses						
General government	26.69	27.21	-	-	26.69	27.21
Judicial services	14.61	14.58	-	-	14.61	14.58
Public safety	51.52	51.90	-	-	51.52	51.90
Physical environment	3.98	4.19	-	-	3.98	4.19
Transportation	37.46	37.76	-	-	37.46	37.76
Health & human services	44.88	47.93	-	-	44.88	47.93
Economic environment	8.75	7.64	-	-	8.75	7.64
Culture & recreation	7.29	6.89	-	-	7.29	6.89
Interest on LT debt	5.44	5.37	-	-	5.44	5.37
Utilities	-	-	33.73	33.31	33.73	33.31
Others	-	-	0.03	0.42	0.03	0.42
Total expenses	200.62	203.47	33.76	33.73	234.38	237.20
Inc in net assets before transfers	0.67	(5.92)	5.30	5.76	5.97	(0.16)
Special item - (loss) debt	-	(10.33)	-	-	-	(10.33)
Special item - (loss) Annex		(2.17)				(2.17)
Transfers	0.54	0.54	(0.54)	(0.54)	-	-
Increase in net assets	1.21	(17.88)	4.76	5.22	5.97	(12.66)
Beginning Net assets	419.86	421.00	105.30	110.06	525.16	531.06
Prior period adjustments	(0.07)	0.28	-	-	(0.07)	0.28
Ending Net assets	\$ 421.00	\$ 403.40	\$ 110.06	\$ 115.28	\$ 531.06	\$ 518.69

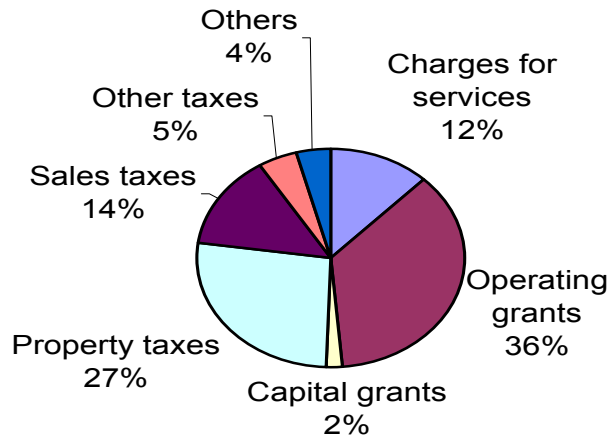
- o Property taxes increased by \$1.01 (1.95 percent) during the year. The extra .95 percent increase is tax collection on new homes for roads in the unincorporated area of the county in 2009.
- o Sales taxes decreased by \$2.30 (7.8 percent) during the year. This was caused by continued struggling economy in 2009.
- o Other Taxes decreased by \$.48 (4.91%). Almost all of this decrease was caused by the decrease in Real Estate Excise Tax, the result of a slowing housing market.

- Operating grants for government activities decreased slightly, while capital grants increased as we began to see stimulus monies.
- As mentioned previously the biggest change was caused by the county taking over debt for another governmental entity, resulting in the \$10.33 loss reported on the Special items line.
- Due to annexation, the County transferred assets to the City of Pt Orchard resulting in a loss of \$2.17, reported as a Special item.

Expenses and Program Revenues - Governmental Activities



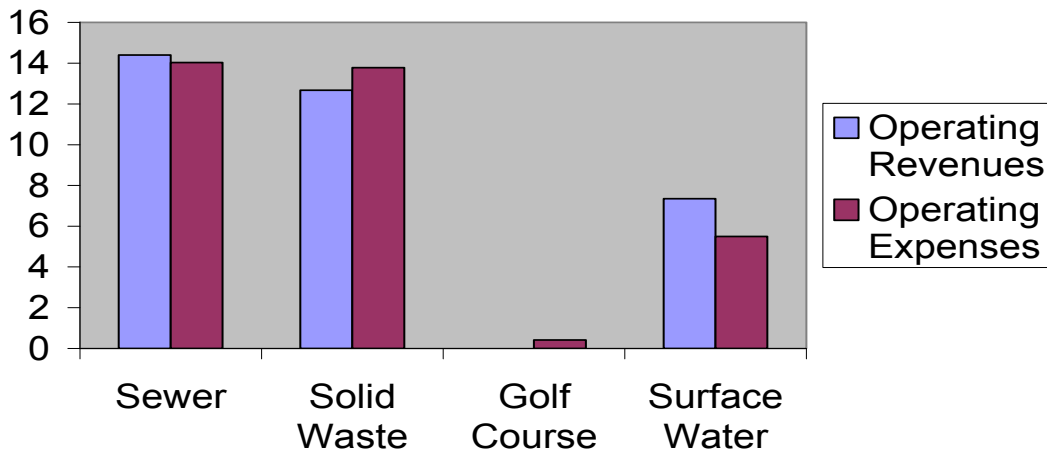
Revenues by Source – Governmental Activities

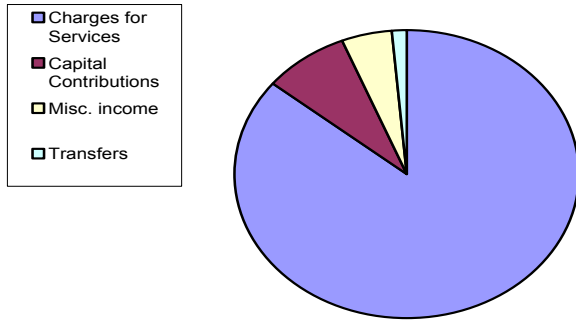


Business-type activities. The business-type activities increased the County’s net assets by \$5.22, accounting for part of the total growth in the government’s net assets. Key elements of this increase are as follows:

- Increases inflows of grants and contributions of \$2.29
- Increase in operating revenues of Surface water operations

Expenses and Program Revenues – Business-type Activities





Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, Kitsap County's governmental funds reported combining ending fund balances of \$76.18, a decrease of \$9.50 in comparison with the prior year.

The general fund is the chief operating fund of the Kitsap County. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$5.11, while the total fund balance decreased to \$5.57. It was noted earlier that we elected to move a long-term receivable out of the general fund, to debt service fund 286. This moved \$11.02 of reserved fund balance to that debt service fund, refer to the Notes to the financial statements for more details on this change (Note 18b). As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 6.3 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 decreased by \$1.19 during the current fiscal year. The key factor was the struggling economy leading to decreased sales tax revenues. The county took steps to limit increases in expenditures while looking for ways to increase revenues.

County road fund balance decreased by \$.67 due as labor and materials costs continue to exceed incoming revenues.

Real Estate Excise Tax fund balance decreased from \$5.86 in 2008 to \$3.55 in 2009 due to slowing home sales in the county.

The Home Entitlement fund balance increased from .085 in 2008 to .099 in 2009, as federal funding remained constant.

The Mental Health Medicaid fund had a balance of \$2.27 in 2009 down from \$2.34 in 2008.

The debt service funds have a total fund balance of \$12.32, all of which is reserved for the payment of debt service. The increase reflects the transfer of the long-term receivable from the general fund.

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

The Sewer Fund total net assets were \$68.28 in 2009, up \$4.05 from 2008. This increase was caused by a combination of income from operations and capital contributions received.

Solid Waste total net assets were \$27.87 for 2009 slightly down \$.12 2008, as operating expenses exceeded operating revenues.

Surface Water total net assets were \$19.14 for 2009 up \$1.87 from 2008. This was all due to operating income.

General Fund budgetary Highlights

GENERAL FUND BUDGETARY HIGHLIGHTS:

Actual General Fund revenues fell short of original budgeted revenues by \$5.05 during fiscal year 2009. The biggest reason for this was sales tax revenues which came in at \$2.2 less than the original budget.

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. This years budget amendments were dominated by decreases to adjust spending as lower than anticipated revenues were received.

During the year there was a \$2.91 decrease in appropriations between the original and final amended budget as each office or department was asked to make additional reduction. The actual expenditures of the general fund came in well under the final budget total of \$82.80, with a total of \$80.83.

Capital Assets

At the end of the fiscal year 2009, the Kitsap County investment in capital assets for its governmental activities is \$741.00 as reflected in the following schedule, which represents a net increase of \$13.68 or 1.9 percent from last year. See note 6 to the financial statements for further details on Capital Assets.

Governmental activities
Change in Capital Assets (millions)

	Governmental Activities		Business-type Activities		Total	
	2008	2009	2008	2009	2008	2009
Land	56.56	57.16	2.83	2.47	59.39	59.63
Infrastructure	446.07	448.81	0	0	446.07	448.81
Building	122.50	126.42	43.02	46.16	165.52	172.58
Building Improv	27.38	28.24	67.53	69.45	94.91	97.69
Machinery & Equipment	49.16	51.48	7.14	7.44	56.3	58.92
Construction in progress	25.65	28.89	9.11	10.23	34.76	39.12
Total	727.32	741.00	129.63	135.75	856.95	876.75
Less Accumulated depreciat	298.82	317.46	57.87	61.88	356.69	379.34
	\$ 428.50	\$ 423.54	\$ 71.76	\$ 73.87	\$ 500.26	\$ 497.41

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

- Various infrastructure projects were completed during the year at a cost of \$6.16
- The Coroner building was completed in 2009 with a cost of \$3.91
- Cencom technology purchases totaled \$1.34
- ER &R Fleet updated for a total of \$1.28

Business-type activities. The following were major additions in this area in 2009:

- Upgrade to Pump Station # 7 with a cost of \$2.70
- Update of various systems resulted in costs of \$2.4.

Long-term Debt

At year-end, the County had \$166.14 in long-term debt versus \$145.06 last year, a net increase of \$21.08 and 14.5 percent.

Outstanding Debt, at Year-End

Government activities:	2008	Addition	Deletion	2009
Bond Payable	\$ 102.87	\$ 3.62	\$ 6.15	\$ 100.34
Special assessment	0.01	-	0.01	-
Comp	5.19	4.48	4.62	5.05
Int. serv. Debt	0.23	0.24	0.24	0.23
Notes Payable	5.12	25.81	0.12	30.81
Net OPEB Obligation	1.59	0.62		2.21
Others	0.71	-	0.08	0.63
Total	115.72	34.77	11.22	139.27
Enterprise activities:				
Bond Payable	17.65	-	1.82	15.83
Comp	0.45	0.52	0.48	0.49
Others	11.24	0.00	0.69	10.55
Total	29.34	0.52	2.99	26.87
Total Debt	\$ 145.06	\$ 35.29	\$ 14.21	\$ 166.14

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

The major long-term debt additions for 2009 were the debt issues the county took over from the Kitsap County Consolidated Housing Authority. These debt issues totaled \$40.52, with \$29.41 remaining at year end. Refer to the Notes to the financial statements to obtain more details on these issues (Note 18c as well as Notes 10 and 12).

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

The State limits the amount of general obligation debts the County can issue without the vote of the people to 1.5% of the total assessed value. As of the end of the fiscal year, the County has \$357.19 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 and 12).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

Contacting the County's Financial Management

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

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



BASIC FINANCIAL STATEMENTS

KITSAP COUNTY, WASHINGTON

Statement of Net Assets

December 31, 2009

	Governmental Activities	Business-type Activities	Total	Component Unit PFD
ASSETS				
Cash and Cash equivalents	\$ 60,273,826	\$ 23,712,298	\$ 83,986,124	103,825
Deposits with fiscal agents	58,889	-	58,889	-
Investments	22,204,552	43,044,322	65,248,874	779,442
Receivables(net)				
Property taxes	3,573,574	-	3,573,574	-
Special assessments	47,382	35,087	82,469	-
Accounts	87,585	2,451,603	2,539,188	-
Others	73,634	-	73,634	-
Internal balances	17,115	(17,115)	(0)	-
Due from other governments	6,459,653	413,188	6,872,841	-
Prepayments	760,463	-	760,463	-
Advance to other funds	50,000	-	50,000	-
Inventories	1,402,055	268,257	1,670,312	-
Restricted assets:				
Cash and cash equivalents	1,471,741	-	1,471,741	-
Deposits with fiscal agents	15,000	-	15,000	-
Investments	8,445,405	43,625	8,489,030	-
Notes/Contracts	8,996,045	-	8,996,045	-
Special Assessment Receivable-Deferred	-	703,628	703,628	-
Long-term Receivable from Comp. Unit	10,620,000	-	10,620,000	-
Long-term Receivable from KCCHA	19,077,929	-	19,077,929	-
Capital assets, net (Note1)				
Land	57,157,303	2,465,721	59,623,024	-
Infrastructure	197,130,157	-	197,130,157	-
Buildings	98,224,844	19,919,025	118,143,869	-
Improvements & Other Buildings	19,328,013	38,894,072	58,222,085	-
Machinery & Equipment	22,809,948	2,369,002	25,178,950	-
Construction In Progress	28,886,617	10,231,439	39,118,056	-
Total assets	<u>567,171,729</u>	<u>144,534,151</u>	<u>711,705,882</u>	<u>883,266</u>
LIABILITIES				
Accounts payable and accrued expenses	5,242,906	1,684,957	6,927,863	-
Due to other governments	3,133,747	109,424	3,243,171	-
Other liabilities	8,014,295	588,020	8,602,315	-
Unearned revenue	8,102,017	-	8,102,017	-
Non current Liabilities (Note 2):				
Due within one year	9,882,054	2,523,218	12,405,272	415,000
Due in more than one year	129,387,890	24,343,942	153,731,832	10,205,000
Total liabilities	<u>163,762,909</u>	<u>29,249,561</u>	<u>193,012,469</u>	<u>10,620,000</u>
NET ASSETS				
Invested in capital assets, net of related debt	337,421,881	47,506,679	384,928,560	-
Restricted:				
Capital Projects	9,030,410	-	9,030,410	-
Debt service	12,374,440	43,625	12,418,065	-
Unrestricted	44,582,088	67,734,287	112,316,375	(9,736,734)
Total net assets	<u>\$ 403,408,821</u>	<u>\$ 115,284,591</u>	<u>\$ 518,693,412</u>	<u>\$ (9,736,734)</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, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Public Facility District
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities								
General Government	\$ 27,212,497	\$ 10,327,261	\$ 4,361,400	\$ -	\$ (12,523,837)	\$ -	\$ (12,523,837)	\$ -
Judicial Services	14,577,495	4,485,744	1,912,432	-	(8,179,319)	-	(8,179,319)	-
Public Safety	51,901,381	1,269,455	8,960,554	-	(41,671,372)	-	(41,671,372)	-
Physical Environment	4,197,524	4,067,537	2,746,971	-	2,616,984	-	2,616,984	-
Transportation	37,760,906	2,462,050	5,413,733	4,053,051	(25,832,072)	-	(25,832,072)	-
Health & Human Services	47,930,877	218,727	46,373,633	-	(1,338,517)	-	(1,338,517)	-
Economic Environment	7,638,818	85,788	1,986,807	-	(5,566,223)	-	(5,566,223)	-
Culture & Recreation	6,885,420	1,116,491	75,801	-	(5,693,128)	-	(5,693,128)	-
Interest on Long-term Debt	5,367,324	-	-	-	(5,367,324)	-	(5,367,324)	-
Total Governmental Activities	<u>203,472,241</u>	<u>24,033,051</u>	<u>71,831,330</u>	<u>4,053,051</u>	<u>(103,554,808)</u>	<u>0</u>	<u>(103,554,808)</u>	<u>-</u>
Business-type Activities								
Solid Waste	13,780,362	12,665,243	-	-	-	(1,115,119)	(1,115,119)	-
Sewer Utility	14,025,922	14,397,959	-	3,117,526	-	3,489,563	3,489,563	-
Surface Water	5,504,681	7,347,023	-	-	-	1,842,342	1,842,342	-
Golf	416,476	-	-	-	-	(416,476)	(416,476)	-
Total business-type activities	<u>33,727,441</u>	<u>34,410,225</u>	<u>-</u>	<u>3,117,526</u>	<u>-</u>	<u>3,800,310</u>	<u>3,800,310</u>	<u>-</u>
Total Primary Government	<u>\$ 237,199,682</u>	<u>\$ 58,443,276</u>	<u>\$ 71,831,330</u>	<u>\$ 7,170,577</u>	<u>(103,554,808)</u>	<u>3,800,312</u>	<u>(99,754,498)</u>	<u>-</u>
Component Units:								
Public Facility District(PFD)	682,588	-	-	-	-	-	-	(682,588)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					52,820,816	-	52,820,816	-
Property taxes, levied for debt service					-	-	-	-
Sales & use taxes					27,338,692	-	27,338,692	1,071,549
Other taxes					9,287,806	-	9,287,806	-
Investment earnings					3,064,077	1,188,850	4,252,927	15,205
Miscellaneous					5,133,011	776,000	5,909,011	1,700
Special item - gain(loss) assumption of debt					(10,329,582)	-	(10,329,582)	-
Special item - gain(loss) transfer of assets to City of Pt Orchard - annexation					(2,167,539)	-	(2,167,539)	-
Transfers					541,654	(541,654)	-	-
Total general revenues, special items, and transfers					<u>85,688,934</u>	<u>1,423,196</u>	<u>87,112,130</u>	<u>1,088,454</u>
Change in net assets					(17,865,874)	5,223,508	(12,642,368)	405,866
Net assets - beginning					420,999,697	110,061,084	531,060,781	(10,142,600)
Prior Period Adjustments					275,000	-	275,000	-
Net assets - ending					<u>\$ 403,408,821</u>	<u>\$ 115,284,591</u>	<u>\$ 518,693,412</u>	<u>\$ (9,736,733)</u>

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

FUND FINANCIAL STATEMENTS

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

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

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

Governmental Funds

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

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

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

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

Mental Health Medicaid – A fund used to account for Mental Health Programs funded with Medicaid resources.

Enterprise Funds

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

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

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

Balance Sheet
 Governmental Funds
 December 31, 2009

	Special Revenue Funds		
	General Fund	Road Department	Real Estate Excise Tax
ASSETS			
Cash and Cash equivalents	\$ 4,493,212	\$ 16,549,262	\$ 2,183,285
Deposits with fiscal agents	-	-	58,889
Investments	-	2,597,911	3,609,349
Receivables(net)	-	-	-
Property Taxes	2,088,666	1,339,347	-
Special assessments	-	1,622	-
Accounts	57,118	-	-
Notes/Contracts	-	24,102	4,950,000
Others	-	-	-
Due from other funds	736,500	1,660,329	-
Due from other governments	1,399,615	1,613,435	-
Interfund loan receivable	1,150,000	-	-
Prepayments	281,617	-	-
Advance to other funds	180,000	-	-
Total assets	\$ 10,386,727	\$ 23,786,008	\$ 10,801,523
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	1,018,060	625,397	1,516
Due to other funds	107,639	1,325,263	6,112
Due to other governments	-	-	2,279,000
Other liabilities	1,586,007	511,721	3,651
Advance from other fund	-	-	-
Revenues collected in advance	15,249	400	7,480
Deferred revenue	2,087,506	1,340,969	4,950,000
Interfund loan payable	-	-	-
Total liabilities	4,814,461	3,803,750	7,247,759
Fund balances			
Reserved:			
Prepaid items	281,617	-	-
Advance/Receivable	180,000	-	-
Mental health program	-	-	-
Mental health programs	-	-	-
Unreserved:			
General fund	5,110,649	-	-
Special revenues	-	19,982,258	3,553,763
Debt services	-	-	-
Capital projects funds	-	-	-
Total fund balance	5,572,266	19,982,258	3,553,763
Total liabilities & fund balances	\$ 10,386,727	\$ 23,786,008	\$ 10,801,523

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

Balance Sheet
 Governmental Funds
 December 31, 2009

	Home Entitlement Fund	Mental Health Medicaid Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash equivalents	\$ 39,694	\$ 64,566	\$ 13,071,604	\$ 36,401,623
Deposits with fiscal agents	-	-	15,000	73,889
Investments	84,933	2,605,462	21,752,302	30,649,957
Receivables(net)	-	-	-	-
Property Taxes	-	-	145,562	3,573,574
Special assessments	-	-	45,760	47,382
Accounts	-	-	30,467	87,585
Notes/Contracts	2,806,942	-	11,835,000	19,616,045
Others	3,980	-	69,654	73,634
Due from other funds	-	550	605,895	3,003,274
Due from other governments	174,964	-	3,271,640	6,459,653
Interfund loan receivable	-	-	-	1,150,000
Prepayments	-	-	-	281,617
Advance from other funds	-	-	50,000	230,000
Total assets	\$ 3,110,514	\$ 2,670,578	\$ 50,892,883	\$ 101,648,233
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	158,884	346,266	2,455,951	4,606,074
Due to other funds	15,924	28,598	546,652	2,030,187
Due to other governments	-	-	854,747	3,133,747
Other liabilities	-	21,511	523,669	2,646,559
Advance from other fund	30,000	-	150,000	180,000
Revenues collected in advance	-	-	14,059	37,188
Deferred revenues	2,806,942	-	500,368	11,685,785
Interfund loan payable	-	-	1,150,000	1,150,000
Total liabilities	3,011,750	396,374	6,195,446	25,469,540
Fund Balances				
Reserved:				
Prepaid items	-	-	-	281,617
Advance/receivable	-	-	50,000	230,000
Debt service	-	-	-	-
Mental health programs	-	2,315,868	347,277	2,663,145
Unreserved:				
General fund	-	-	-	5,110,649
Special revenues	98,764	(41,664)	22,929,305	46,522,427
Debt services	-	-	12,319,024	12,319,024
Capital projects funds	-	-	9,051,831	9,051,831
Total fund balances	98,764	2,274,204	44,697,437	76,178,693
Total liabilities and fund balances	\$ 3,110,514	\$ 2,670,578	\$ 50,892,883	\$ 101,648,233

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

KITSAP COUNTY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS December 31, 2009

Fund balances of governmental funds - page 19 \$ 76,178,693

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

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

Capital assets	741,000,160	
Depreciation	(317,463,279)	
Capital asset net of depreciation		423,536,881

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

Bond payable	100,334,988	
Compensated absences	5,047,066	
Bond Anticipation Note	25,807,523	
Other long-term liabilities	7,849,835	
Long-term debt		(139,039,412)

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

Taxes/Assessments receivable	3,620,956
KCCHA receivable	19,077,929

Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets.

Assets	27,315,411	
Liabilities	(7,405,397)	
Uses Other than Operations	123,760	
Asset less liabilities		20,033,774

Net assets of governmental activities - page 14

\$ 403,408,821

Statement of Revenue, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2009

	Special Revenue Funds		
	General Fund	County Roads	Real Estate Excise Tax
REVENUES:			
Property taxes	\$ 28,107,343	\$ 22,426,997	\$ -
Retail sales & use taxes	20,597,058	-	-
Other taxes	4,627,501	56,345	2,929,539
Licenses and permits	205,203	144,680	-
Intergovernmental	9,837,637	9,466,784	-
Charges for services	9,824,133	651,649	-
Fines & forfeits	2,419,026	-	-
Investment earnings	1,749,057	102,448	333,418
Miscellaneous	1,835,787	123,551	290,716
Total revenues	<u>79,202,743</u>	<u>32,972,453</u>	<u>3,553,673</u>
EXPENDITURES:			
Current:			
General government	25,771,755	-	13,537
Judicial Services	14,287,024	-	-
Public safety	36,264,394	-	-
Physical Environment	-	-	-
Transportation	-	23,192,867	-
Health & Human Services	-	-	-
Economic Environment	-	-	-
Culture & recreation	4,279,518	-	-
Interest on long-term debt	-	-	-
Debt service			
Principal	-	78,912	110,000
Interest and other charges	21,273	4,971	256,115
Capital outlay	202,474	10,003,715	-
Total expenditures	<u>80,826,438</u>	<u>33,280,465</u>	<u>379,652</u>
Excess(deficiency) of revenues over expenditures	<u>(1,623,695)</u>	<u>(308,012)</u>	<u>3,174,021</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from BANS	-	-	-
Capital-related debt issued	-	-	-
Special Item-sales of pledged assets	-	-	-
Payment of assumed debt	-	-	-
Transfers in	2,882,256	225,000	-
Transfers out	(13,908,856)	(586,323)	(5,475,152)
Other adjustments	-	-	-
Total other financing sources & uses	<u>(11,026,600)</u>	<u>(361,323)</u>	<u>(5,475,152)</u>
Net change in fund balance	<u>(12,650,295)</u>	<u>(669,335)</u>	<u>(2,301,131)</u>
Fund balances-beginning	17,778,350	20,651,592	5,854,894
Prior period adjustments	444,211	-	-
Fund balances-ending	<u>\$ 5,572,266</u>	<u>\$ 19,982,257</u>	<u>\$ 3,553,763</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, 2009

	Home Entitlement Fund	Mental Health Medicaid Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property taxes	\$ -	\$ -	\$ 2,286,477	\$ 52,820,817
Retail sales & use taxes	-	-	6,741,634	27,338,691
Other taxes	-	-	1,674,421	9,287,805
Licenses and permits	-	-	1,496,823	1,846,706
Intergovernmental	509,513	20,506,347	35,564,100	75,884,382
Charges for services	-	-	5,417,973	15,893,754
Fines & forfeits	-	-	299,994	2,719,020
Investment earnings	5,827	18,449	854,879	3,064,078
Miscellaneous	4,800	351,050	2,063,249	4,669,153
Total revenues	520,140	20,875,846	56,399,549	193,524,405
EXPENDITURES:				
Current:				
General government	-	-	1,754,659	27,539,951
Judicial Services	-	-	269,291	14,556,315
Public safety	-	-	11,439,137	47,703,531
Physical Environment	-	-	4,197,523	4,197,523
Transportation	-	-	55,859	23,248,726
Health & Human Services	-	20,939,939	26,840,152	47,780,091
Economic Environment	506,688	-	7,117,130	7,623,818
Culture & recreation	-	-	1,202,897	5,482,415
Interest on long-term debt	-	-	-	-
Debt service	-	-	-	-
Principal	-	-	17,248,693	17,437,605
Interest and other charges	-	-	6,381,844	6,664,203
Capital outlay	-	-	4,471,525	14,677,714
Total expenditures	506,688	20,939,939	80,978,710	216,911,891
Excess(deficiency) of revenues over expenditures	<u>13,452</u>	<u>(64,093)</u>	<u>(24,579,161)</u>	<u>(23,387,487)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from BANS	-	-	40,546,206	40,546,206
Capital -related debt issued	-	-	-	-
Special Item-sales of pledged assets	-	-	26,595,081	26,595,081
Payment of assumed debt	-	-	(54,103,491)	(54,103,491)
Transfers in	-	-	26,241,924	29,349,180
Transfers out	-	-	(8,805,036)	(28,775,367)
Other Adjustments	-	-	-	-
Total other financing sources & uses	-	-	30,474,684	13,611,609
Net change in fund balance	13,452	(64,092)	5,895,525	(9,775,877)
Fund balances-beginning	85,312	2,338,297	38,971,127	85,679,572
Prior period adjustments	-	-	(169,211)	275,000
Fund balances-ending	\$ 98,764	\$ 2,274,205	\$ 44,697,437	\$ 76,178,693

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, 2009

Net change in fund balances-total governmental funds - page 22 \$ (9,775,876)

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

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

Capital out-lay	14,677,714
Depreciation	(21,522,261)

Capital Asset Transactions

Gain recognized in Statement of Activities but not in the funds	
Assets from Village Greens added	416,476

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

Receipts from bond sales	(40,546,216)
Receipts from sales of non-county contracted assets	(26,595,081)
Payment of assumed debt	54,103,491
Other debt issuance costs	1,296,883
Bond principal	17,437,605
Recording of Net OPEB Obligation	(622,015)
Special item - loss from assuming - KCCHA debt	(10,329,582)
Special item - loss on transfer of assets to City of Pt Orchard - Annexation	(2,167,539)

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

Property taxes receivable	3,573,574
Special Assessments	47,382

Internal services Activities

Net Transfers	(32,157)
Depreciation already included above	2,083,512
Net profit	88,217

Change in net assets of governmental activities - page 15 \$ (17,865,874)

KITSAP COUNTY, WASHINGTON

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

General Fund

Year Ended December 31, 2009

	2009			
	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES:				
Property taxes	\$ 28,689,530	\$ 28,689,530	\$ 28,107,343	\$ (582,187)
Retail sales & use taxes	22,815,004	20,006,784	20,597,058	590,274
Other taxes	4,280,750	4,280,750	4,627,501	346,751
Licenses and permits	243,475	243,475	205,203	(38,272)
Intergovernmental	11,494,163	11,049,437	9,837,637	(1,211,800)
Charges for services	9,781,830	10,469,484	9,824,133	(645,351)
Fines & forfeits	2,745,864	2,780,864	2,419,026	(361,838)
Investment Earnings	1,968,000	1,968,000	1,749,057	(218,943)
Miscellaneous	2,233,756	2,265,662	1,835,787	(429,875)
Total revenues	<u>84,252,372</u>	<u>81,753,986</u>	<u>79,202,743</u>	<u>(2,551,241)</u>
EXPENDITURES:				
Current:				
General government				
Administrative Services	\$ 1,082,058	\$ 971,233	\$ 961,836	\$ 9,397
Assessor	2,429,189	2,313,614	2,303,495	10,119
Auditor	3,656,770	3,445,222	3,402,153	43,069
Commissioners	1,332,764	1,323,709	1,302,972	20,737
General Administration	6,555,610	5,666,029	5,638,073	27,956
Personnel & Human resources	1,130,620	1,062,922	1,053,738	9,184
Prosecuting attorney	8,551,247	8,502,924	8,320,577	182,347
Facilities Maintenance	2,179,123	2,035,067	1,928,381	106,686
Treasurer	916,711	877,483	860,530	16,953
Total general government	<u>27,834,092</u>	<u>26,198,203</u>	<u>25,771,755</u>	<u>426,448</u>
Judicial Services				
Clerk	\$ 6,716,533	\$ 6,448,835	\$ 6,228,109	\$ 220,726
District court	2,973,507	2,911,143	2,845,929	65,214
Superior court	2,917,705	2,688,758	2,644,705	44,053
Juvenile	2,758,142	2,616,276	2,568,281	47,995
Total Judicial services	<u>15,365,887</u>	<u>14,665,012</u>	<u>14,287,024</u>	<u>377,988</u>
Public safety				
Sheriff	\$ 17,628,220	\$ 18,608,224	\$ 18,077,640	\$ 530,584
Jail	12,546,925	12,513,523	12,405,769	107,754
Juvenile	5,460,752	5,033,802	4,881,483	152,319
Coroner	911,843	895,890	878,155	17,735
Personnel & Human Resources	29,905	29,621	21,346	8,275
Total Public Safety	<u>36,577,645</u>	<u>37,081,060</u>	<u>36,264,393</u>	<u>816,667</u>
Culture & recreation				
Parks	\$ 3,934,820	\$ 3,761,097	\$ 3,753,180	\$ 7,917
Cooperative Extension	260,288	237,050	232,561	4,489
Personnel & Human Resources	341,147	318,716	293,777	24,939
Total Culture & Recreation	<u>4,536,255</u>	<u>4,316,863</u>	<u>4,279,518</u>	<u>37,345</u>
Interest and other charges	25,000	25,000	21,273	3,727
Capital outlay	1,375,602	513,378	202,474	310,904
Total expenditures	<u>85,714,481</u>	<u>82,799,516</u>	<u>80,826,438</u>	<u>1,973,078</u>
Excess(deficiency) of revenues over expenditures	(1,462,109)	(1,045,530)	(1,623,695)	(578,165)
OTHER FINANCING SOURCES (USES):				
Transfers in	2,944,373	3,103,607	2,882,256	(221,351)
Transfers out	(2,690,048)	(2,920,779)	(13,908,856)	(10,988,077)
Total other financing sources & uses	<u>254,325</u>	<u>182,828</u>	<u>(11,026,600)</u>	<u>(11,209,428)</u>
Net change in fund balance	<u>(1,207,784)</u>	<u>(862,702)</u>	<u>(12,650,295)</u>	<u>(11,787,593)</u>
Fund balances-beginning	17,778,350	17,778,350	17,778,350	-
Prior period adjustments			444,211	444,211
Fund balances-ending	<u>16,570,566</u>	<u>16,915,648</u>	<u>5,572,266</u>	<u>(11,343,382)</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, 2009

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 23,052,755	\$ 23,052,755	\$ 22,426,997	\$ (625,758)
Retail sales & use taxes	-	-	-	-
Other taxes	50,000	50,000	56,345	6,345
Licenses and permits	103,000	103,000	144,680	41,680
Intergovernmental	10,827,092	10,827,092	9,466,784	(1,360,308)
Charges for services	915,000	915,000	651,649	(263,351)
Fines & forfeits	-	-	-	-
Investment earnings	25,000	25,000	102,448	77,448
Miscellaneous	1,000	1,000	123,551	122,551
Total revenues	<u>34,973,847</u>	<u>34,973,847</u>	<u>32,972,453</u>	<u>(2,001,394)</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	27,369,724	27,383,045	23,192,867	4,190,178
Health & Human Services	-	-	-	-
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service				
Principal	78,913	78,913	78,912	1
Interest and other charges	6,041	6,041	4,971	1,070
Capital outlay	14,507,000	14,596,125	10,003,715	4,592,410
Total expenditures	<u>41,961,678</u>	<u>42,064,124</u>	<u>33,280,465</u>	<u>8,783,659</u>
Excess(deficiency) of revenues over expenditures	<u>(6,987,831)</u>	<u>(7,090,277)</u>	<u>(308,012)</u>	<u>6,782,265</u>
OTHER FINANCING SOURCES (USES):				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	1,367,000	1,592,000	225,000	(1,367,000)
Transfers out	(586,337)	(586,337)	(586,323)	14
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>780,663</u>	<u>1,005,663</u>	<u>(361,323)</u>	<u>(1,366,986)</u>
Net change in fund balance	<u>(6,207,168)</u>	<u>(6,084,614)</u>	<u>(669,335)</u>	<u>5,415,279</u>
Fund balances-beginning	20,651,592	20,651,592	20,651,592	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 14,444,424</u>	<u>\$ 14,566,978</u>	<u>\$ 19,982,257</u>	<u>\$ 5,415,279</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, 2009

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Retail sales & use taxes	-	-	-	-
Other taxes	4,800,000	4,800,000	2,929,539	(1,870,461)
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines & forfeits	-	-	-	-
Investment earnings	460,000	460,000	333,418	(126,582)
Miscellaneous	190,000	190,000	290,716	100,716
Total revenues	<u>5,450,000</u>	<u>5,450,000</u>	<u>3,553,673</u>	<u>(1,896,327)</u>
EXPENDITURES:				
Current:				
General government	23,265	23,265	13,537	9,728
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	-	-	-	-
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service	-	-	-	-
Principal	110,000	110,000	110,000	(0)
Interest and other charges	243,320	243,320	256,115	(12,795)
Capital outlay	-	-	-	-
Total expenditures	<u>376,585</u>	<u>376,585</u>	<u>379,652</u>	<u>(3,067)</u>
Excess(deficiency) of revenues over expenditures	<u>5,073,415</u>	<u>5,073,415</u>	<u>3,174,021</u>	<u>(1,899,394)</u>
OTHER FINANCING SOURCES (USES):				
BAN Proceeds	-	2,279,000	-	(2,279,000)
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	100,000	100,000	-	(100,000)
Transfers in	-	-	-	-
Transfers out	(5,385,079)	(5,475,084)	(5,475,152)	(68)
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>(5,285,079)</u>	<u>(3,096,084)</u>	<u>(5,475,152)</u>	<u>(2,379,068)</u>
Net change in fund balance	<u>(211,664)</u>	<u>1,977,331</u>	<u>(2,301,131)</u>	<u>(4,278,462)</u>
Fund balances-beginning	5,854,894	5,854,894	5,854,894	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 5,643,230</u>	<u>\$ 7,832,225</u>	<u>\$ 3,553,763</u>	<u>\$ (4,278,462)</u>

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

KITSAP COUNTY, WASHINGTON

Home Entitlement Fund 166

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2009

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Retail sales & use taxes	-	-	-	-
Other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	2,844,726	2,844,726	509,513	(2,335,213)
Charges for services	-	-	-	-
Fines & forfeits	-	-	-	-
Investment earnings	-	-	5,827	5,827
Miscellaneous	-	-	4,800	4,800
Total revenues	2,844,726	2,844,726	520,140	(2,324,586)
EXPENDITURES:				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	-	-	-	-
Economic Environment	2,844,726	2,844,726	506,688	2,338,038
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	2,844,726	2,844,726	506,688	2,338,038
Excess(deficiency) of revenues over expenditures	-	-	13,452	13,452
OTHER FINANCING SOURCES (USES):				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Other adjustments	-	-	-	-
Total other financing sources & uses	-	-	-	-
Net change in fund balance	-	-	13,452	13,452
Fund balances-beginning	85,312	85,312	85,312	-
Prior period adjustments	-	-	-	-
Fund balances-ending	\$ 85,312	\$ 85,312	\$ 98,764	\$ 13,452

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, 2009

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Retail sales & use taxes	-	-	-	-
Other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	19,370,000	22,170,000	20,506,347	(1,663,653)
Charges for services	-	-	-	-
Fines & forfeits	-	-	-	-
Investment earnings	-	-	18,449	18,449
Miscellaneous	430,000	430,000	351,050	(78,950)
Total revenues	<u>19,800,000</u>	<u>22,600,000</u>	<u>20,875,846</u>	<u>(1,724,154)</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Judicial Services	-	-	-	-
Public safety	-	-	-	-
Physical Environment	-	-	-	-
Transportation	-	-	-	-
Health & Human Services	19,797,514	22,597,514	20,939,939	1,657,575
Economic Environment	-	-	-	-
Culture & recreation	-	-	-	-
Interest on long-term debt	-	-	-	-
Debt service	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>19,797,514</u>	<u>22,597,514</u>	<u>20,939,939</u>	<u>1,657,575</u>
Excess(deficiency) of revenues over expenditures	<u>2,486</u>	<u>2,486</u>	<u>(64,093)</u>	<u>(66,579)</u>
OTHER FINANCING SOURCES (USES):				
Refunding bonds issued	-	-	-	-
Capital -related debt issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Other adjustments	-	-	-	-
Total other financing sources & uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>2,486</u>	<u>2,486</u>	<u>(64,093)</u>	<u>(66,579)</u>
Fund balances-beginning	<u>2,338,297</u>	<u>2,338,297</u>	<u>2,338,297</u>	<u>-</u>
Prior period adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances-ending	<u>\$ 2,340,783</u>	<u>\$ 2,340,783</u>	<u>\$ 2,274,204</u>	<u>\$ (66,579)</u>

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

Statement of Net Assets

Proprietary Funds

December 31, 2009

	Business-type Activities-Enterprise Funds				Total
	Sanitary Sewer	Solid Waste	Surface Water Utility	Other Non-Major Fund	
ASSETS					
Current assets:					
Cash and Cash equivalents	\$ 10,823,667	\$ 10,037,494	\$ 2,851,137	\$ -	\$ 23,712,298
Deposits with fiscal agents	-	-	-	-	-
Investments	17,639,561	16,398,832	9,005,929	-	43,044,322
Receivables(net)					
Special assessments	35,087	-	-	-	35,087
Accounts	1,429,778	930,538	91,287	-	2,451,603
Due from other funds	373,765	221,521	133,885	-	729,171
Due from other governments	72,341	195,847	145,000	-	413,188
Prepayments	-	-	-	-	-
Inventories	268,257	-	-	-	268,257
Restricted assets:					
Cash and cash equivalents	-	-	-	-	-
Deposits with fiscal agents	-	-	-	-	-
Investments	43,625	-	-	-	43,625
Total current assets	<u>30,686,081</u>	<u>27,784,232</u>	<u>12,227,238</u>	<u>-</u>	<u>70,697,551</u>
Noncurrent assets:					
Special Assessment Receivable-Deferred	703,628				703,628
Capital assets, net (Note1)					
Land	1,123,482	472,444	869,795	-	2,465,721
Buildings	45,501,328	658,279	-	-	46,159,607
Improvements & Other Buildings	61,545,616	1,606,355	6,305,224	-	69,457,195
Machinery & Equipments	7,198,240	84,974	162,633	-	7,445,847
Construction In Progress	7,600,550	58,675	2,572,214	-	10,231,439
Less accumulated depreciation	(58,120,931)	(1,357,308)	(2,402,311)	-	(61,880,550)
Total noncurrent assets	<u>65,551,913</u>	<u>1,523,419</u>	<u>7,507,555</u>	<u>-</u>	<u>74,582,887</u>
Total assets	<u>96,237,994</u>	<u>29,307,651</u>	<u>19,734,793</u>	<u>-</u>	<u>145,280,438</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	622,495	938,292	124,171	-	1,684,958
Due to other funds	181,878	320,116	244,291	-	746,285
Due to other governments	10,587	29,575	69,262	-	109,424
Other liabilities	450,017	63,271	74,732	-	588,020
Current portion of long term liabilities	2,523,218				2,523,218
Total current liabilities	<u>3,788,195</u>	<u>1,351,254</u>	<u>512,456</u>	<u>-</u>	<u>5,651,905</u>
Non current Liabilities (Note 2):					
Due in more than one year	24,169,508	88,202	86,232	-	24,343,942
Total noncurrent liabilities	<u>24,169,508</u>	<u>88,202</u>	<u>86,232</u>	<u>-</u>	<u>24,343,942</u>
Total liabilities	<u>27,957,703</u>	<u>1,439,456</u>	<u>598,688</u>	<u>-</u>	<u>29,995,847</u>
NET ASSETS					
Invested in capital assets, net of related debt	38,475,705	1,523,419	7,507,555	-	47,506,679
Restricted:					
Debt service	43,625	-	-	-	43,625
Unrestricted	29,760,961	26,344,776	11,628,550	-	67,734,287
Total net assets	<u>\$ 68,280,291</u>	<u>\$ 27,868,195</u>	<u>\$ 19,136,105</u>	<u>\$ -</u>	<u>\$ 115,284,591</u>

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

Statement of Net Assets

Proprietary Funds
December 31, 2009

	Governmental Activities Internal Services Funds
ASSETS	
Current assets:	
Cash and Cash equivalents	\$ 25,343,944
Deposits with fiscal agents	-
Investments	-
Receivables(net)	
Special assessments	-
Accounts	-
Due from other funds	90,566
Due from other governments	-
Prepayments	478,846
Inventories	1,402,055
Restricted assets:	
Cash and cash equivalents	-
Deposits with fiscal agents	-
Investments	-
Total current assets	<u>27,315,411</u>
Noncurrent assets:	
Capital assets, net (Note1)	
Land	-
Buildings	-
Improvements & Other Buildings	-
Machinery & Equipments	28,279,609
Construction In Progress	-
Less accumulated depreciation	<u>(17,008,400)</u>
Total noncurrent assets	<u>11,271,209</u>
Total assets	<u>38,586,620</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	636,832
Due to other funds	1,047,121
Due to other governments	-
Other liabilities	5,490,913
Current portion of long term liabilities	-
Total current liabilities	<u>7,174,866</u>
Non current Liabilities (Note 2):	
Due in more than one year	<u>230,531</u>
Total noncurrent liabilities	<u>230,531</u>
Total liabilities	<u>7,405,397</u>
NET ASSETS	
Invested in capital assets, net of related debt	11,271,209
Restricted:	
Debt service	-
Unrestricted	19,910,014
Total net assets	<u>\$ 31,181,223</u>

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

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

Proprietary Funds

For the Year Ended December 31, 2009

	Business-type Activities - Enterprise Funds				Total
	Sanitary Sewer	Solid Waste	Surface Water Utility	Other Non-Major Fund	
Operating revenues:					
Charges for services	\$ 14,397,288	\$ 12,548,460	\$ 7,342,020	\$ -	\$ 34,287,768
Revenues used for security	\$ -				\$ -
Miscellaneous	671	116,783	5,003	-	122,457
Total operating revenues	<u>14,397,959</u>	<u>12,665,243</u>	<u>7,347,023</u>	<u>-</u>	<u>34,410,225</u>
Operating expenses:					
Personal services	4,742,054	1,742,279	2,271,641	-	8,755,974
Contractual services	870,507	1,140,953	2,236,061	-	4,247,521
Utilities	1,165,398	10,166,987	71,488	-	11,403,873
Repair and maintenance	160,330	47,635	97,068	-	305,033
Other supplies and expenses	2,377,015	573,227	453,036	-	3,403,278
Insurance claims and expenses	31,508	9,828	58,312	-	99,648
Depreciation	3,740,965	99,453	317,075	-	4,157,493
Total operating expenses	<u>13,087,777</u>	<u>13,780,362</u>	<u>5,504,681</u>	<u>-</u>	<u>32,372,820</u>
Operating income	<u>1,310,182</u>	<u>(1,115,119)</u>	<u>1,842,342</u>	<u>-</u>	<u>2,037,405</u>
Nonoperating revenue (expenses)					
Interest and investment revenue	549,323	441,161	198,366	-	1,188,850
Miscellaneous revenue	163,411	549,776	62,813	-	776,000
Interest expense	(938,145)	-	-	-	(938,145)
Miscellaneous expense	-	-	-	(416,476)	(416,476)
Total nonoperating expenses	<u>(225,411)</u>	<u>990,937</u>	<u>261,179</u>	<u>(416,476)</u>	<u>610,229</u>
Income (loss) before contributions & transfers	1,084,771	(124,182)	2,103,521	(416,476)	2,647,634
Capital contributions	3,117,526	-	-	-	3,117,526
Transfers in	-	-	-	-	-
Transfers out	(149,608)	-	(234,388)	(157,658)	(541,654)
Change in net assets	4,052,689	(124,182)	1,869,133	(574,134)	5,223,506
Total net assets - beginning	64,227,602	27,992,377	17,266,972	574,134	110,061,085
Prior Period Adjustments	-	-	-	-	-
Total net assets - ending	<u>\$ 68,280,292</u>	<u>\$ 27,868,195</u>	<u>\$ 19,136,105</u>	<u>\$ -</u>	<u>\$ 115,284,591</u>

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

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

Proprietary Funds

For the Year Ended December 31, 2009

	Governmental Activities Internal Service Funds
Operating revenues:	
Charges for services	\$ 17,921,990
Miscellaneous	15,900
Total operating revenues	<u>17,937,890</u>
Operating expenses:	
Personal services	5,390,653
Contractual services	1,407,403
Utilities	28,512
Repair and maintenance	1,022,907
Other supplies and expenses	6,334,168
Insurance claims and expenses	1,698,635
Depreciation	2,083,512
Total operating expenses	<u>17,965,790</u>
Operating income	<u>(27,900)</u>
Nonoperating revenue (expenses)	
Interest and investment revenue	-
Miscellaneous revenue	18,897
Interest expense	-
Miscellaneous expense	-
Total nonoperating expenses	<u>18,897</u>
Income (loss) before contributions & transfers	(9,003)
Capital contributions	129,377
Transfers in	130,000
Transfers out	<u>(162,157)</u>
Change in net assets	88,217
Total net assets - beginning	31,093,006
Prior Period Adjustments	-
Total net assets - ending	<u><u>\$ 31,181,223</u></u>

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

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2009

	Business-type Activities - Enterprise Funds				Total
	Sanitary Sewer	Solid Waste	Surface Water Utility	Other Non- Major Fund	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$14,417,748	\$12,989,489	\$ 7,405,088	\$ -	\$ 34,812,325
Payments to suppliers	(4,243,414)	(12,148,765)	(3,013,704)	(2,313)	(19,408,196)
Payments to employees	(4,734,423)	(1,738,721)	(2,270,070)	-	(8,743,214)
Net cash provided by operating activities	5,439,911	(897,997)	2,121,314	(2,313)	6,660,915
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants received	91,070	611,239	62,812	-	765,121
Transfers in	-	-	-	-	-
Transfers out	(149,608)	-	(234,388)	(157,658)	(541,654)
Net cash provided by noncapital activities	(58,538)	611,239	(171,576)	(157,658)	223,467
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	659,128	-	-	-	659,128
Purchases of capital assets	(3,768,648)	(25,179)	(385,052)	-	(4,178,879)
Principal paid on capital debt	(2,324,478)	-	-	-	(2,324,478)
Interest paid on capital debt	(1,011,759)	-	-	-	(1,011,759)
Net cash from related financing activities	(6,445,757)	(25,179)	(385,052)	-	(6,855,988)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	13,937,139	8,670,636	2,700,000	-	25,307,775
Purchase of Investment	(4,776,452)	(1,439,607)	(3,274,340)	-	(9,490,400)
Interest and dividends	549,323	441,161	198,366	-	1,188,850
Net cash provided by investing activities	9,710,010	7,672,190	(375,974)	-	17,006,225
Net (decrease) in cash and cash equivalents	8,645,626	7,360,253	1,188,712	(159,971)	17,034,619
Balances - beginning of the year	2,178,041	2,677,241	1,662,425	159,971	6,677,678
Balances - end of the year	\$10,823,667	\$10,037,494	\$ 2,851,137	\$ -	\$ 23,712,298
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 1,310,182	\$ (1,115,119)	1,842,342	\$ -	\$ 2,037,405
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	3,740,965	99,453	317,075	-	4,157,493
Change in assets and liabilities:					
Receivables, net	178,857	(79,621)	(51,590)	-	47,646
Due from other funds	(159,068)	403,867	(2,783)	-	242,016
Due from other governments	-	-	112,438	-	112,438
Inventories	6,842	-	-	-	6,842
Prepaid	-	-	-	-	-
Accounts and other payables	347,274	176,232	(89,492)	(2,313)	431,701
Due to other funds	16,568	(399,336)	(21,731)	-	(404,499)
Due to other governments	6,238	4,515	17,044	-	27,797
Employee benefits	7,631	3,558	1,571	-	12,760
Accrued expenses	(15,578)	8,454	(3,560)	-	(10,684)
Net cash provided by operating activities	\$ 5,439,911	\$ (897,997)	\$ 2,121,314	\$ (2,313)	\$ 6,660,915

Noncash investing, capital and financing Activities

Contribution of capital assets	\$ 2,458,398	2,458,398
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The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows**Proprietary Funds**

For the Year Ended December 31, 2009

	Activities
	Internal service Funds
CASH FLOWS FROM	
OPERATING ACTIVITIES	
Receipts from customers	\$ 18,456,770
Payments to suppliers	(9,485,907)
Payments to employees	(5,387,769)
Net cash provided by operating activities	<u>3,583,094</u>
CASH FLOWS FROM NONCAPITAL	
FINANCING ACTIVITIES	
Operating grants received	18,898
Transfers in	-
Transfers out	(32,157)
Net cash provided by noncapital activities	<u>(13,259)</u>
CASH FLOWS FROM CAPITAL AND	
RELATED FINANCING ACTIVITIES	
Capital contributions	-
Purchases of capital assets	(1,510,143)
Principal paid on capital debt	-
Interest paid on capital debt	-
Net cash from related financing activities	<u>(1,510,143)</u>
CASH FLOWS FROM	
INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	-
Purchase of Investment	-
Interest and dividends	-
Net cash provided by investing activities	<u>-</u>
Net (decrease) in cash and cash equivalents	2,059,692
Balances - beginning of the year	23,284,252
Balances - end of the year	<u>\$ 25,343,944</u>
Reconciliation of operating income	
(loss) to net cash provided	
(used) by operating activities:	
Operating income (loss)	<u>\$ (27,900)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	2,083,512
Change in assets and liabilities:	
Receivables, net	(174,509)
Due from other funds	518,880
Due from other governments	-
Inventories	(292,659)
Prepaid	-
Accounts and other payables	179,752
Due to other funds	850,463
Due to other governments	-
Employee benefits	2,884
Accrued expenses	442,671
Net cash provided by operating activities	<u>\$ 3,583,094</u>
Noncash investing, capital and financing Activities	
Contribution of capital assets	\$ 129,377

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

KITSAP COUNTY, WASHINGTON

Statement of Fiduciary Net Assets

December 31, 2009

	Employee Deferred Compensation	Agency Funds
ASSETS		
Cash	\$ -	\$ 23,377,001
Deposits with Fiscal Agents	22,799,856	55,000
Investments		174,338,300
Taxes Receivable		12,110,681
Other Current Receivables		9,030
Due From Other Funds		582
Due From Other Governments		111,424
Total Assets	<u>\$22,799,856</u>	<u>\$ 210,002,018</u>
LIABILITIES		
Warrants Payable		\$ 5,585,529
Accounts Payable		
Sales Tax Payable		
Other Accrued Liabilities		
Due to Other Funds		-
Due to Other Governments		1,000
Interfund loans		50,000
Custodial Account		204,365,489
Total Liabilities	<u>\$ -</u>	<u>\$ 210,002,018</u>
NET ASSETS		
Held in trust for pension benefits and other purposes	\$22,799,856	

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

KITSAP COUNTY, WASHINGTON

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the Fiscal Year Ended December 31, 2009

	Employee Deferred Compensation
ADDITIONS	
Contributions:	
Employer	\$ -
Plan Members	1,324,214
Total Contributions	<u>1,324,214</u>
Roll-Ins	-
Investment Earnings	3,908,749
Total Additions	<u>5,232,962</u>
DEDUCTIONS	
Benefits	(1,535,329)
Others	-
Total Deductions	<u>(1,535,329)</u>
Change In Net Assets	3,697,633
Net Assets-Beginning Of The Year	19,102,222
Net Assets-End Of The Year	<u>\$ 22,799,855</u>

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2009

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KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting entity

Kitsap County is a municipal corporation of Washington State, governed under the commissioner form of government. The accompanying financial statements present the government and entities for which the government is considered to be financially accountable. The Kitsap County voters elected the three-member board on a partisan basis to serve overlapping 4-year terms. The Board of County Commissioners is the legislative body. It also has a quasi-judicial role in dealing with land use matters. The body is also responsible for all administrative duties of running the County, which are not expressly given to any other County position.

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

Blended component units. The Industrial Development Corporation of Kitsap County was created and approved by the Kitsap County Board of Commissioners on May 17, 1999 to construct and maintain industrial facilities throughout Kitsap County. All three county commissioners are on its board of directors; therefore, the County is financially responsible for the operation of the corporation. IDC sold \$2 million in non-recourse revenue bonds in 2003 which neither the County, nor IDC is responsible to repay under the loan agreement. The issuer (IDC) loaned the proceeds of the bonds to CARA Group, LLC, a Washington limited liability company (the Borrower) pursuant to a loan agreement dated March 1, 2003. The Borrower is obligated to make payments to the trustee in amounts sufficient to pay the principal and premium, if any, and interest on the bonds, and certain other fees and expenses and to make payments sufficient to pay the purchase price of bonds tendered or deemed tendered for purchase to the extent that other moneys are not available. The corporation did not have any activity; therefore there is nothing to report.

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The County considers property taxes as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The County reports the following major governmental funds:

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

The **county road fund** is used to account for the maintenance and the construction of County roads and bridges.

The **real estate excise tax fund** is used to account for the collection of real estate excise taxes to be used for capital projects.

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

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

The County reports the following major proprietary funds:

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

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

The **surface water utility** is used to account for costs of providing surface water utilities to the residents of Kitsap County.

Additionally, the County reports the following fund types:

Internal service funds provide Information and Computer services, Self-Insurance program, and Equipment Rental and Repair services to other departments or agencies of the County, or to other agencies, on a cost reimbursement basis.

The **fiduciary funds** for Kitsap County are as follows:

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

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

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

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

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

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

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

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

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for all of the Governmental funds of the County on the modified accrual basis of accounting except those funds listed below. Budgets were not adopted for these funds in 2009 because no expenditures were anticipated in 2009. Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for one fiscal year. They are re-budgeted every year throughout the fiscal periods of the debt or the capital project.

Funds for which budgets were not adopted in 2009:

Special Purpose Path Fund
Cumulative Reserve Fund
GMA Transportation Impact Fees Fund
Wetland Mitigation Bank
Bucklin Ridge Park Development Fund
Clear Creek Education Fund
Kitsap County Grants
Indianola Forest Fund
Service Area 1 Rd Impact Fees
Service Area 2 Rd Impact Fees
Service Area 3 Rd Impact Fees
Regional Service Area Rd Impact Fees
McCormick Village Traffic 1 Fund
McCormick Village Park 1 Fund
KC 2009 RSV Tree Tops
Road Improvement Guarantee Fund
Model Toxic Control
Bethel Corridor Development Project
Juvenile Services Facility Fund
1999B LTGO Bond Project
2006 LTGO Bond Projects
Jail Construction Fund

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

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

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

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

The budgets are integrated into the accounting system and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the budgetary

comparison schedule for the General fund and Special Revenue funds present actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended.

2. Budget revision.

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

Fund Description	Original Budget	Budget Change	Final Budget
General Fund	\$ 88,404,529	(2,684,233)	\$ 85,720,296
County Road Funds	\$ 42,548,015	102,446	\$ 42,650,461
Mental Health Medicaid	\$ 19,797,514	2,800,000	\$ 22,597,514
Real Estate Excise Tax	\$ 5,761,664	90,000	\$ 5,851,664
Non Major funds	\$ 69,717,349	37,028,246	\$ 106,745,595
		\$ 37,336,459	

3. Excess of expenditures over appropriations

For the year ended December 31, 2009 expenditures did not exceed appropriations in any of the general fund departments

4. Deficit Balance

At December 31, 2009, the following fund reported a deficit balance of fund nets assets, which is a violation of state statute:

Fund #	Fund Name	Deficit
104	Department of Emergency Services	\$ 10,424
168	Department of Community Development	\$ 694,353
332	2009B KCLTGO BAN Project Fund	\$ 7,813

The Department of Emergency Services' temporary year-end deficit fund balance was reversed in January 2010.

The County has taken steps to address this issue by analyzing the Fund's fund balance and the initial residual equity transfer that was made to establish the Fund. Additionally, the County will consider converting a portion of a loan from the General Fund into an operating transfer.

In January 2010, the County issued an operating transfer from the General Fund to offset the temporary year-end deficit.

E. Assets, Liabilities and Equity

1. Cash and Cash Equivalents

It is the County's policy to maximize its investment earnings by investing most of the temporary cash surpluses. At December 31, 2009, the treasurer was holding \$ 92.10 million in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and investments in various funds. The interest on these investments is credited to the General fund.

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

2. Investments

Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares (See more information in Note 5.)

3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (See Property Taxes Note 6). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2009, 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 15, Interfund Balances and Transfers.

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

5. Inventories and Prepaid Items

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

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

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

6. Restricted Assets

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

7. Capital Assets (See Note 7)

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

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

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the county during the current fiscal year is \$938,145. Of this amount, none was included as part of the cost of capital assets under construction in connection sewer projects.

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

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

**In 2009, construction of the Coroner Facility was completed and the building was added to capital assets. The building was constructed on land leased from Washington State Military Department under a 25-year land lease. The Coroner Facility is being depreciated over the remaining life of the land lease.

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

Vacation pay, which may be accumulated up to 45 days, is payable upon resignation, retirement or death.
9. **Other Accrued Liabilities**
These accounts consist of accrued wages and accrued employee benefits.
10. **Long-Term Debt (See Note 11)**
11. **Deferred Revenues**
This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.
12. **Fund Reserves and Designations**
In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

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

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

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

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

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 4. DEPOSITS AND INVESTMENTS

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

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

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

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

As of December 31, 2009, 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	2.95	9.4%	\$ 31.99	\$ 14.86	\$ 17.10	\$ 31.96
FFCB	AAA	2.32	15.6%	\$ 53.26	\$ 24.96	\$ 28.71	\$ 53.67
FHLMC	AAA	2.77	21.0%	\$ 71.55	\$ 33.44	\$ 38.47	\$ 71.91
FNMA	AAA	2.22	22.3%	\$ 76.16	\$ 35.56	\$ 40.91	\$ 76.46
MONEY MKT SVGS ACCTS	NR	0.50	0.0%	\$ 0.13	\$ 0.06	\$ 0.07	\$ 0.13
WA ST LGIP	NR	0.50	25.8%	\$ 87.85	\$ 40.85	\$ 47.00	\$ 87.85
CERTIFICATE OF DEPOSIT	NR	0.50	5.0%	\$ 17.00	\$ 7.91	\$ 9.09	\$ 17.00
MUNICIPAL SECURITIES	Aa1/AA/AA+	1.08	0.9%	\$ 3.02	\$ 1.40	\$ 1.61	\$ 3.02
		Years	100%	\$ 340.95	\$ 159.04	\$ 182.96	\$ 342.00

Both Cost and Fair Value include accrued interest of \$1.37

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

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

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

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

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

NOTE 5. PROPERTY TAXES

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

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

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

The County's regular levy for the year 2009 was 0.8648 per \$1,000 on an assessed valuation of \$32,597,300,794 for a total regular levy of \$28,245,769.

The County's road levy for the year 2009 was \$1.1843 per \$1,000 on an assessed valuation of \$20,485,433,504 for total road levy of \$24,329,857.

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

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

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

NOTE 6. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Government activities:				
Assets not being depreciated				
Land	\$ 56,563,985	\$ 2,827,309	\$ 2,233,991	\$ 57,157,303
Land - Infrastructure	61,022,818	309,832	583,405	\$ 60,749,245
Construction in Progress	25,646,982	12,169,712	8,930,077	\$ 28,886,617
Total	143,233,785	15,306,853	11,747,473	\$ 146,793,166

Assets being depreciated				
Buildings	122,500,667	4,024,338	100,674	\$ 126,424,331
Building Improvements	27,375,596	921,755	55,390	\$ 28,241,961
Equipment & Machinery	49,160,946	3,582,876	1,262,287	\$ 51,481,535
Infrastructure	385,048,623	6,160,853	3,150,308	\$ 388,059,168
Total	584,085,832	14,689,822	4,568,659	594,206,996
Total capital assets	727,319,617	29,996,675	16,316,132	\$ 741,000,160

Less accumulated depreciation

Buildings	25,436,616	2,817,910	55,039	\$ 28,199,487
Building Improvements	7,475,326	1,448,315	9,693	\$ 8,913,948
Equipment & Machinery	25,640,634	4,231,877	1,200,924	\$ 28,671,587
Infrastructure	240,265,969	13,024,158	1,611,871	\$ 251,678,256
Total	298,818,545	21,522,261	2,877,527	\$ 317,463,279
Government activities capital assets, net	\$ 428,501,074	\$ 8,474,414	\$ 13,438,605	\$ 423,536,883

	Beginning Balance	Increase	Decrease	Ending Balance
Business-type activities				
Assets not being depreciated				
Land	\$ 2,825,721	\$ -	\$ 360,000	\$ 2,465,721
Construction in Progress	9,105,780	3,967,625	2,841,966	10,231,439
Total	11,931,501	3,967,625	3,201,966	12,697,160
Asset being depreciated				
Building	43,026,193	3,170,681	37,267	46,159,607
Building Improvements	67,526,370	2,081,912	151,088	69,457,194
Equipment & Machinery	7,139,182	312,135	5,470	7,445,847
Total	117,691,745	5,564,728	193,825	123,062,648
Grand Total	129,623,246	9,532,353	3,395,791	135,759,808
Less accumulated depreciation				
Building	24,225,985	2,037,166	22,568	26,240,583
Building Improvements	28,311,572	2,360,862	109,311	30,563,123
Equipment & Machinery	5,322,849	8,391	254,395	5,076,845
Total	57,860,406	4,406,419	386,274	61,880,551
Business-type activities capital assets, net	\$ 71,762,840	\$ 5,125,934	\$ 3,009,517	\$ 73,879,257

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

Function/Program	Amount
Government activities:	
General government	\$ 1,844,276
Judicial Services	21,180
Public safety	3,575,834
Transportation	14,512,180
Health & Human service	150,785
Economic environment	15,000
Culture & recreation	1,403,006
Total	\$ 21,522,261

Construction commitments

The County has active construction projects as of December 31, 2009. The projects include ongoing renovation of the County Courthouse, weatherization of the County Courthouse windows and the Central Kitsap Community Campus Project. The Poulsbo District Court project is expected to begin in 2010.

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

Project	Spent to Date	Remaining Commitment
Courthouse renovation	\$ 2,177,749	\$ 400,000
Courthouse windows	22,000	571,000
Central Kitsap Community Campus	102,151	1,600,000
Poulsbo District Court	-	1,200,000
Total	\$ 2,301,901	\$ 3,771,001

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 and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

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

The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

Plan description

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.

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

PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and, by either February 28, 2002 for state and higher education employees or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in the state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months). This annual benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased by three percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The

adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period). Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

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

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

Judicial Benefit Multiplier

Beginning January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to participate in the Judicial Benefit Multiplier Program (JBM) enacted in 2006. Justices and judges in PERS Plan 1 and 2 were able to make a one-time irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of 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 average compensation.

Members who chose to participate in JBM would: accrue service credit at the higher multiplier beginning with the date of their election, be subject to the benefit cap of 75 percent of average financial compensation, pay higher contributions, stop contributing to the Judicial Retirement Account (JRA), and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; continue to participate in JRA, if applicable; never be a participant in the JBM Program; and

continue to pay contributions at the regular PERS rate.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007 or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required to participate in the JBM program would: return to prior PERS plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,192 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	73,122
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	27,267
Active Plan Members Vested	105,212
Active Plan Members Non-vested	56,456
Total	262,057

Funding policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll as of December 31, 2009, were as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	5.31%**	5.31%**	5.31%***
Employee	6.00%****	3.90%****	*****

*The employer rates include the employer administrative expense fee currently set at 0.16%.
 ** The employer rate for the state elected officials is 7.89% for Plan 1 and 5.31% for Plan 2 and Plan 3.
 *** Plan 3 defined benefit portion only.
 **** The employee rate for state elected officials is 7.50% for Plan 1 and 3.90% for Plan 2.
 ***** Variable from 5.0% minimum to 15.0% maximum based on the rate selected by the PERS 3 member.

Members participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer - State	7.81%	7.81%	7.81%
Agency*			
Employer - Local	5.31%	5.31%	5.31%
Gov.*			
Employee - State	9.76%	7.25%	7.50%***
Agency			
Employee - Local	12.26%	9.75%	7.50%***
Gov.			

*The employer rates include the employer administrative expense fee currently set at 0.16%.
 ** Plan 3 defined benefit portion only.
 *** Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2009	\$ 193,117	\$ 3,092,977	\$ 685,655
2008	\$ 215,418	\$ 3,194,204	\$ 690,493
2007	\$ 182,206	\$ 2,504,110	\$ 601,393

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

Plan description

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

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

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended by the State Legislature.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of Final Average
20 or more years	2.00%
10 but less than 20 years	1.50%
5 but less than 10 years	1.00%

The 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 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age 50 with 20 years of service, or at the age 53 with five years of service, with an allowance of 2 percent of the FAS per year of service. The FAS is based on the highest consecutive 60 months. Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

There are 375 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	9,268
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	650
Active Plan Members Vested	13,120
Active Plan Members Nonvested	3,927
Total	26,965

Funding Policy

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

supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as percentage of current-year covered payroll, as of December 31, 2009, were as follows:

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

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

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

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

	LEOFF Plan 1	LEOFF Plan 2
2009	\$ 201	\$ 513,615
2008	\$ 271	\$ 461,903
2007	\$ 287	\$ 442,481

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

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

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

A *covered employer* is one that participates in PSERS. Covered employers include: State of Washington agencies: Department of Corrections; Department of Natural Resources, Parks and Recreation Commission, Gambling Commission, Washington State Patrol, and Liquor Control Board; Washington state counties; and Washington state cities except for Seattle, Tacoma and Spokane.

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

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

PSERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PSERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PSERS Plan 2 members are vested after the completion of five years of eligible service. PSERS Plan 2 members may retire at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, with an allowance of 2 percent of the average final compensation (AFC) per year of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months, excluding any severance pay such as lump-sum payments for deferred sick leave, vacation or annual leave. Plan 2 retirees prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies. There is no cap on years of service credit; and a cost-of-living allowance is granted (Based on the Consumer Price Index), capped at 3 percent annually.

There are 73 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2008:

Retirees and Beneficiaries Receiving Benefits	1
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	0
Active Plan Members Vested	0
Active Plan Members Non-vested	3,981
TOTAL	3,982

Funding Policy

Each biennium, the state Pension Funding Council adopts PSERS Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance

with chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll as of December 31, 2009 are as follows:

	PSERS Plan 2
Employer*	7.85%
Employee	6.55%

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

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

	PSERS Plan 2
2009	\$ 365,577
2008	\$ 354,583
2007	\$ 279,281

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

Workers compensation

The County assumes risk for Workers compensation as allowed by the State statute up to \$400,000 per occurrence. Losses above that amount are covered by excess workers' compensation insurance with statutory limits. Each department of the County is charged based on actuarial studies of the loss history, which are performed every two years. As of December 31, 2009, the County's estimated total undiscounted outstanding liability for the workers' compensation program is approximately \$1,764,202. It is funded at the 70% confidence level.

Workers Compensation	Year ended	
	12/31/2008	12/31/2009
Unpaid claims, beginning of fiscal year	\$ 1,950,000	\$ 1,796,677
Incurred claims (including IBNRs)	977,340	1,011,272
Claim payments	(1,130,663)	(1,043,747)
Unpaid claims, end of fiscal year	\$ 1,796,677	\$ 1,764,202

General Liability	Year ended	
	12/31/2008	12/31/2009
Unpaid claims, beginning of fiscal year	\$ 2,881,305	\$ 3,079,254
Incurred claims (including IBNRs)	1,121,119	1,178,533
Claim payments	(923,170)	(696,818)
Unpaid claims, end of fiscal year	\$ 3,079,254	\$ 3,560,969

General liability

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

Property insurance

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

Crime/dishonesty insurance

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

NOTE 9. SHORT-TERM DEBT

During the year, the County obtained short-term loans in the amounts of \$2,000,000 from County Roads and \$4,000,000 from Bainbridge Island Landfill for the purpose paying expenditures of the County's current expense fund and other funds pending the receipt of taxes and other revenues, thereby maintaining a positive fund balance within the General Fund. The County also obtained a short-term bond anticipation note from Yakima County. The note will be repaid from bond proceeds when the bond is issued in September 2010.

Short term debt activities for the year ended December 31, 2009 are as follows:

Year ending December 31, 2009	Beginning Balance	Proceeds	Repayment	Ending Balance
County Roads Loan	\$ -	\$ 2,000,000	\$ 2,000,000	\$ -
Bainbridge Island Landfill Loan	\$ -	\$ 4,000,000	\$ 4,000,000	\$ -
Yakima County BAN	\$ -	\$ 2,279,000	\$ -	\$ 2,279,000
Total	\$ -	\$ 8,279,000	\$ 6,000,000	\$ 2,279,000

NOTE 10. LONG-TERM DEBT

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

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

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

- 1.5% - Without a vote of the people
- 2.5% - With a vote of the people
- 5.0% - With a vote of the people, provided the indebtedness in excess of 2.5% is for utilities, parks, or open space development.

As of December 31, 2009 the debt limits for the County were as follows:

	Without a Vote	With a Vote	
		2.50%	5.00%
Legal Limit	\$ 488,959,512	\$ 814,932,520	\$ 1,629,865,040
Applicable Outstanding Debt	131,772,868	131,772,868	131,772,868
Margin Available	\$ 357,186,644	\$ 683,159,652	\$ 1,498,092,172

A. General Obligation Bonds

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

General obligation bonds currently outstanding are as follows:

Issued Name & Purpose	Maturity Range	Interest Rate %	Original Amount	Amount of Installment
1996 - Refunding	11/1/10 - 11/1/12	5.5 - 5.7	\$ 9,875,000	1,530,000 - 2,675,000
1999 - Open space purchase	12/1/10 - 12/1/18	4.3 - 4.9	5,100,000	250,000 - 375,000
1999B - Purchase 911 equip	7/1/10 - 7/1/19	4.9 - 5.3	10,680,000	70,000 - 115,000
2000 - Jail Addition	07/01/10	4.9	20,000,000	630,000
2001 - Refunding	11/1/10 - 11/1/20	4.5 - 5.0	11,215,000	235,000 - 495,000
2002A - Special Event Center	10/1/10 - 10/1/26	4.55 - 5.375	11,395,000	415,000 - 910,000
2003 - Public Works Annex	12/1/10 - 12/1/27	3.5 - 4.875	10,250,000	340,000 - 565,000
2003B - Administrative Building	12/1/10 - 12/1/28	3.25 - 4.75	17,805,000	410,000 - 1,465,000
2004 - Gen. Govt. - Refunding	7/1/10 - 7/1/29	3.5 - 5.0	20,664,719	465,000 - 1,075,000
2005 - Refunding	7/1/10 - 7/1/25	3.5 - 5.0	18,995,000	350,000 - 1,500,000
2006 - Improve Bldgs & Parks	7/1/10 - 7/1/31	4.4 - 5.0	18,085,000	505,000 - 985,000
2009B - KCCHA Notes	04/30/13	3 mth Libor + 160-200	3,622,975	3,622,975
Total			\$ 157,687,694	

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

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2010	6,110,000	4,600,014	1,765,000	797,323
2011	4,170,000	4,322,576	1,840,000	721,470
2012	7,035,000	4,135,491	1,915,000	641,808
2013	8,329,988	3,783,994	2,010,000	545,235
2014	4,440,000	3,566,388	2,120,000	439,805
2015 - 2019	25,815,000	14,498,450	6,175,000	658,350
2020 - 2024	26,950,000	8,183,604	-	-
2025 - 2029	16,075,000	2,294,920	-	-
2030 - 2031	1,410,000	106,500	-	-
Total	\$ 100,334,988	\$ 45,491,937	\$ 15,825,000	\$ 3,803,991

Notes Payable

The County has a Note Payable of \$4.95 million due to the Kitsap County Consolidated Housing Authority from the purchase of part of the Norm Dick's Government Center. The County has since sold a portion of the property to the Kitsap County Health District. The County signed a \$4.95 million note with the Kitsap County Health District, which will be used to repay the Kitsap County Consolidated Housing Authority.

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2010	112,500	239,745
2011	117,500	235,805
2012	122,500	231,515
2013	127,500	226,764
2014	132,500	221,600
2015 - 2019	757,500	824,109
2020 - 2024	962,500	803,000
2025 - 2029	1,230,000	549,250
2030 - 2034	1,387,500	198,125
Total	4,950,000	3,529,913

B. Revenue bonds

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

Issued Name & Purpose	Maturity Range	Interest Rate %	Original Amount	Amount of Installment
Sewer 1999	12/1/10 - 12/1/18	4.4 - 5.1	11,010,000	560,000 - 810,000
Sewer Refunding 2001	7/1/10 - 7/1/16	4.25 - 5.625	13,075,000	1,205,000 - 1,620,000
D.O.E. Loan # L0400026	5/1/10 - 5/1/25	1.5	14,188,000	242,035 - 303,064
PWTF Loan # PW-01-691-036	7/1/10 - 7/1/21	0.5	2,605,000	150,816 - 150,816
Total			\$ 40,878,000	

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

Year Ending December 31	Revenue Bonds	
	Principal	Interest
2010	1,765,000	797,323
2011	1,840,000	721,470
2012	1,915,000	641,808
2013	2,010,000	545,235
2014	2,120,000	439,785
2015 - 2018	6,175,000	658,350
Total	\$ 15,825,000	\$ 3,803,971

Year Ending December 31	Ecology & PWTF Loans	
	Principal	Interest
2010	636,707	133,845
2011	644,046	125,752
2012	651,496	117,549
2013	659,058	109,233
2014	666,734	100,802
2015 - 2019	3,452,934	373,436
2020 - 2024	3,210,548	146,785
2025	303,064	2,280
Total	\$ 10,224,587	\$ 1,109,682

C. Compensated absences

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

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

NOTE 11. LEASES

Operating leases

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

Capital Leases

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

NOTE 12. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bond payables:					
General obligation bonds	\$ 102,866,405	\$ 3,622,975	\$ 6,154,392	\$ 100,334,988	\$ 6,470,000
Special assessment debt	5,000	-	5,000	-	-
Total bond payable	102,871,405	3,622,975	6,159,392	100,334,988	6,470,000
Compensated absences	5,190,574	4,479,581	4,623,089	5,047,066	618,681
Internal services comp.	227,647	245,282	242,397	230,532	23,053
Notes payable	5,120,000	25,807,523	120,000	30,807,523	2,691,408
Net OPEB obligation	1,597,464	622,014	-	2,219,478	-
Other liabilities	709,269	-	78,912	630,357	78,912
Governmental-activities Long-term liabilities	<u>\$ 115,716,359</u>	<u>\$ 34,777,375</u>	<u>\$ 11,223,790</u>	<u>\$ 139,269,944</u>	<u>\$ 9,882,054</u>
Business-type activities					
Bond payable:					
General obligation bonds	\$ 113,595	\$ -	\$ 113,595	\$ -	\$ -
Unamortized premium	\$ 1,856	\$ -	\$ 1,856	\$ -	\$ -
Revenue bonds	17,520,000	-	1,695,000	15,825,000	1,765,000
Unamortized premium	370,425	-	47,431	322,994	47,431
Total bond payable	18,005,876	-	1,857,882	16,147,994	1,812,431
Other liabilities	10,854,065	-	629,479	10,224,586	636,708
Compensated absences	481,821	500,309	487,550	494,580	74,079
Business-type activities Long-term liabilities	<u>\$ 29,341,762</u>	<u>\$ 500,309</u>	<u>\$ 2,974,911</u>	<u>\$ 26,867,160</u>	<u>\$ 2,523,218</u>
Total	<u>\$ 145,058,121</u>	<u>\$ 35,277,684</u>	<u>\$ 14,198,701</u>	<u>\$ 166,137,104</u>	<u>\$ 12,405,272</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these are included as part of the above totals for governmental activities. The General fund generally liquidates the claims, judgments, and compensated absences from the governmental activities.

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

NOTE 13. CONTINGENCIES AND LITIGATIONS

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

The County acts as guarantor of one Kitsap County Consolidated Housing Authority’s bond issue with an outstanding balance of \$17.93 million as of December 31, 2009. See special items note 19C for details of two other Kitsap County Consolidated Housing Authority bond issues the County assumed during 2009.

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

NOTE 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.

The Special Revenue Funds advance balance is an outstanding long-term loan between the COBRA (ARRA) Fund and the Cumulative Reserve Fund. The advance provides for operating funds for the COBRA (ARRA) Fund while it awaits reimbursement from a federal agency.

Advances From	Advances To		
	Non Major Funds	Fiduciary Funds	Total
General Fund	\$ 180,000	\$ -	\$ 180,000
Special Revenue Funds	\$ -	\$ 50,000	\$ 50,000
Total	\$ 180,000	\$ 50,000	\$ 230,000

2. Due from other funds/Due to other funds

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

DUE FROM OTHER FUNDS

Due to Other Funds	Gen. Fund	County Roads	RE Tax	Home Entitle	Ment Hea Medicaid	Non Major	Solid Waste	Sewer Utility	Surface Storm	Internal Service	Total
General Fd	20,990	198,216	6,112	33		252,309	5,661	129,201	1,283	122,695	736,500
County Rds	2,823	865,416				44,870	4,418	29,792	101,744	611,267	1,660,330
Home Entitle	-	0				-	-	-		-	-
Mental Health						550					550
Non Major	51,415	182,392		15,891	28,598	245,032	3,360	-	56,262	22,945	605,895
Solid Waste	-	1,386				-	216,834	826	2,475	-	221,521
Sewer Utility	-	5,419				-	71,979	-	24,014	272,353	373,765
Surface Storm	-	37,761				-	17,754	6,972	53,536	17,861	133,884
Internal Serv	31,830	34,672				3,890	111	15,087	4,977		90,567
Agency Fund	582	-				-	-	-	-		582
Total	107,639	1,325,262	6,112	15,924	28,598	546,651	320,116	181,878	244,291	1,047,121	3,823,593

3. Transfers

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

TRANSFERS-FUND FINANCIAL STATEMENTS							
IN	General	County	Real Estate	Mental	Non	Internal	
OUT	Fund	Roads	Excise tax	Health	Major	Service	Total
General Fund	-	-		-	13,778,856	130,000	13,908,856
County Roads	-	-		-	586,323	-	586,323
REET	-	-		-	5,475,152	-	5,475,152
Mental Health	-	-		-	-	-	-
Nonmajor	2,743,119	225,000		-	5,836,917	-	8,805,036
Solid Waste	-	-		-	-	-	-
Surface Stormwater					234,388		234,388
Sewer	-	-		-	149,608	-	149,608
Nonmajor Ent	-	-		-	157,658	-	157,658
Int. Serv	139,137	-		-	23,020	-	162,157
Total	2,882,256	225,000		-	26,241,923	130,000	29,479,179

NOTE 15. RECEIVABLES AND PAYABLES.

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

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

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

The County has a \$10.620 million long-term receivable due from the Public Facility District, one of its component units. The County sold G.O. bonds and gave the proceeds to the PFD and the PFD pledged its sales tax revenue to pay the County back. The debt is carried on the County's books and the note is reflected on the PFD books as well.

NOTE 16. DEFERRED COMPENSATION

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

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

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

The investment carrying values of the plans are as follows:

Investment company	Fair Value
PEBSCO	\$ 11,627,250
ING	4,865,473
Hartford	5,765,292
ICMA	541,841
Total	\$ 22,799,856

NOTE 17. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

As required by the Revised Code of Washington (RCW) Chapter 41.26, the County provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined benefit multi-employer healthcare plan. The members necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan or any other similar source are covered. Under the authorization of the LEOFF Disability Board, direct payment is made

for other retiree medical plan benefit provisions. Financial reporting for the LEOFF retiree healthcare plan is included in the County's Comprehensive Annual Financial Report. As of December 31, 2009 there were 42 active participants in this closed plan.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2008. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB. The net OPEB obligation of \$2,219,478 is included as a noncurrent liability on the Statement of Net Assets. The actuarial valuation was performed on December 31, 2009.

OTHER POST EMPLOYMENT BENEFITS OBLIGATION YEAR ENDING
12/31/2009

Determination of Annual Required Contribution:

Normal Cost at year end		\$ 1,148,987
Amortization of UAAL*		(148,746)
Annual Required Contribution (ARC)		\$ 1,000,241
Determination of Net OPEB Obligation:		
Annual Required Contribution		\$ 1,000,241
Interest on prior year Net OPEB Obligation		71,886
Annual OPEB Cost		\$ 1,072,127
Contributions		450,113
Increase in Net OPEB Obligations		\$ 622,014
Net OPEB Obligation - beginning of year		\$ 1,597,464
Net OPEB Obligation - end of year		\$ 2,219,478

*Unfunded Actuarial Accrued Liability

The County's annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for 2009 were as follows:

Year Ended	Annual Cost	Contribution	Percentage of Annual OPEB cost contributed
2008	\$ 1,247,758	\$ 489,157	39%
2009	\$ 1,072,127	\$ 450,113	42%

Funding Status

As of December 31, 2009 the most recent alternative method measurement date, the plan was 0% funded. The accrued liability for benefits was \$12,339,603 and the actuarial value of assets was \$0 resulting in a UAAL of \$12,239,603. 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 September 2006 actuarial valuation issued by the Office of State Actuary (OSA). Healthcare costs and trends were determined by Millman and used by OSA in the state-wide LEOFF 1 medical performed in 2007. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The healthcare cost inflation trend was computed at 7% and the plan is amortized as a level amount over 25 years.

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

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

NOTE 18. OTHER NOTE DISCLOSURES

A. Prior Period Adjustments:

- Prior to 1996, staff of the Area Agency on Aging (AAA) now recorded in fund 190, were paid out of the general fund and then reimbursed by AAA. In 2009 it was determined an error in the reimbursement calculations was made and AAA should have reimbursed an additional \$169,122. The prior period adjustment corrects this error.
- The county disbursed \$275,000 in 2008 that has now been determined to be a land lease for land the new Coroner's Office is sitting on. This lease is for twenty-five years and has been recorded as a prepayment and will be amortized over the life of the lease.

B. Accounting and Reporting Changes:

- We elected to move the \$11.015 million Notes/Contracts receivable from the General Fund into Debt Service Fund GO Bond 2000A, fund 286. This allowed us to report the debt service for the bond issue issued on behalf of the component unity of the Kitsap County as well as the Note Receivable

from the component unit to Kitsap County, all within the same fund. It also removed a distortion from the General Fund balance. We used transfers in and out to report the movement of the receivable from the General Fund to fund 286.

- During 2009 Kitsap County closed the Village Greens Golf Course Enterprise fund, which was reported as the Golf on the Statement of Activities and the Other Non-Major Fund on the Proprietary Fund statements. The Golf Course operation has not operated as a proprietary fund for many years. The operation has been moved to Special Revenue fund 150 and is being operated by the Fair & Parks Department. The closing entry made on May 6, 2009, retired the fixed assets of the program which totaled \$553,825 with accumulated depreciation of \$137,349, for a net book value of \$416,476. This expense shows up on Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Balance as a Miscellaneous Expense. The adjustment to accumulation must be considered when reconciling total depreciation of the enterprise funds to the increase in accumulation reported in the note to the financial statements, see Note 6. The Net Book Value of the assets was then added to the General Fixed Asset Account Group.

C. Special Items:

Kitsap County assumed the following debt issues of the Kitsap County Consolidated Housing Authority in 2009:

- May 18, 2009, the County assumed direct responsibility for \$36.18 million of Kitsap County Consolidated Housing Authority (KCCHA) debt. This debt is related to the Harborside Condos and the Poplars Housing Complex projects. The County will borrow up to \$40.52 million over a four year term to finance this debt. Sales of key KCCHA assets per contractual agreement will be used to pay off the debt. The County will issue long term bonds to cover any remaining debt outstanding.
- October 12, 2009, the County assumed direct responsibility for \$3.6 million of KCCHA debt. This debt was incurred by KCCHA to fund low income and affordable housing projects within the county as well as a loan to help acquire the office building on Bayshore Drive in Silverdale. Similar to the previous debt assumed, key assets of KCCHA will be sold per contractual agreement, with the proceeds paying off this debt.

The combined total of debt issued was \$40.52 million.

The sale of some of the assets described above resulted in the items reported as Special Items in the 2009 Financial Statements totaling \$26.17 million. The sale of the Tree Tops Apartment Complex was the major contributor at \$20.79 million. The sale of condos and a waterfront lot in Bremerton accounted for the rest of this amount.

See note 14 for information about the remaining debt Kitsap County is guaranteeing for KCCHA.

- Special Item reported on the Statement of Activities – loss on assumption of debt:
Sales of assets of KCCHA were expected to result in net proceeds of \$30.19 million to be applied to \$40.52 million in assumed debt listed above. The proceeds calculation was based on a combination of the proceeds of assets already sold by year end, plus the appraised values of the remaining pledged assets yet to be sold. The remaining \$10.33 of debt was reported on the Statement of Activities as a reduction to Total Net Assets, on the Special Item line – assumption of debt.
- A Long-term receivable recorded on Statement of Net Assets Governmental Activities Column:
A Long-term receivable from KCCHA was recorded on the Statement of Net Assets. The Balance of this receivable as of December 31, 2009 was \$19.08 million. This amount represented the value of properties contractually obligated to be sold less \$11.11 million in reductions in these debt balances resulting from the sales of some of these properties before the end of 2009.
- Special Item reported on Statement of Activities – loss on transfer of assets to City of Pt Orchard – annexation:

The McCormick Woods development, formerly part of unincorporated Kitsap County, voted in favor of annexation into the City of Pt Orchard during 2009. This loss records the transfer of roads and infrastructure assets from the County to the City of Pt Orchard. Since these assets totaling \$3,733,712, only had accumulated depreciation of \$1,611,871, we recognized a loss of \$2,121,841 on this transfer. We also included the retirement of a Coroner's Office asset in this total since it was immaterial. The retirement of this asset resulted in a loss of \$45,698. The total loss reported on the Statement of Activities was \$2,167,539.