



FINANCIAL SECTION



Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT

June 21, 2011

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, 2010, 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, 2010, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Road, Real Estate Excise Tax and Mental Health Medicaid funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue our report dated June 21, 2011, 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



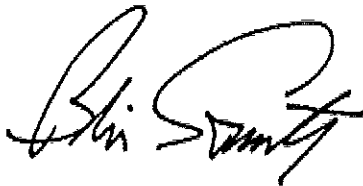
control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages through and on pages 3 through 15 and information on postemployment benefits other than pensions on page 68 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 financial statements and supplemental information on pages 69 through 204 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 fluid and cursive, with a large initial "B" and "S".

BRIAN SONNTAG, CGFM
STATE AUDITOR



MANAGEMENT'S DISCUSSION & ANALYSIS

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2010

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, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found section II of this report. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

- The assets of Kitsap County exceeded its liabilities at the close of the most recent fiscal year by \$515.56 (net assets). Of this amount, \$110.84 (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 \$3.13, with a \$4.63 decrease on the Governmental side and a \$1.50 increase on the Business-Type side. The major cause of the decrease on the Governmental side was the County's investment in capital assets did not keep up with depreciation, with net capital assets dropping by \$9.78.
- As of the close of the current fiscal year, the Kitsap County governmental funds reported combined ending fund balances of \$79.15, an increase of \$2.97 from the prior year. Approximately \$76.66 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 \$7.90, or 10.2 percent of the total general fund expenditures.
- The Kitsap County's total general obligation debt decreased by \$2.47 (2.5 percent) during the current fiscal year. This represented 2010 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.

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2010

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 16-17 of this report.

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

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

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

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2010

Kitsap County maintains one hundred and six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, county roads fund, real estate excise tax fund and mental health medicaid, all of which are considered major funds. Data from the other one hundred and two 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 – 27** of this report.

Proprietary funds. Kitsap County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Kitsap County uses enterprise funds to account for its Sanitary Sewer operations, Solid Waste activities and Surface Water Utility activities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the 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 **28 – 30** of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support Kitsap County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on page **31** of this report.

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2010

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 **32 – 67** 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 **76 – 198** of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Kitsap County, assets exceeded liabilities by \$515.56 at the close of the most recent fiscal year. The County's fiscal condition remains stable.

The largest portion of Kitsap County's net assets (74.2 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	
	2009	2010	2009	2010	2009	2010
Assets:						
Current & Other Assets	143.63	140.83	70.65	105.10	214.28	245.93
Capital assets	423.54	413.76	73.88	78.45	497.42	492.21
	567.17	554.59	144.53	183.55	711.70	738.14
Liabilities						
Other liabilities	34.38	31.35	4.78	5.88	39.16	37.23
Long-term liabilities	129.38	124.46	24.47	60.90	153.85	185.36
Total liabilities	163.76	155.81	29.25	66.78	193.01	222.59
Net assets						
Invested in capital	337.42	329.34	47.51	53.16	384.93	382.50
Restricted	21.40	18.76	0.04	3.45	21.44	22.21
Unrestricted	44.58	50.68	67.73	60.17	112.31	110.85
Total net assets	\$ 403.40	\$ 398.78	\$ 115.28	\$ 116.78	\$ 518.68	\$ 515.56

An additional portion of the Kitsap County's net assets (4.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$110.84) may be used to meet the government's ongoing obligations to citizens and creditors.

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2010

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 \$3.13 during the current fiscal year. The decrease was mostly due to the County investment in capital assets not keeping pace with depreciation. This decreased total net assets by \$9.78. For further information on this matter, refer to the notes to the financial statements (Note 6).

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 3.6% (from \$21.44 to \$22.21). This was caused by the issuance of new debt. Unrestricted net assets decreased by 1.3% (from \$112.32 to \$110.84).

Governmental activities. Governmental activities decreased the County's net assets by \$4.63. The key elements of this net change are as follows:

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2010

	Governmental Activities		Business-type Activities		Total Primary government	
	2009	2010	2009	2010	2009	2010
Revenues:						
Program revenues						
Charges for services	\$ 24.03	\$ 24.13	\$ 34.41	\$ 34.23	\$ 58.44	\$ 58.36
Operating grants	71.83	72.06	-	0.61	71.83	72.67
Capital grants	4.05	1.66	3.12	0.74	7.17	2.40
General revenues						
Property taxes	52.82	54.47	-	-	52.82	54.47
Sales taxes	27.34	26.50	-	-	27.34	26.50
Other taxes	9.29	10.14	-	-	9.29	10.14
Investment earning	3.06	2.18	1.19	0.82	4.25	3.00
Other income	5.13	4.76	0.77	-	5.90	4.76
Total revenues	197.55	195.90	39.49	36.40	237.04	232.30
Expenses						
General government	27.21	27.40	-	-	27.21	27.40
Judicial services	14.58	13.51	-	-	14.58	13.51
Public safety	51.90	50.80	-	-	51.90	50.80
Physical environment	4.19	4.59	-	-	4.19	4.59
Transportation	37.76	36.83	-	-	37.76	36.83
Health & human services	47.93	47.00	-	-	47.93	47.00
Economic environment	7.64	7.70	-	-	7.64	7.70
Culture & recreation	6.89	6.42	-	-	6.89	6.42
Interest on LT debt	5.37	6.44	-	-	5.37	6.44
Utilities	-	-	33.31	34.52	33.31	34.52
Others	-	-	0.42	-	0.42	-
Total expenses	203.47	200.69	33.73	34.52	237.20	235.21
Inc in net assets before transfers	(5.92)	(4.79)	5.76	1.88	(0.16)	(2.91)
Special item - (loss) debt	(10.33)				(10.33)	
Special item - (loss) Annex	(2.17)	(0.21)			(2.17)	(0.21)
Transfers	0.54	0.38	(0.54)	(0.38)	-	-
Increase in net assets	(17.88)	(4.62)	5.22	1.50	(12.66)	(3.12)
Beginning Net assets	421.00	403.40	110.06	115.28	531.06	518.68
Prior period adjustments	0.28	-	-	-	0.28	-
Ending Net assets	\$ 403.40	\$ 398.78	\$ 115.28	\$ 116.78	\$ 518.69	\$ 515.56

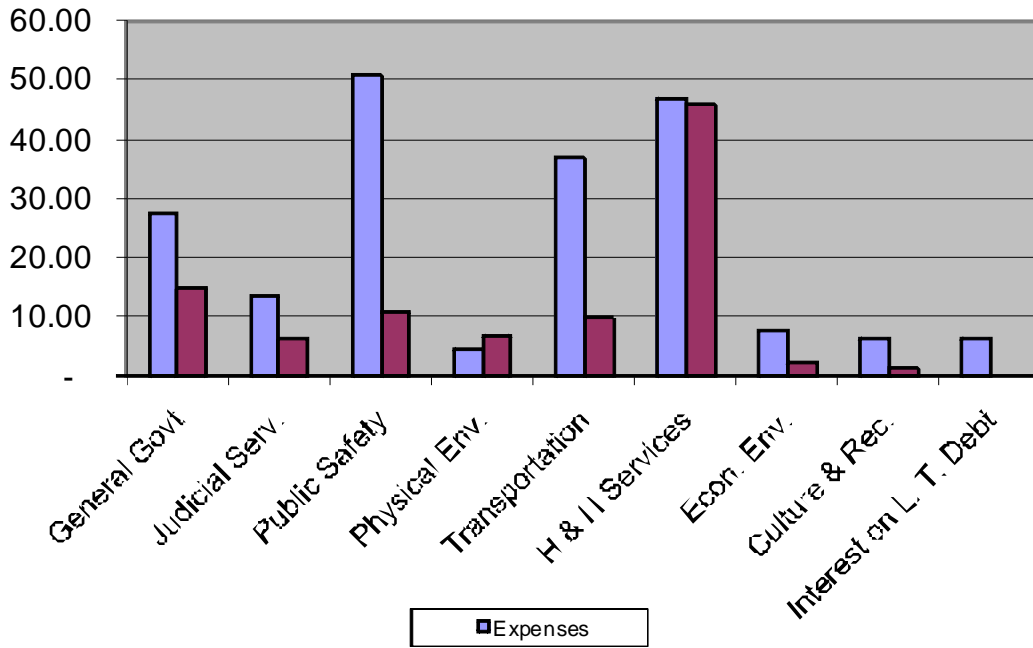
- Property taxes increased by \$1.65 (3.12 percent) during the year. The extra 2.12 percent increase is tax collection on new homes for roads in the unincorporated area of the county in 2010.
- Sales taxes decreased by \$.84 (3.1 percent) during the year. This was caused by continued struggling economy in 2010.
- Other Taxes increased by \$.85 (9.15%). Almost all of this increase was caused by penalties and interest charged for late collections on property taxes.
- Operating grants for government activities increased slightly, while capital grants dropped indicating a lack of funding from the State of Washington.
- Due to annexations, the County transferred assets to the Cities of Pt Orchard and Poulsbo resulting in a loss of \$.21, reported as a Special item.

Kitsap County, Washington

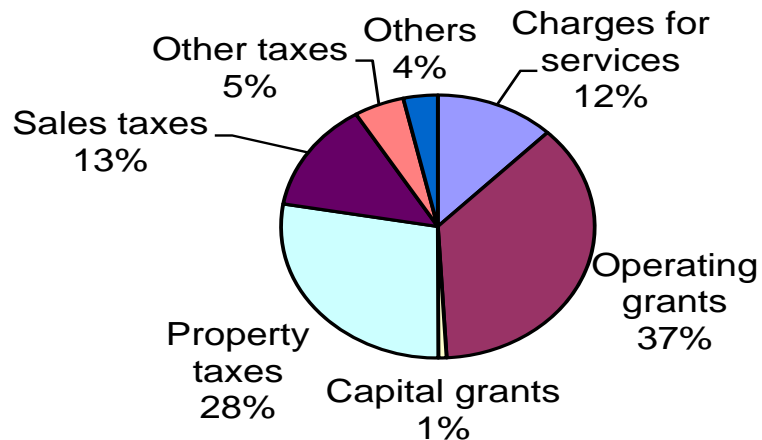
Management's Discussion and Analysis For the Year Ended December 31, 2010

Expenses and Program Revenues - Governmental

Activities



Revenues by Source – Governmental Activities



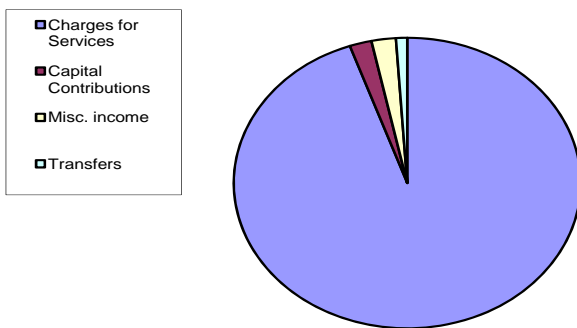
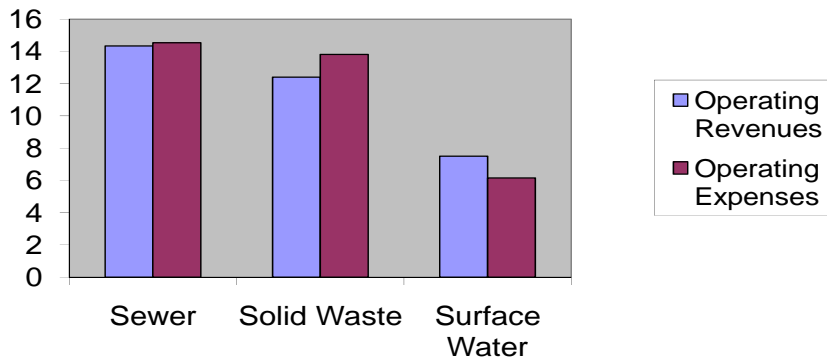
Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2010

Business-type activities. The business-type activities increased the County's net assets by \$1.50. The primary element of this increase was:

- Increase in operating revenues of Surface water operations

Expenses and Program Revenues – Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental funds. The focus of 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 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.

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2010

As of the end of the current fiscal year, Kitsap County's governmental funds reported combining ending fund balances of \$79.15, an increase of \$2.97 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 \$7.90, while the total fund balance increased to \$8.35. 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 10.2 percent of the total general fund expenditures.

Apart from the change noted in the previous paragraph, the fund balance of Kitsap County's general fund increased by \$2.78 during the current fiscal year. The key factor was the cost cutting measures taken by the county to reverse declining fund balances.

County road fund balance increased by \$2.61 due to fewer capital projects undertaken in 2010.

Real Estate Excise Tax fund balance increased from \$3.55 in 2009 to \$5.92 in 2010. This was due to the repayment of a short term debt issue that had been in the fund. This was accomplished using a refunding bond, issued in September of 2010.

The Mental Health Medicaid fund had a balance of \$1.94 in 2010 down from \$2.27 in 2009. This was due to a decrease of state funding for the program.

The debt service funds have a total fund balance of \$11.72, all of which is reserved for the payment of debt service. This was an decrease of \$.65 from 2009.

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 \$69.06 in 2010, up \$.78 from 2009. This increase was caused by operating income as operating revenues exceeded operating expenses.

Solid Waste total net assets were \$27.11 for 2010 down \$.76 from 2009, as operating expenses exceeded operating revenues.

Surface Water total net assets were \$20.60 for 2010 up \$1.46 from 2009. This was all due to operating income.

General Fund budgetary Highlights

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2010

GENERAL FUND BUDGETARY HIGHLIGHTS:

Actual General Fund revenues exceeded original budgeted revenues by \$.69 during fiscal year 2010. The biggest reason for this was increased interest and penalties on late payments of real and personal property taxes which exceeded budget by \$1.2.

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 year's budget amendments were dominated by decreases to adjust spending as lower than anticipated revenues were received.

During the year there was a \$.89 decrease in appropriations between the original and final amended budget as each office or department was asked to make additional reductions. The actual expenditures of the general fund came in well under the final budget total of \$79.21, with a total of \$77.22.

Capital Assets

At the end of the fiscal year 2010, the Kitsap County investment in capital assets for its governmental activities is \$750.26 as reflected in the following schedule, which represents a net increase of \$9.26 or 1.3 percent from last year. See note 6 to the financial statements for further details on Capital Assets.

Change in Capital Assets (millions)

	Governmental Activities		Business-type Activities		Total	
	2009	2010	2009	2010	2009	2010
Land	57.16	57.18	2.47	2.47	59.63	59.65
Infrastructure	448.81	457.94	0	0	448.81	457.94
Building	126.42	126.42	46.16	46.31	172.58	172.73
Building Improv	28.24	28.59	69.45	76.63	97.69	105.22
Machinery & Equipment	51.48	53.53	7.44	7.45	58.92	60.98
Construction in progress	28.89	26.6	10.23	11.84	39.12	38.44
Total	741.00	750.26	135.75	144.70	876.75	894.96
Less Accumulated depreciat	317.46	336.51	61.88	66.25	379.34	402.76
	\$ 423.54	\$ 413.75	\$ 73.87	\$ 78.45	\$ 497.41	\$ 492.20

Governmental activities

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

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2010

- Various infrastructure projects were completed during the year at a cost of \$8.83
- Various infrastructure land purchase totaled \$1.07
- Cencom technology purchases totaled \$1.23
- ER &R Fleet updated for a total of \$1.46

Business-type activities. The following was the major addition in this area in 2010:

- Upgrade to Pump Station replacement of pipe system in Central Kitsap with a total cost of \$5.4

Long-term Debt

At year-end, the County had \$197.09 in long-term debt versus \$166.13 last year, a net increase of \$30.96 and 18.6 percent.

Outstanding Debt, at Year-End

Government activities:	2009	Addition	Deletion	2010
Bond Payable	\$ 100.33	\$ 9.22	\$ 11.69	\$ 97.86
Special assessment	-	-	-	-
Comp	5.05	4.46	4.45	5.06
Int. serv. Debt	0.23	0.26	0.23	0.26
Notes Payable	30.81	0.90	4.96	26.75
Net OPEB Obligation	2.21	0.51		2.72
Others	0.63	-	0.08	0.55
Total	139.26	15.35	21.41	133.20
Enterprise activities:				
Bond Payable	15.83	44.01	7.30	52.54
Comp	0.49	0.53	0.47	0.55
Others	10.55	1.08	0.83	10.80
Total	26.87	45.62	8.60	63.89
Total Debt	\$ 166.13	\$ 60.97	\$ 30.01	\$ 197.09

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

The major long-term debt additions for 2010 were the following debt issues:

2010 General Obligation Refunding Bond, total issuance of \$9.22. This was used to refund 1996 and 1999 bond issues as well as pay off short term borrowing in the Real Estate Excise Tax Fund.

2010 Sewer Revenue Bonds, total issuance of \$44.01. These bonds were used to refund the 1999 Sewer Revenue Bonds. The remaining funds will be used to finance upgrades to sewer systems.

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2010

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

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

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 \$327.80 remaining in debt capacity (non-voted). More detail information on capital assets and long-term debt are provided in the notes to the financial statements (Notes 6, 10 and 12).

ECONOMIC FACTORS 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

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2010

ten respectively. Kitsap County has the only shipyard on the West Coast capable of overhauling nuclear aircraft carriers.

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BASIC FINANCIAL STATEMENTS

KITSAP COUNTY, WASHINGTON

Statement of Net Assets

December 31, 2010

	Governmental Activities	Business-type Activities	Total	Component Unit PFD
ASSETS				
Cash and Cash equivalents	\$ 66,591,165	\$ 39,199,810	\$ 105,790,975	52,198
Deposits with fiscal agents	58,889	-	58,889	-
Investments	19,650,290	58,352,150	78,002,440	790,188
Receivables(net)				
Property taxes	3,621,393	-	3,621,393	-
Special assessments	32,726	-	32,726	-
Accounts	81,088	2,580,861	2,661,949	-
Others	5,032	-	5,032	-
Due from agency agency fund	173,457	296,382	469,839	-
Internal balances	(16,612)	16,612	0	-
Due from other governments	6,594,013	326,360	6,920,373	-
Prepayments	739,620	-	739,620	-
Advance to other funds	50,000	-	50,000	-
Inventories	1,408,295	258,500	1,666,795	-
Restricted assets:				
Cash and cash equivalents	1,134,023	3,404,717	4,538,740	-
Deposits with fiscal agents	15,000	-	15,000	-
Investments	6,875,921	44,161	6,920,082	-
Notes/Contracts	8,825,006	-	8,825,006	-
Special Assessment Receivable-Deferred	-	623,125	623,125	-
Long-term Receivable from Comp. Unit	10,205,000	-	10,205,000	-
Long-term Receivable from KCCHA	14,794,773	-	14,794,773	-
Capital assets, net (Note1)				
Land	57,179,803	2,465,721	59,645,524	-
Infrastructure	194,862,723	-	194,862,723	-
Buildings	95,367,565	18,427,219	113,794,784	-
Improvements & Other Buildings	18,327,081	43,743,866	62,070,947	-
Machinery & Equipment	21,418,812	1,971,075	23,389,887	-
Construction In Progress	26,599,890	11,840,856	38,440,746	-
Total assets	<u>554,594,952</u>	<u>183,551,414</u>	<u>738,146,368</u>	<u>842,386</u>
LIABILITIES				
Accounts payable and accrued expenses	5,194,700	2,114,371	7,309,071	-
Due to other governments	865,038	129,382	994,420	-
Other liabilities	8,548,818	419,138	8,967,956	-
Debt interest payable	-	227,069	227,069	-
Unearned revenue	8,001,923	-	8,001,923	-
Non current Liabilities (Note 2):				
Due within one year	8,740,229	2,989,074	11,729,303	430,000
Due in more than one year	124,464,145	60,896,424	185,360,569	9,775,000
Total liabilities	<u>155,814,855</u>	<u>66,775,458</u>	<u>222,590,312</u>	<u>10,205,000</u>
NET ASSETS				
Invested in capital assets, net of related debt	329,345,874	53,158,987	382,504,861	-
Restricted:				
Capital Projects	7,041,825	-	7,041,825	-
Debt service	11,716,272	3,448,879	15,165,151	-
Unrestricted	50,676,126	60,168,090	110,844,216	(9,362,614)
Total net assets	<u>\$ 398,780,098</u>	<u>\$ 116,775,956</u>	<u>\$ 515,556,055</u>	<u>\$ (9,362,614)</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, 2010

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	\$ 27,401,994	\$ 10,581,017	\$ 4,201,599	\$ -	\$ (12,619,379)	\$ -	\$ (12,619,379)	\$ -
Judicial Services	13,505,925	4,413,966	1,919,426	-	(7,172,534)	-	(7,172,534)	-
Public Safety	50,795,974	1,289,307	9,341,792	-	(40,164,875)	-	(40,164,875)	-
Physical Environment	4,588,222	4,093,679	2,781,183	-	2,286,639	-	2,286,639	-
Transportation	36,830,579	2,467,543	5,668,461	1,662,318	(27,032,257)	-	(27,032,257)	-
Health & Human Services	46,998,288	202,954	45,621,606	-	(1,173,729)	-	(1,173,729)	-
Economic Environment	7,698,265	79,298	2,257,987	-	(5,360,980)	-	(5,360,980)	-
Culture & Recreation	6,436,343	1,005,930	263,124	-	(5,167,288)	-	(5,167,288)	-
Interest on Long-term Debt	6,445,052	-	-	-	(6,445,052)	-	(6,445,052)	-
Total Governmental Activities	<u>200,700,644</u>	<u>24,133,694</u>	<u>72,055,178</u>	<u>1,662,318</u>	<u>(102,849,454)</u>	<u>0</u>	<u>(102,849,454)</u>	<u>-</u>
Business-type Activities								
Solid Waste	13,823,778	12,406,743	386,214	-	-	(1,030,821)	(1,030,821)	-
Sewer Utility	14,544,806	14,325,290	41,506	741,527	-	563,517	563,517	-
Surface Water	6,149,575	7,493,308	180,355	-	-	1,524,088	1,524,088	-
Total business-type activities	<u>34,518,159</u>	<u>34,225,341</u>	<u>608,075</u>	<u>741,527</u>	<u>-</u>	<u>1,056,784</u>	<u>1,056,784</u>	<u>-</u>
Total Primary Government	<u>\$ 235,218,803</u>	<u>\$ 58,359,035</u>	<u>\$ 72,663,253</u>	<u>\$ 2,403,845</u>	<u>(102,849,454)</u>	<u>1,056,784</u>	<u>(101,792,670)</u>	<u>-</u>
Component Units:								
Public Facility District(PFD)	687,435	-	-	-	-	-	-	(687,435)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					54,472,193	-	54,472,193	-
Property taxes, levied for debt service					-	-	-	-
Sales & use taxes					26,498,000	-	26,498,000	1,049,608
Other taxes					10,139,073	-	10,139,073	-
Investment earnings					2,182,799	816,219	2,999,018	10,746
Miscellaneous					4,763,472	-	4,763,472	1,200
Special item - gain(loss) transfer of assets due to annexations					(216,442)	-	(216,442)	-
Transfers					381,637	(381,637)	-	-
Total general revenues, special items, and transfers					<u>98,220,732</u>	<u>434,582</u>	<u>98,655,314</u>	<u>1,061,555</u>
Change in net assets					(4,628,722)	1,491,366	(3,137,356)	374,120
Net assets - beginning					403,408,821	115,284,591	518,693,412	(9,736,733)
Prior Period Adjustments					-	-	-	-
Net assets - ending					<u>\$ 398,780,098</u>	<u>\$ 116,775,956</u>	<u>\$ 515,556,055</u>	<u>\$ (9,362,612)</u>

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

Balance Sheet
 Governmental Funds
 December 31, 2010

	Special Revenue Funds		
	General Fund	Road Department	Real Estate Excise Tax
ASSETS			
Cash and Cash equivalents	\$ 7,580,595	\$ 19,344,137	\$ 2,213,941
Deposits with fiscal agents	-	-	58,889
Investments	-	2,626,421	3,659,111
Receivables(net)			
Property Taxes	2,150,318	1,339,024	-
Special assessments	-	1,622	-
Accounts	72,102	-	-
Notes/Contracts	-	19,196	4,837,500
Others	605	-	-
Due from other funds	725,057	1,016,508	-
Due from other governments	1,629,527	973,155	60
Interfund loan receivable	1,150,000	-	-
Prepayments	270,617	-	-
Advance to other funds	180,000	-	-
Total assets	\$ 13,758,821	\$ 25,320,063	\$ 10,769,501
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	1,024,610	381,208	
Due to other funds	259,023	471,411	
Due to other governments	-	-	
Other liabilities	1,967,375	537,155	
Advance from other fund	-	-	-
Revenues collected in advance	5,569	400	7,480
Deferred revenue	2,151,176	1,340,646	4,837,500
Interfund loan payable	-	-	-
Total liabilities	5,407,753	2,730,821	4,844,980
Fund balances			
Reserved:			
Prepaid items	270,617	-	-
Advance/Receivable	180,000	-	-
Mental health programs	-	-	-
Unreserved:			
General fund	7,900,452	-	-
Special revenues	-	22,589,242	5,924,521
Debt services	-	-	-
Capital projects funds	-	-	-
Total fund balance	8,351,069	22,589,242	5,924,521
Total liabilities & fund balances	\$ 13,758,821	\$ 25,320,063	\$ 10,769,501

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

Balance Sheet

Governmental Funds
December 31, 2010

	Special Revenue Fund		
	Mental Health Medicaid Fund	Other Governmental Funds	Total Governmental Funds

ASSETS

Cash and Cash equivalents	\$ 27,184	\$ 12,940,698	\$ 42,106,555
Deposits with fiscal agents	-	15,000	73,889
Investments	2,227,461	18,013,218	26,526,211
Receivables(net)			
Property Taxes	-	132,051	3,621,393
Special assessments	-	31,104	32,726
Accounts	-	8,986	81,088
Notes/Contracts	-	14,173,310	19,030,006
Others	-	4,427	5,032
Due from other funds	3,549	369,530	2,114,644
Due from other governments	-	3,991,271	6,594,013
Interfund loan receivable	-	-	1,150,000
Prepayments	-	-	270,617
Advance to other funds	-	50,000	230,000
Total assets	\$ 2,258,195	\$ 49,729,593	\$ 101,836,174

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	274,856	2,939,032	4,619,706
Due to other funds	19,194	365,174	1,114,802
Due to other governments	-	865,038	865,038
Other liabilities	24,088	572,708	3,101,326
Advance from other fund	-	180,000	180,000
Revenues collected in advance	-	17,821	31,270
Deferred revenues	-	3,295,450	11,624,772
Interfund loan payable	-	1,150,000	1,150,000
Total liabilities	318,138	9,385,222	22,686,914

Fund Balances

Reserved:

Prepaid items	-	-	270,617
Advance/receivable	-	50,000	230,000
Mental health programs	1,940,550	51,250	1,991,800
Unreserved:			
General fund	-	-	7,900,452
Special revenues	(494)	21,452,994	49,966,264
Debt services	-	11,716,272	11,716,272
Capital projects funds	-	7,073,854	7,073,854
Total fund balances	1,940,056	40,344,371	79,149,259
Total liabilities and fund balances	\$ 2,258,195	\$ 49,729,593	\$ 101,836,174

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, 2010

Fund balances of governmental funds - page 19 \$ 79,149,259

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	750,264,820	
Depreciation	(336,508,946)	
Capital asset net of depreciation		413,755,874

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

Bond payable	97,861,771	
Compensated absences	5,054,957	
Bond Anticipation Note	21,877,584	
Note payable	4,862,500	
OPEB Liability	2,731,161	
PWTF Loans	551,445	
Long-term debt		(132,939,418)

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

Taxes/Assessments receivable	3,654,119	
KCCHA receivable		14,794,773

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	28,180,398	
Liabilities	(8,375,449)	
Uses Other than Operations	560,542	
Asset less liabilities		20,365,491

Net assets of governmental activities - page 16

\$ 398,780,098

Statement of Revenue, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2010

	Special Revenue Funds		
	General Fund	County Roads	Real Estate Excise Tax
REVENUES:			
Property taxes	\$ 29,604,956	\$ 22,905,546	\$ -
Retail sales & use taxes	19,874,563	-	-
Other taxes	5,683,768	42,783	2,755,734
Licenses and permits	193,043	149,600	-
Intergovernmental	10,082,163	7,330,779	-
Charges for services	10,118,140	798,259	-
Fines & forfeits	2,117,394	-	-
Investment earnings	1,226,160	37,468	289,581
Miscellaneous	1,701,166	83,963	162,333
Total revenues	<u>80,601,355</u>	<u>31,348,397</u>	<u>3,207,647</u>
EXPENDITURES:			
Current:			
General government	24,938,305	-	26,788
Judicial Services	12,957,635	-	-
Public safety	35,115,395	-	-
Physical Environment	-	-	-
Transportation	-	23,629,070	-
Health & Human Services	-	-	-
Economic Environment	-	-	-
Culture & recreation	3,957,031	-	-
Debt service			
Principal	-	78,912	112,500
Interest and other charges	23,464	4,102	285,636
Capital outlay	228,603	4,450,250	731,839
Total expenditures	<u>77,220,433</u>	<u>28,162,334</u>	<u>1,156,762</u>
Excess(deficiency) of revenues over expenditures	<u>3,380,922</u>	<u>3,186,064</u>	<u>2,050,885</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from BANS	-	-	-
Proceeds from GO Bonds	-	-	2,290,000
Proceeds from Refunding Bonds	-	-	-
Payment to bond refunding escrow agent	-	-	-
Sale of capital asset	-	-	-
Transfers in	2,403,271	-	2,411,838
Transfers out	(3,005,391)	(579,080)	(4,421,800)
Premiums on bonds	-	-	39,835
Total other financing sources & uses	<u>(602,120)</u>	<u>(579,080)</u>	<u>319,873</u>
SPECIAL ITEMS:			
Sales of pledged assets	-	-	-
Net change in fund balance	<u>2,778,802</u>	<u>2,606,984</u>	<u>2,370,758</u>
Fund balances-beginning	5,572,268	19,982,257	3,553,763
Prior period adjustments	-	-	-
Fund balances-ending	<u>\$ 8,351,069</u>	<u>\$ 22,589,241</u>	<u>\$ 5,924,521</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, 2010

	Special Revenue		
	Fund		
	Mental Health Medicaid Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Property taxes	\$ -	\$ 1,961,692	\$ 54,472,193
Retail sales & use taxes	-	6,623,437	26,498,000
Other taxes	-	1,656,788	10,139,073
Licenses and permits	-	2,254,605	2,597,249
Intergovernmental	21,133,629	35,170,923	73,717,495
Charges for services	-	4,546,445	15,462,844
Fines & forfeits	-	334,816	2,452,210
Investment earnings	31,999	597,592	2,182,799
Miscellaneous	-	2,775,936	4,723,398
Total revenues	<u>21,165,629</u>	<u>55,922,233</u>	<u>192,245,262</u>
EXPENDITURES:			
Current:			
General government	-	2,207,816	27,172,908
Judicial Services	-	528,978	13,486,613
Public safety	-	10,826,918	45,942,313
Physical Environment	-	4,588,222	4,588,222
Transportation	-	115,426	23,744,496
Health & Human Services	21,499,776	25,354,471	46,854,248
Economic Environment	-	7,683,840	7,683,840
Culture & recreation	-	1,207,475	5,164,506
Debt service			
Principal	-	9,500,217	9,691,629
Interest and other charges	-	5,645,519	5,958,721
Capital outlay	-	2,627,515	8,038,207
Total expenditures	<u>21,499,776</u>	<u>70,286,397</u>	<u>198,325,702</u>
Excess(deficiency) of revenues over expenditures	<u>(334,147)</u>	<u>(14,364,164)</u>	<u>(6,080,441)</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from BANS	-	875,640	875,640
Proceeds from GO Bonds	-	1,875,000	4,165,000
Proceeds from Refunding Bonds	-	5,251,531	5,251,531
Payment to bond refunding escrow agent	-	(7,141,061)	(7,141,061)
Sale of capital asset	-	7,345	7,345
Transfers in	-	15,909,698	20,724,807
Transfers out	-	(12,366,784)	(20,373,056)
Premiums on bonds	-	32,900	72,735
Total other financing sources & uses	<u>-</u>	<u>4,444,269</u>	<u>3,582,941</u>
SPECIAL ITEMS:			
Sales of pledged assets	-	5,468,068	5,468,068
Net change in fund balance	<u>(334,146)</u>	<u>(4,451,827)</u>	<u>2,970,569</u>
Fund balances-beginning	2,274,204	44,796,201	76,178,693
Prior period adjustments	-	-	-
Fund balances-ending	<u>\$ 1,940,058</u>	<u>\$ 40,344,371</u>	<u>\$ 79,149,259</u>

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

KITSAP COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2010

Net change in fund balances-total governmental funds - page 22 \$ 2,970,569

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	8,038,207
Depreciation	(20,763,506)

Capital Asset Transactions

Gain recognized in Statement of Activities but not in the funds	-
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items

Receipts from bond sales	(10,364,906)
Receipts from sales of non-county contracted assets	(5,468,068)
Payment to bond funding escrow agent	7,141,061
Other debt issuance costs amortized	(486,331)
Bond principal	9,691,629
Recording of Net OPEB Obligation	(511,684)
Special item - loss from assuming - KCCHA debt	-
Special item - loss on transfer of assets to City of Pt Orchard - Annexation	(216,442)

Revenues in statement of activities that do not provide current financial resources are not reported as revenues in the funds.	-
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Property taxes receivable	3,621,393
Special Assessments	32,726

Internal services Activities

Net Transfers	29,886
Depreciation already included above	1,982,703
Net profit	(325,958)

Change in net assets of governmental activities - page 17	\$ (4,628,722)
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KITSAP COUNTY, WASHINGTON

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

General Fund

Year Ended December 31, 2010

	2010			
	Original	Final	Actual	Variance
	Budget	Budget		Final Budget
REVENUES:				
Property taxes	\$ 30,010,865	\$ 30,010,865	\$ 29,604,956	\$ (405,909)
Retail sales & use taxes	20,045,784	20,045,784	19,874,563	(171,221)
Other taxes	4,376,622	4,376,622	5,683,768	1,307,146
Licenses and permits	230,900	230,900	193,043	(37,857)
Intergovernmental	9,518,202	9,819,353	10,082,163	262,810
Charges for services	9,927,071	9,973,571	10,118,140	144,569
Fines & forfeits	2,496,490	2,496,490	2,117,394	(379,096)
Investment Earnings	1,609,850	1,609,850	1,226,160	(383,690)
Miscellaneous	1,696,703	1,690,203	1,701,166	10,963
	<u>79,912,487</u>	<u>80,253,638</u>	<u>80,601,355</u>	<u>347,717</u>
EXPENDITURES:				
Current:				
General government				
Administrative Services	\$ 886,377	\$ 865,626	\$ 786,562	\$ 79,064
Assessor	2,236,858	2,236,858	2,219,124	17,734
Auditor	3,261,870	3,314,590	3,305,005	9,585
Commissioners	1,339,214	1,434,465	1,384,912	49,553
General Administration	6,810,719	6,260,914	6,015,593	245,321
Personnel & Human resources	1,062,380	1,062,380	1,044,911	17,469
Prosecuting attorney	7,801,893	7,801,893	7,777,352	24,541
Facilities Maintenance	1,847,563	1,847,563	1,637,943	209,620
Treasurer	843,212	843,212	766,903	76,309
Total general government	<u>26,090,086</u>	<u>25,667,501</u>	<u>24,938,305</u>	<u>729,196</u>
Judicial Services				
Clerk	\$ 5,982,201	\$ 5,482,201	\$ 5,409,102	\$ 73,099
District court	2,780,825	2,938,019	2,648,435	289,584
Superior court	2,545,509	2,596,759	2,571,879	24,880
Juvenile	2,352,679	2,352,679	2,328,219	24,460
Total Judicial services	<u>13,661,214</u>	<u>13,369,658</u>	<u>12,957,635</u>	<u>412,023</u>
Public safety				
Sheriff	\$ 17,724,757	\$ 17,813,892	\$ 17,497,496	\$ 316,396
Jail	12,391,684	12,228,184	12,140,366	87,818
Juvenile	4,529,259	4,562,259	4,532,645	29,614
Coroner	904,445	930,880	922,353	8,527
Personnel & Human Resources	29,577	29,577	22,535	7,042
Total Public Safety	<u>35,579,722</u>	<u>35,564,792</u>	<u>35,115,395</u>	<u>449,397</u>
Culture & recreation				
Parks	\$ 3,387,724	\$ 3,407,724	\$ 3,424,762	\$ (17,038)
Cooperative Extension	242,126	242,126	240,963	1,163
Personnel & Human Resources	299,344	299,344	291,306	8,038
Total Culture & Recreation	<u>3,929,194</u>	<u>3,949,194</u>	<u>3,957,031</u>	<u>(7,837)</u>
Interest and other charges	25,000	25,000	23,464	1,536
Capital outlay	817,867	636,883	228,603	408,280
Total expenditures	<u>80,103,083</u>	<u>79,213,028</u>	<u>77,220,433</u>	<u>1,992,595</u>
Excess(deficiency) of revenues over expenditures	(190,596)	1,040,610	3,380,922	2,340,312
OTHER FINANCING SOURCES (USES):				
Transfers in	2,835,821	2,676,790	2,403,271	(273,519)
Transfers out	(2,644,758)	(3,064,758)	(3,005,391)	59,367
Total other financing sources & uses	<u>191,063</u>	<u>(387,968)</u>	<u>(602,120)</u>	<u>(214,152)</u>
Net change in fund balance	467	652,642	2,778,802	2,126,160
Fund balances-beginning	5,572,266	5,572,266	5,572,266	-
Prior period adjustments				
Fund balances-ending	<u>5,572,733</u>	<u>6,224,908</u>	<u>8,351,069</u>	<u>2,126,160</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	\$ 23,060,746	\$ 23,060,746	\$ 22,905,546	\$ (155,200)
Other taxes	50,000	50,000	42,783	(7,217)
Licenses and permits	115,000	115,000	149,600	34,600
Intergovernmental	8,719,792	8,719,792	7,330,779	(1,389,013)
Charges for services	373,000	405,239	798,259	393,020
Investment earnings	10,000	10,000	37,468	27,468
Miscellaneous	1,000	1,000	83,963	82,963
Total revenues	<u>32,329,538</u>	<u>32,361,777</u>	<u>31,348,397</u>	<u>(1,013,380)</u>
EXPENDITURES:				
Current:				
Transportation	26,524,180	26,556,419	23,629,070	2,927,349
Debt service				
Principal	78,913	78,913	78,912	1
Interest and other charges	6,041	6,041	4,102	1,939
Capital outlay	5,606,000	5,918,500	4,450,250	1,468,250
Total expenditures	<u>32,215,134</u>	<u>32,559,873</u>	<u>28,162,334</u>	<u>4,397,539</u>
Excess(deficiency) of revenues over expenditures	<u>114,404</u>	<u>(198,096)</u>	<u>3,186,064</u>	<u>3,384,160</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(579,081)	(579,081)	(579,080)	1
Total other financing sources & uses	<u>(579,081)</u>	<u>(579,081)</u>	<u>(579,080)</u>	<u>1</u>
Net change in fund balance	<u>(464,677)</u>	<u>(777,177)</u>	<u>2,606,984</u>	<u>3,384,161</u>
Fund balances-beginning	19,982,257	19,982,257	19,982,257	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 19,517,580</u>	<u>\$ 19,205,080</u>	<u>\$ 22,589,241</u>	<u>\$ 3,384,161</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:				
Other taxes	\$ 2,649,623	\$ 2,649,623	\$ 2,755,734	106,111
Investment earnings	294,347	294,347	289,581	(4,767)
Miscellaneous	1,032,371	32,371	162,333	129,962
Total revenues	<u>3,976,341</u>	<u>2,976,341</u>	<u>3,207,647</u>	<u>231,306</u>
EXPENDITURES:				
Current:				
General government	21,430	21,430	26,788	(5,358)
Debt service	-	-	-	-
Principal	110,000	110,000	112,500	(2,500)
Interest and other charges	308,246	308,246	285,636	22,610
Capital Outlay		731,838	731,839	
Total expenditures	<u>439,676</u>	<u>1,171,514</u>	<u>1,156,762</u>	<u>14,753</u>
Excess(deficiency) of revenues over expenditures	<u>3,536,665</u>	<u>1,804,827</u>	<u>2,050,885</u>	<u>246,058</u>
OTHER FINANCING SOURCES (USES):				
GO Bond proceeds	-	-	2,290,000	2,290,000
Sale of capital assets	300,000	300,000	-	(300,000)
Transfers in	-	2,411,838	2,411,838	-
Transfers out	(4,297,196)	(4,352,553)	(4,421,800)	(69,247)
Premiums on bonds			39,835	39,835
Total other financing sources & uses	<u>(3,997,196)</u>	<u>(1,640,715)</u>	<u>280,038</u>	<u>1,920,753</u>
Net change in fund balance	<u>(460,531)</u>	<u>164,112</u>	<u>2,370,758</u>	<u>2,166,811</u>
Fund balances-beginning	3,553,763	3,553,763	3,553,763	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 3,093,232</u>	<u>\$ 3,717,875</u>	<u>\$ 5,924,521</u>	<u>\$ 2,166,811</u>

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

KITSAP COUNTY, WASHINGTON

Mental Health Medicaid 187

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

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 20,750,000	\$ 20,750,000	\$ 21,133,629	\$ 383,629
Investment earnings	-	-	31,999	31,999
Miscellaneous	930,000	930,000	-	(930,000)
Total revenues	<u>21,680,000</u>	<u>21,680,000</u>	<u>21,165,629</u>	<u>(514,371)</u>
EXPENDITURES:				
Current:				
Health & Human Services	21,680,000	21,680,000	21,499,776	180,224
Total expenditures	<u>21,680,000</u>	<u>21,680,000</u>	<u>21,499,776</u>	<u>180,224</u>
Excess(deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(334,147)</u>	<u>(334,147)</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	-	-
Total other financing sources & uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>(334,147)</u>	<u>(334,147)</u>
Fund balances-beginning	2,274,204	2,274,204	2,274,204	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 2,274,204</u>	<u>\$ 2,274,204</u>	<u>\$ 1,940,057</u>	<u>\$ (334,147)</u>

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

KITSAP COUNTY, WASHINGTON

Statement of Net Assets

Proprietary Funds

December 31, 2010

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal Services Funds
ASSETS					
Current assets:					
Cash and Cash equivalents	\$ 36,967,419	\$ 1,743,493	\$ 488,898	\$ 39,199,810	\$ 25,618,633
Deposits with fiscal agents	-	-	-	-	-
Investments	22,875,282	24,013,700	11,463,168	58,352,150	-
Receivables(net)	-	-	-	-	-
Special assessments	-	-	-	-	-
Accounts	1,439,819	1,018,044	122,998	2,580,861	-
Due from other funds	547,821	28,934	345,678	922,433	684,467
Due from other governments	-	91,813	234,547	326,360	-
Prepayments	-	-	-	-	469,003
Inventories	258,500	-	-	258,500	1,408,295
Restricted assets:					
Cash and cash equivalents	3,404,717	-	-	3,404,717	-
Deposits with fiscal agents	-	-	-	-	-
Investments	44,161	-	-	44,161	-
Total current assets	65,537,719	26,895,984	12,655,289	105,088,992	28,180,398
Noncurrent assets:					
Special Assessment Receivable-Deferr	623,125	-	-	623,125	-
Capital assets, net (Note1)					
Land	1,123,482	472,444	869,795	2,465,721	-
Buildings	45,501,328	802,991	5,479	46,309,798	-
Improvements & Other Buildings	67,140,268	1,632,723	7,853,875	76,626,866	-
Machinery & Equipments	7,198,240	90,380	162,633	7,451,253	29,311,032
Construction In Progress	9,197,683	23,920	2,619,253	11,840,856	-
Less accumulated depreciation	(62,050,038)	(1,455,439)	(2,740,280)	(66,245,757)	(18,161,354)
Total noncurrent assets	68,734,088	1,567,019	8,770,755	79,071,862	11,149,678
Total assets	134,271,807	28,463,003	21,426,044	184,160,854	39,330,076
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expens	868,502	1,059,642	186,228	2,114,372	574,994
Due to other funds	156,086	99,311	354,042	609,439	1,527,466
Due to other governments	5,573	31,401	92,408	129,382	-
Other liabilities	259,165	69,267	90,706	419,138	6,008,033
Debt interest payable	227,069	-	-	227,069	-
Current portion of long term liabilities	2,989,074	-	-	2,989,074	-
Total current liabilities	4,505,469	1,259,621	723,384	6,488,474	8,110,493
Non current Liabilities (Note 2):					
Due in more than one year	60,703,069	91,141	102,214	60,896,424	264,956
Total noncurrent liabilities	60,703,069	91,141	102,214	60,896,424	264,956
Total liabilities	65,208,538	1,350,762	825,598	67,384,898	8,375,449
NET ASSETS					
Invested in capital assets, net of related	42,821,213	1,567,019	8,770,755	53,158,987	11,149,678
Restricted:					
Debt service	3,448,879	-	-	3,448,879	-
Unrestricted	22,793,177	25,545,222	11,829,691	60,168,090	19,804,949
Total net assets	\$ 69,063,269	\$ 27,112,241	\$ 20,600,446	\$ 116,775,956	\$ 30,954,627

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

KITSAP COUNTY, WASHINGTON

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

Proprietary Funds

For the Year Ended December 31, 2010

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal Service Funds
Operating revenues:					
Charges for services	\$ 14,325,290	\$ 12,342,344	\$ 7,493,308	\$ 34,160,942	\$ 18,279,550
Miscellaneous	-	64,399	-	64,399	101,006
Total operating revenues	14,325,290	12,406,743	7,493,308	34,225,341	18,380,556
Operating expenses:					
Personal services	4,942,455	1,747,900	2,328,820	9,019,175	5,345,419
Contractual services	1,103,761	1,272,955	2,595,636	4,972,352	1,381,044
Utilities	1,248,661	10,093,718	70,698	11,413,077	24,906
Repair and maintenance	320,930	58,129	312,807	691,866	846,253
Other supplies and expenses	1,905,499	544,533	438,617	2,888,649	7,594,803
Insurance claims and expenses	27,024	8,412	65,028	100,464	1,531,386
Depreciation	3,929,108	98,131	337,969	4,365,208	1,982,703
Total operating expenses	13,477,438	13,823,778	6,149,575	33,450,791	18,706,514
Operating income	847,852	(1,417,035)	1,343,733	774,550	(325,958)
Nonoperating revenue (expenses)					
Interest and investment revenue	368,150	274,869	173,200	816,219	-
Miscellaneous revenue	41,506	386,214	180,355	608,075	-
Interest expense	(1,067,368)	-	-	(1,067,368)	-
Miscellaneous expense	-	-	-	-	-
Total nonoperating expenses	(657,712)	661,083	353,555	356,926	-
Income (loss) before contributions & transfers	190,140	(755,952)	1,697,288	1,131,476	(325,958)
Capital contributions	741,527	-	-	741,527	69,476
Transfers in	-	-	-	-	110,000
Transfers out	(148,688)	-	(232,948)	(381,636)	(80,114)
Change in net assets	782,979	(755,952)	1,464,340	1,491,367	(226,596)
Total net assets - beginning	68,280,291	27,868,195	19,136,105	115,284,591	31,181,223
Prior Period Adjustments	-	-	-	-	-
Total net assets - ending	\$ 69,063,269	\$ 27,112,241	\$ 20,600,446	\$ 116,775,956	\$ 30,954,627

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

KITSAP COUNTY, WASHINGTON

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2010

	Business-type Activities - Enterprise Funds				Governmental Activities Internal service Funds
	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 14,200,205	\$ 11,893,675	\$ 7,145,848	\$ 33,239,728	\$ 17,786,655
Payments to suppliers	(4,344,700)	(11,451,231)	(3,257,449)	(19,053,380)	(10,439,162)
Payments to employees	(4,909,633)	(1,744,961)	(2,312,838)	(8,967,432)	(5,310,995)
Net cash provided by operating activities	<u>4,945,872</u>	<u>(1,302,517)</u>	<u>1,575,561</u>	<u>5,218,916</u>	<u>2,036,498</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants received	1,113,846	490,248	180,355	1,784,449	-
Transfers in	-	-	-	-	110,000
Transfers out	(148,688)	-	(232,948)	(381,636)	(80,114)
Net cash provided by noncapital activities	<u>965,158</u>	<u>490,248</u>	<u>(52,593)</u>	<u>1,402,813</u>	<u>29,886</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	542,922	-	-	542,922	-
Proceeds from sales of bonds	38,427,767	-	-	38,427,767	-
Purchases of capital assets	(6,912,854)	(117,561)	(1,585,680)	(8,616,095)	(1,791,696)
Principal paid on capital debt	(2,589,207)	-	-	(2,589,207)	-
Interest paid on capital debt	(925,118)	-	-	(925,118)	-
Net cash from related financing activities	<u>28,543,510</u>	<u>(117,561)</u>	<u>(1,585,680)</u>	<u>26,840,269</u>	<u>(1,791,696)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	7,700,000	1,700,000	3,200,000	12,600,000	-
Purchase of Investment	(12,974,221)	(9,339,040)	(5,672,727)	(27,985,988)	-
Interest and dividends	368,150	274,869	173,200	816,219	-
Net cash provided by investing activities	<u>(4,906,071)</u>	<u>(7,364,171)</u>	<u>(2,299,527)</u>	<u>(14,569,769)</u>	<u>-</u>
Net (decrease) in cash and cash equivalents	29,548,469	(8,294,001)	(2,362,239)	18,892,229	274,688
Balances - beginning of the year	10,823,667	10,037,494	2,851,137	23,712,298	25,343,944
Balances - end of the year	<u>\$ 40,372,136</u>	<u>\$ 1,743,493</u>	<u>\$ 488,898</u>	<u>\$ 42,604,528</u>	<u>\$ 25,618,632</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 847,852	\$ (1,417,035)	1,343,733	\$ 774,550	(325,958)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	3,929,108	98,131	337,969	4,365,208	1,982,703
Change in assets and liabilities:					
Receivables, net	(23,370)	(87,506)	(31,711)	(142,587)	-
Due from other funds	(174,056)	(425,562)	(226,202)	(825,820)	(593,901)
Due from other governments	72,341	-	(89,547)	(17,206)	-
Inventories	9,757	-	-	9,757	9,843
Prepaid	-	-	-	-	(6,240)
Accounts and other payables	246,007	121,350	62,057	429,414	(61,838)
Due to other funds	(25,792)	397,344	124,160	495,712	480,345
Due to other governments	(5,014)	1,826	23,146	19,958	-
Employee benefits	32,822	2,939	15,982	51,743	34,424
Accrued expenses	36,217	5,996	15,974	58,187	517,120
Net cash provided by operating activities	<u>\$ 4,945,872</u>	<u>\$ (1,302,517)</u>	<u>\$ 1,575,561</u>	<u>\$ 5,218,916</u>	<u>\$ 2,036,498</u>

Noncash investing, capital and financing Activities

Contribution of capital assets	198,605	198,605	69,476
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The notes to the financial statements are an integral part of this statement.

KITSAP COUNTY, WASHINGTON

Statement of Fiduciary Net Assets

December 31, 2010

	Agency Funds
ASSETS	
Cash	\$ 31,044,608
Deposits with Fiscal Agents	30,000
Investments	205,960,418
Taxes Receivable	12,211,770
Other Current Receivables	173,231
Due From Other Funds	-
Due From Other Governments	38,974
Total Assets	<u>\$ 249,459,001</u>
LIABILITIES	
Warrants Payable	\$ 3,968,258
Accounts Payable	6,504
Sales Tax Payable	-
Other Accrued Liabilities	-
Due to Other Funds	469,848
Due to Other Governments	750
Interfund loans	50,000
Custodial Account	244,963,640
Total Liabilities	<u>\$ 249,459,001</u>

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2010

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KITSAP COUNTY, WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2010

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.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2010

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.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2010

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

The County reports the following major governmental funds:

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

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

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

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

The County reports the following major proprietary funds:

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

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

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

Additionally, the County reports the following fund types:

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

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

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

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2010

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 2010:

Cumulative Reserve Fund

GMA Transportation Impact Fees Fund - CK

Wetland Mitigation Bank

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements

Year Ended December 31, 2010

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
Service Area 4 Rd Impact Fees
Regional Service Area Rd Impact Fees
McCormick Village Park 1 Fund
Road Improvement Guarantee Fund
Model Toxic Control
Bethel Corridor Development 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.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

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	\$ 82,747,841	(470,055)	\$ 82,277,786
County Road Funds	\$ 32,794,215	344,739	\$ 33,138,954
Real Estate Excise Tax	\$ 4,736,872	787,195	\$ 5,524,067
Non Major funds	\$ 44,617,224	15,807,264	\$ 60,424,488
		\$ 16,469,143	

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
106	KPREP	\$ 6,610
125	Expert Witness	\$ 1,750
168	Department of Community Development	\$ 422,576
331	2009 KCLTGO BAN Project Fund	\$ 16,619

The KPREP temporary year-end deficit was reversed in February 2011.

The Expert Witness's temporary year-end deficit fund balance was reversed in January of 2011.

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

In January 2011, the County drew down additional BAN Proceeds to offset these expenditures.

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, 2010, the treasurer was holding

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

\$ 135.13 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 4.)

3. Receivables

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

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2010, no special assessments receivables were delinquent.

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

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

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

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

5. Inventories and Prepaid Items

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

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 6)

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

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

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the county during the current fiscal year is \$1,067,368. Of this amount, none was included as part of the cost of capital assets under construction in connection sewer projects.

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

KITSAP COUNTY, WASHINGTON

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

8. **Compensated Absences**

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

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

9. **Other Accrued Liabilities**

These accounts consist of accrued wages and accrued employee benefits.

10. **Long-Term Debt (See Note 10)**

11. **Deferred Revenues**

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

12. **Fund 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.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

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, 2010, the County had the following investments:

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements Year Ended December 31, 2010

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	2.79	13.0%	\$ 55.31	\$ 14.86	\$ 17.10	\$ 55.27
FFCB	AAA	2.41	9.9%	\$ 42.38	\$ 24.96	\$ 28.71	\$ 42.18
FHLMC	AAA	1.86	15.9%	\$ 67.93	\$ 33.44	\$ 38.47	\$ 67.96
FNMA	AAA	3.44	24.0%	\$ 102.55	\$ 35.56	\$ 40.91	\$ 103.08
MONEY MKT SVGS ACCTS	NR	0.50	3.8%	\$ 16.27	\$ 0.06	\$ 0.07	\$ 16.27
WA ST LGIP	NR	0.50	30.2%	\$ 128.90	\$ 40.85	\$ 47.00	\$ 128.90
CERTIFICATE OF DEPOSIT	NR	0.50	2.3%	\$ 10.00	\$ 7.91	\$ 9.09	\$ 10.00
MUNICIPAL SECURITIES	Aa1/AA/AA+	1.07	0.8%	\$ 3.46	\$ 1.40	\$ 1.61	\$ 3.45
		Years	100%	\$ 426.80	\$ 159.04	\$ 182.96	\$ 427.11

Both Cost and Fair Value include accrued interest of \$1.16. Amortized cost and total fair value stated in millions.

Interest rate Risk. In accordance with its' investment policy, the government manages it's 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.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

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 2010 was 0.9500 per \$1,000 on an assessed valuation of \$30,196,632,984 for a total regular levy of \$28,700,475.

The County's road levy for the year 2010 was \$1.3288 per \$1,000 on an assessed valuation of \$18,576,430,319 for total road levy of \$24,700,370.

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, 2010 was as follows:

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

	<i>Beginning Balance</i>	<i>Increase</i>	<i>Decrease</i>	<i>Ending Balance</i>
Government activities:				
Assets not being depreciated				
Land	\$ 57,157,303	\$ 22,500	\$ -	\$ 57,179,803
Land - Infrastructure	60,749,245	1,074,363	89,015	61,734,593
Construction in Progress	28,886,619	7,618,482	9,905,210	26,599,890
Total	\$ 146,793,166	\$ 8,715,345	\$ 9,994,225	\$ 145,514,287
Assets being depreciated				
Buildings	\$ 126,424,331	\$ -	\$ -	\$ 126,424,330
Building Improvements	28,241,962	345,676	-	28,587,638
Equipment & Machinery	51,481,535	3,506,987	1,451,100	53,537,422
Infrastructure	388,059,169	8,889,387	747,413	396,201,142
Total	594,206,996	12,742,050	2,198,512	604,750,534
Total capital assets	\$ 741,000,163	\$ 21,457,395	\$ 12,192,738	\$ 750,264,820
Less accumulated depreciation				
Buildings	\$ 28,199,487	\$ 2,857,279	\$ -	\$ 31,056,766
Building Improvements	8,913,948	1,346,609	-	10,260,557
Equipment & Machinery	28,671,587	4,670,655	1,223,632	32,118,611
Infrastructure	251,678,256	11,888,962	494,206	263,073,013
Total	\$ 317,463,280	\$ 20,763,507	\$ 1,717,839	\$ 336,508,948
Government activities capital assets, net	\$ 423,536,885	\$ 693,888	\$ 10,474,899	\$ 413,755,874

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

	<i>Beginning Balance</i>	<i>Increase</i>	<i>Decrease</i>	<i>Ending Balance</i>
Business-type activities				
Assets not being depreciated				
Land	\$ 2,465,721			\$ 2,465,721
Construction in Progress	10,231,439	6,418,552	4,809,135	11,840,856
Total	\$ 12,697,160	\$ 6,418,552	\$ 4,809,135	\$ 14,306,577
Asset being depreciated				
Building	\$ 46,159,607	\$ 150,191	\$ -	\$ 46,309,798
Building Improvements	69,457,194	7,169,672	-	76,626,866
Equipment & Machinery	7,445,847	5,406	-	7,451,253
Total	\$ 123,062,648	\$ 7,325,269	\$ -	\$ 130,387,917
Grand Total	\$ 135,759,808	\$ 13,743,821	\$ 4,809,135	\$ 144,694,494
Less accumulated depreciation				
Building	\$ 26,240,583	\$ 1,641,997	\$ -	\$ 27,882,580
Building Improvements	30,563,123	2,319,877	-	32,883,000
Equipment & Machinery	5,076,845	403,333	-	5,480,178
Total	\$ 61,880,551	\$ 4,365,207	\$ -	\$ 66,245,758
Business-type activities capital assets, net	\$ 73,879,257	\$ 9,378,614	\$ 4,809,135	\$ 78,448,736

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

Function/Program	Amount
Government activities:	
General government	\$ 1,885,829
Judicial Services	19,313
Public safety	4,341,977
Transportation	13,086,083
Health & Human service	144,041
Economic environment	14,425
Culture & recreation	1,271,837
Total	\$ 20,763,506

Construction commitments

The County has active construction projects as of December 31, 2010. The projects include ongoing renovation of the County Courthouse, weatherization of the County Courthouse windows and the Central Kitsap Community Campus Project.

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

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

Project	Spent to Date	Remaining Commitment
Courthouse renovation	\$ 2,335,146	\$ 121,546
Courthouse windows	366,460	16,544
Central Kitsap Community Campus	1,104,348	707,123
Total	\$ 3,805,955	\$ 845,214

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

KITSAP COUNTY, WASHINGTON

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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

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements

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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 1,189 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

Retirees and Beneficiaries Receiving Benefits	74,857
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,074
Active Plan Members Vested	105,339
Active Plan Members Non-vested	53,896
Total	262,166

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, 2010, 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:

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	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
2010	\$ 133,163	\$ 2,340,792	\$ 522,077
2009	\$ 193,117	\$ 3,092,977	\$ 685,655
2008	\$ 215,418	\$ 3,194,204	\$ 690,493

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

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements Year Ended December 31, 2010

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 372 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2009:

Retirees and Beneficiaries Receiving Benefits	9,454
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	674
Active Plan Members Vested	13,363
Active Plan Members Nonvested	3,944
Total	27,435

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.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

The required contribution rates expressed as percentage of current-year covered payroll, as of December 31, 2010, were as follows:

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

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

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

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

	LEOFF Plan 1	LEOFF Plan 2
2010	\$ 157	\$ 480,094
2009	\$ 201	\$ 513,615
2008	\$ 271	\$ 461,903

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

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

- 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	2
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	0
Active Plan Members Vested	0
Active Plan Members Non-vested	4,340
TOTAL	4,342

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.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

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
2010	\$ 313,450
2009	\$ 365,577
2008	\$ 354,583

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. In October of 2010, Kitsap County withdrew from the Washington Counties Risk Pool and purchased an excess insurance policy to insure its general, auto, and employment liability risks, including public officials' errors and omissions. Kitsap self-insures its liability and workers' compensation up to \$500,000 per occurrence.

Workers compensation

The County assumes risk for Workers compensation as allowed by the State statute up to \$500,000 per occurrence. Losses above that amount are covered by excess workers' compensation insurance with statutory limits. Each department of Kitsap County is charged a premium based its' loss experience and number of employees. As of December 31, 2010, the County's estimated total undiscounted outstanding liability for the workers' compensation program is approximately \$2,072,000. Reserves are funded at approximately a seventy percent confidence level.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

Workers Compensation	Year ended	
	12/31/2009	12/31/2010
Unpaid claims, beginning of fiscal year	\$ 1,796,677	\$ 1,764,202
Incurred claims (including IBNRs)	1,011,272	1,061,836
Claim payments	(1,043,747)	(754,038)
Unpaid claims, end of fiscal year	\$ 1,764,202	\$ 2,072,000

General Liability	Year ended	
	12/31/2009	12/31/2010
Unpaid claims, beginning of fiscal year	\$ 3,079,254	\$ 3,560,969
Incurred claims (including IBNRs)	1,178,533	533,224
Claim payments	(696,818)	(340,109)
Unpaid claims, end of fiscal year	\$ 3,560,969	\$ 3,754,084

General liability

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

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 of \$5 million on January 2010 and \$1 million on September 2010 both from the Solid Waste fund. These loans were for 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 repaid a short-term bond anticipation note from Yakima County. The note was repaid from bond proceeds when the bond was issued in August 2010.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

Short term debt activities for the year ended December 31, 2010 are as follows:

Year ending December 31, 2010	Beginning Balance	Proceeds	Repayment	Ending Balance
Bainbridge Island Landfill Loan	\$ -	\$ 6,000,000	\$ 6,000,000	\$ -
Yakima County BAN	\$ 2,279,000	\$ -	\$ 2,279,000	\$ -
Total	\$ 2,279,000	\$ 6,000,000	\$ 8,279,000	\$ -

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, 2010 the debt limits for the County were as follows:

	Without a Vote	With a Vote	
		2.50%	5.00%
Legal Limit	\$ 452,949,495	\$ 754,915,825	\$ 1,509,831,649
Applicable Outstanding Debt	125,153,300	125,153,300	125,153,300
Margin Available	\$ 327,796,196	\$ 629,762,526	\$ 1,384,678,350

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.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

General obligation bonds currently outstanding are as follows:

Issued Name & Purpose	Maturity Range	Interest Rate %	Original Amount	Amount of Installment
1999B - Purchase 911 equip	7/1/10 - 7/1/19	4.9 - 5.3	10,680,000	70,000 - 115,000
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
2010 - Current Projects and Refunding	12/1/11 - 12/1/30	2.5 - 4.07	9,220,000	190,000 - 2,035,000
Total			\$ 131,932,694	

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2011	5,935,000	4,330,496
2012	5,520,000	4,104,416
2013	8,136,771	3,874,869
2014	4,595,000	3,657,183
2015	4,825,000	3,453,780
2016 - 2020	27,350,000	13,762,511
2021 - 2025	27,860,000	7,259,860
2026 - 2030	12,920,000	1,663,813
2031 - 2035	720,000	36,000
Total	\$ 97,861,771	\$ 42,142,928

During 2010, the County currently refunded the 1996 general obligation refunding and a 1999 general obligation bond issues with one general obligation refunding bond. The County issued \$9,220,000 general obligation and refunding bonds. A portion was used to fund YMCA and Coroner Building Projects as well repay a short term loan to Yakima County. The rest of the proceeds, \$5,214,169 were used along with other funds of the County to provide resources to purchase \$7,141,061 of government securities that were placed in an irrevocable trust for the purpose of generating resources for redemption of the 1996 and 1999 bonds on September 10, 2010. As a result, the refunded debt was paid in full and the liability has been removed from the long-term debt. This current refunding was undertaken to reduce total debt service payments over the next eight years by \$532,634.13 and to obtain an economic gain of \$494,152.12.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

Notes Payable

The County has a Note Payable of \$4.84 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 \$4.84 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
2011	117,500	235,805
2012	122,500	231,515
2013	127,500	226,764
2014	132,500	221,600
2015	137,500	216,234
2016 - 2020	795,000	974,125
2021 - 2025	1,010,000	754,875
2026 - 2030	1,290,000	475,750
2031 - 2034	1,105,000	128,750
Total	4,837,500	3,465,418

The County has a Bond Anticipation Note Payable (BAN) of \$21.88 due to Bank of America. This is in conjunction with debt they assumed from Kitsap Housing, formerly known as the Kitsap County Consolidated Housing Authority. As part of the debt assumption agreement, Kitsap Housing properties were pledged for sale to pay off the BAN. As these properties sell, proceeds are applied to the principal balance of the BAN. The BAN has a four year term and will mature in 2013, at which time the County will issue General Obligation Bonds to pay off the balance.

B. Revenue bonds

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

Issued Name & Purpose	Maturity Range	Interest Rate %	Original Amount	Amount of Installment
Sewer Refunding 2001	7/1/10 - 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
KC Sewer Rev Refunding 2010A	12/1/11 - 12/1/18	3 - 4	5,775,000	660,000 - 805,000
KC Sewer Revenue 2010B	12/1/28 - 12/1/40	6.714-7.364	37,210,000	1,090,000-4,100,000
KC Sewer Revenue 2010C	12/1/2028	6.696	1,110,000	1,110,000
PWTF Loan # PR-08-951-108	7/1/11 - 7/1/13	0.5	1,000,000	270,833
Total			\$ 74,963,000	

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

During 2010, the County currently refunded the 1999 sewer Revenue bond issue with one sewer revenue refunding. The County issued \$5,775,000 sewer revenue refunding bond to provide resources to purchase government securities that were placed in an irrevocable trust for the purpose of generating resources for redemption of the 1999 bonds on January 27, 2011. As a result, the refunded debt was paid in full and the liability has been removed from the long-term debt. This current refunding was undertaken to reduce total debt service payments over the next eight years by \$619,204.92 and to obtain an economic gain of \$533,237.84.

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

Year Ending December 31	Revenue Bonds	
	Principal	Interest
2011	1,915,000	2,246,968
2012	1,970,000	2,279,291
2013	2,055,000	2,190,829
2014	2,155,000	2,094,929
2015	2,260,000	1,994,029
2016 - 2020	3,950,000	8,803,531
2021 - 2025	-	8,527,331
2026 - 2030	6,845,000	8,274,391
2031 - 2035	13,585,000	5,913,744
2036 - 2040	17,800,000	2,415,827
Total	\$ 52,535,000	\$ 44,740,870

Year Ending December 31	Ecology & PWTF Loans	
	Principal	Interest
2011	914,879	129,478
2012	922,329	120,257
2013	929,891	110,587
2014	666,734	100,802
2015	674,526	92,256
2016 - 2020	3,493,696	328,904
2021 - 2025	2,798,323	101,342
Total	\$ 10,400,378	\$ 983,626

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.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements Year Ended December 31, 2010

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, 2010 was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
Governmental activities:					
Bond payables:					
General obligation bonds	\$ 100,334,988	\$ 9,220,000	\$ 11,693,218	\$ 97,861,771	\$ 5,935,000
Special assessment debt	-	-	-	-	-
Total bond payable	100,334,988	9,220,000	11,693,218	97,861,771	5,935,000
Compensated absences	5,047,066	4,455,057	4,447,166	5,054,957	591,134
Internal services comp.	230,532	261,148	226,725	264,956	26,496
Notes payable	30,807,523	897,061	4,964,499	26,740,085	2,108,687
Net OPEB obligation	2,219,478	511,683	-	2,731,161	-
Other liabilities	630,357	-	78,912	551,445	78,912
Governmental-activities					
Long-term liabilities	<u>\$ 139,269,944</u>	<u>\$ 15,344,949</u>	<u>\$ 21,410,520</u>	<u>\$ 133,204,374</u>	<u>\$ 8,740,229</u>
Business-type activities					
Bond payable:					
General obligation bonds	\$ -	\$ -	\$ -	\$ -	\$ -
Unamortized premium	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue bonds	15,825,000	44,005,000	7,295,000	52,535,000	1,915,000
Unamortized premium/disco	322,994	92,127	11,325	403,796	79,795
Total bond payable	16,147,994	44,097,127	7,306,325	52,938,796	1,994,795
Other liabilities	10,224,586	1,000,000	824,207	10,400,379	914,879
Compensated absences	494,580	531,420	479,676	546,324	79,400
Business-type activities					
Long-term liabilities	<u>\$ 26,867,160</u>	<u>\$ 45,628,547</u>	<u>\$ 8,610,208</u>	<u>\$ 63,885,499</u>	<u>\$ 2,989,074</u>
Total	<u>\$ 166,137,104</u>	<u>\$ 60,973,496</u>	<u>\$ 30,020,728</u>	<u>\$ 197,089,873</u>	<u>\$ 11,729,303</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, compensated absences and OPEB obligations 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.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

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 \$17.60 million as of December 31, 2010.

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	Advances To		
From	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.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

DUE FROM OTHER FUNDS

Due to Other Funds	Gen. Fund	County Roads	RE Tax	Ment Hea Medicaid	Non Major	Solid Waste	Sewer Utility	Surface Storm	Internal Service	Agency Funds	Total
General Fd	0	106,854	#	\$ 1,751	113,654	1,140	114,695	38,301	175,205	173,457	725,057
County Rds	2,650	0			46,715	2,933	7,210	250,468	706,531		1,016,507
Home Entitle	-	0			-	-	-		-		-
Mental Health					3,549						3,549
Non Major	6,100	7,563	-	17,443	129,456	8,445	-	-	1,991	198,531	369,529
Solid Waste	-	1,152			-	-	826	1,193	-	25,763	28,934
Sewer Utility	-	7,882			-	70,761	-	50,229	346,861	72,088	547,822
Surface Stor	-	32,317			-	8,204	9,962	-	295,194		345,677
Internal Serv	250,273	315,644			71,799	7,827	23,393	13,851	1,682		684,469
Total	259,023	471,412	0	19,194	365,173	99,310	156,086	354,042	1,527,465	469,839	3,721,544

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 Fund	County Roads	Real Estate Excise tax	Mental Health	Non Major	Internal Service	Total
General Fund	-	-	-	-	2,895,391	110,000	3,005,391
County Roads	-	-	-	-	579,080	-	579,080
REET	-	-	-	-	4,421,800	-	4,421,800
Mental Health	-	-	-	-	-	-	-
Nonmajor	2,346,137	-	2,411,838	-	7,608,810	-	12,366,785
Solid Waste	-	-	-	-	-	-	-
Surface Stormwater	-	-	-	-	232,948	-	232,948
Sewer	-	-	-	-	148,689	-	148,689
Nonmajor Ent	-	-	-	-	-	-	-
Int. Serv	57,134	-	-	-	22,978	-	80,112
Total	2,403,271	-	2,411,838	-	15,909,696	110,000	20,834,805

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.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

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 \$10.21 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:

<u>Investment company</u>	<u>Fair Value</u>
PEBSCO	\$ 12,688,985
ING	5,728,359
Hartford	6,482,480
ICMA	667,027
Total	\$ 25,566,852

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

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

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 \$2,731,162 is included as a noncurrent liability on the Statement of Net Assets. The actuarial valuation was performed on December 31, 2010.

Normal Cost at year end		\$ -
Amortization of UAAL*		1,091,407
Annual Required Contribution (ARC)		\$ 1,091,407
Determination of Net OPEB Obligation:		
Annual Required Contribution		\$ 1,091,407
Interest on prior year Net OPEB Obligation		99,877
Adjustment to ARC		(206,664)
Annual OPEB Cost		\$ 984,620
Contributions		472,936
Increase in Net OPEB Obligations		\$ 511,684
Net OPEB Obligation - beginning of year		\$ 2,219,478
Increase in Net OPEB Obligations		\$ 511,684
Net OPEB Obligation - end of year		\$ 2,731,162

*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 2010 were as follows:

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

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%
2010	\$ 1,091,407	\$ 472,936	43%

Funding Status

As of December 31, 2010 the most recent alternative method measurement date, the plan was 0% funded. The accrued liability for benefits was \$11,721,211 and the actuarial value of assets was \$0 resulting in a UAAL of \$11,721,211. 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. RESERVES

Kitsap County records two general types of reserves. One type indicates that a portion of fund balance is legally segregated for specific future use; the other type indicates that a portion of fund balance is not available for appropriation.

The County held reserves of \$1,940,550 in the Mental Health Medicaid fund 187 and \$51,250 in the Mental Health Non-Medicaid fund 188. These reserves were Risk and Inpatient Reserves required by state contracts.

KITSAP COUNTY, WASHINGTON

Notes to Financial Statements
Year Ended December 31, 2010

The County held reserves for advances to other funds totaling \$230,000 which were detailed in note 14.

The county also held a reserve for prepayments of \$270,617 in the General fund. It does not represent available, spendable resources for the fund's current operations.

NOTE 19. OTHER NOTE DISCLOSURES

A. Accounting and Reporting Changes:

- We determined the Employee Deferred Compensation plans we have been reporting in our fiduciary statements, are IRS Section 457 deferred compensation plans and we simply remit employee contributions directly to third-party administrators. Therefore, they should not be reported in our fiduciary statements. Thus we eliminated the Deferred Compensation column on the Statement of Fiduciary Net Assets. We also eliminated the Statement of Changes in Fiduciary Net Assets. We will continue disclose the Employee Deferred Compensation plan in the notes to the financial statements, see Note 16.

B. Special Items:

- As reported in the 2009 Comprehensive Annual Report, Kitsap County agreed to assume debt issues of the Kitsap County Consolidated Housing Authority(KCCHA). As result of this agreement certain KCCHA properties were pledged to be sold to pay off these debt issues. The Sales of these properties occurring in 2010 were reported as a Special Item totaling \$5.47 million in the Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental funds.
- Special Item reported on Statement of Activities – loss on transfer of assets due to annexations:

There were several rural areas that voted in favor of annexation into cities in 2010. Most of these annexations were into the City of Port Orchard, but one was into the City of Poulsbo. This loss records the transfer of roads and infrastructure assets from the County to the Cities. Since these assets totaling \$836,427.65, only had accumulated depreciation of \$619,985.25, we recognized a loss of \$216,442.40 on this transfer.