



FINANCIAL SECTION

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Washington State Auditor's Office

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

July 27, 2016

Board of Commissioners
Kitsap County
Port Orchard, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of Kitsap County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of Kitsap County, Washington, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, County Roads, Real Estate Excise Tax and Mental Health Medicaid funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As described in Note 20, during the year ended December 31, 2015, the County has implemented the Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages four through 16, information on postemployment benefits other than pensions on page 73 and pension plan information on pages 74 through 82 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying information listed as combining financial statements and supplementary information on pages 83 through 198 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used

to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated July 27, 2016, on our consideration of the County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report will be issued under separate cover in the County’s Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County’s internal control over financial reporting and compliance.

Sincerely,



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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MANAGEMENT'S DISCUSSION & ANALYSIS

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Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2015

As management of Kitsap County, we offer readers of Kitsap County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found section II of this report. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

- The assets of Kitsap County exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$529.21 (net position). Of this amount, \$115.35 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position decreased by \$28.55 with a \$29.98 decrease on the Governmental side and a \$1.43 increase on the Business-Type side. This decrease was caused by the reporting of pension liabilities of \$47.33 for the first time in 2015. Apart from this adjustment, the Governmental side actually increased by \$17.35.
- As of the close of the current fiscal year, Kitsap County's governmental funds reported combined ending fund balances of \$108.77, an increase of \$6.63 from the prior year. Approximately \$18.41 of this amount is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$18.45 or 21.7 percent of the total general fund expenditures. \$0.95 of this balance was from funds formerly reported as special revenue funds that no longer qualified under GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
- Kitsap County's total general obligation debt decreased by \$7.38 (7.9 percent) during the current fiscal year. This represented 2015 principle payments.

Overview of the Financial Statements

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

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

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

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2015

increases or decreases in net position may serve as a useful indicator of whether the financial position of Kitsap County is improving or deteriorating.

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

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

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

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

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

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

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

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2015

governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, county roads fund, real estate excise tax fund, mental health Medicaid fund, KC LTGO 2013 Refunding Bond fund and KCLTGO 2015 Refunding Bond fund, all of which are considered major funds.

Thirteen funds were rolled up into the General Fund because they did not meet the Special Revenue Fund criteria as stated in GASB Statement No. 54 (also see Note 1.E.13). Data from the other eight-four governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Kitsap County implemented GASB Statement No. 68 in 2015. As a result, pension costs and liabilities are now recorded as deferred outflows and inflows for the first time.

Kitsap County adopts an annual appropriated budget for all its funds, with the exception of those listed in the notes to the financial statements, see Note 1D. A budgetary comparison statement has been provided for each of the major funds to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 19 - 30 of this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Solid Waste, and Sewer funds and Surface Water Utility, which are considered major funds of Kitsap County. Conversely, all the internal service funds are combined into single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 31 - 33 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 34 of this report.

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2015

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 35 - 72 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 88 - 177 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Kitsap County, assets exceeded liabilities by \$529.21 at the close of the most recent fiscal year. The County's fiscal condition remains stable.

The largest portion of Kitsap County's net position (75.1 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets to provide services to citizens; consequently, these assets are not available for future spending. Although Kitsap County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Kitsap County's Net Position						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2015	2014	2015	2014	2015
Assets:						
Current & other assets	\$ 175.96	\$ 185.79	\$ 60.10	\$ 78.65	\$ 236.06	\$ 264.44
Capital assets	388.98	388.76	125.28	129.62	514.26	518.38
Total assets	564.94	574.55	185.38	208.27	750.32	782.82
Deferred outflows	-	6.81	-	0.69	-	7.50
Total assets and deferred outflows	\$ 564.94	\$ 581.36	\$ 185.38	\$ 208.96	\$ 750.32	\$ 790.32
Liabilities						
Other liabilities	36.14	20.41	5.91	5.94	42.05	26.35
Long-term liabilities	94.64	148.64	53.84	75.10	148.48	223.75
Total liabilities	\$ 130.78	\$ 169.05	\$ 59.75	\$ 81.04	\$ 190.53	\$ 250.09
Deferred inflows	2.02	10.17	-	0.86	2.02	11.03
Total liabilities and deferred inflows	\$ 132.80	\$ 179.22	\$ 59.75	\$ 81.90	\$ 192.55	\$ 261.12
Net position						
Net investment in capital assets	320.75	326.36	80.14	70.08	400.89	396.44
Restricted	13.98	12.19	4.44	5.22	18.42	17.41
Unrestricted	97.40	63.60	41.05	51.76	138.45	115.36
Total net position	\$ 432.13	\$ 402.15	\$ 125.63	\$ 127.06	\$ 557.76	\$ 529.21

An additional portion of Kitsap County's net position (3.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2015

balance of unrestricted net position (\$115.35) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The government's net position decreased by \$28.55 during the current fiscal year. The decrease was primarily due to recording a pension liability. The decrease was partially offset by an increase in sales tax as the economy continued to rebound. We also saw major increases in grant activity.

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

The government's restricted net position decreased from \$18.42 to \$17.41. This was caused by an overall reduction in outstanding debt. Unrestricted net position decreased from \$138.46 to \$115.35. This was due to the recording of the pension liability for the first time in 2015.

Governmental activities. Governmental activities decreased the County's net position by \$29.98. The key element of this net change was the recording of a \$47.33 net pension liability. Apart from this item governmental activities actually showed an increase of \$17.35.

Kitsap County, Washington

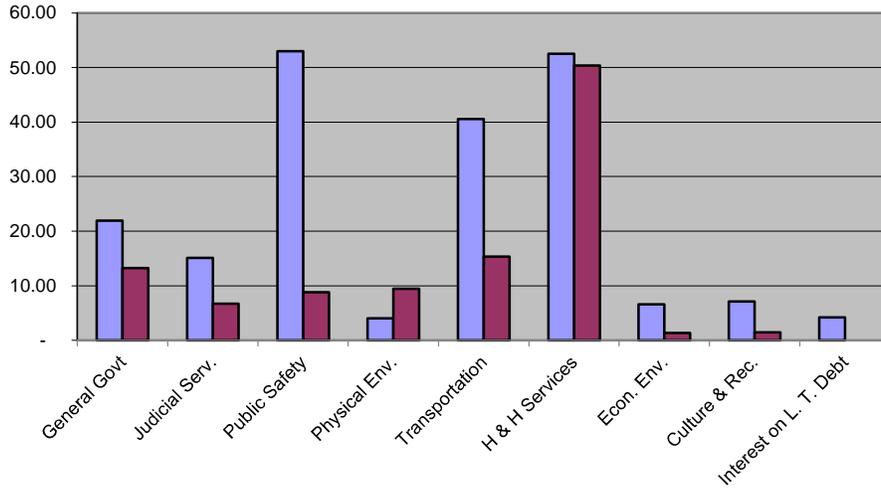
Management's Discussion and Analysis For the Year Ended December 31, 2015

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2015	2014	2015	2014	2015
Revenues:						
Program revenues						
Charges for services	\$ 23.02	\$ 24.42	\$ 41.97	\$ 46.06	\$ 64.99	\$ 70.48
Operating grants	78.45	75.87	2.26	1.88	80.71	77.76
Capital grants	1.46	6.36	0.90	1.73	2.36	8.09
General revenues						
Property taxes	58.72	59.76	-	-	58.72	59.76
Sales taxes	32.38	35.98	-	-	32.38	35.98
Other taxes	11.96	13.35	-	-	11.96	13.35
Investment earnings	1.54	2.04	0.35	0.39	1.89	2.43
Other income	3.74	4.17	-	-	3.74	4.17
Total revenues	211.27	221.95	45.48	50.06	256.75	272.01
Expenses						
General government	25.09	21.90	-	-	25.09	21.90
Judicial services	14.06	15.10	-	-	14.06	15.10
Public safety	50.59	52.48	-	-	50.59	52.48
Physical environment	3.49	4.05	-	-	3.49	4.05
Transportation	38.46	40.57	-	-	38.46	40.57
Health & human services	49.07	52.53	-	-	49.07	52.53
Economic environment	7.00	6.62	-	-	7.00	6.62
Culture & recreation	6.63	7.11	-	-	6.63	7.11
Interest on LT debt	4.36	4.28	-	-	4.36	4.28
Utilities	-	-	39.31	40.03	39.31	40.03
Total expenses	198.75	204.64	39.31	40.03	238.06	244.67
Incr (decr) in net position before Transfers	12.52	17.31	6.17	10.03	18.69	27.34
Transfers	0.38	0.47	(0.38)	(0.47)	-	-
Incr (decr) in net position	12.90	17.78	5.79	9.56	18.69	27.34
Beginning Net position	419.63	432.13	119.56	125.62	539.19	557.76
Prior period adjustments	(0.41)	(0.11)	0.27	(1.87)	(0.14)	(1.98)
Decrease in net position resulting from change in accounting princ.		(47.67)		(6.25)	-	(53.92)
Ending Net position	\$ 432.12	\$ 402.15	\$ 125.64	\$ 127.08	\$ 557.76	\$ 529.22

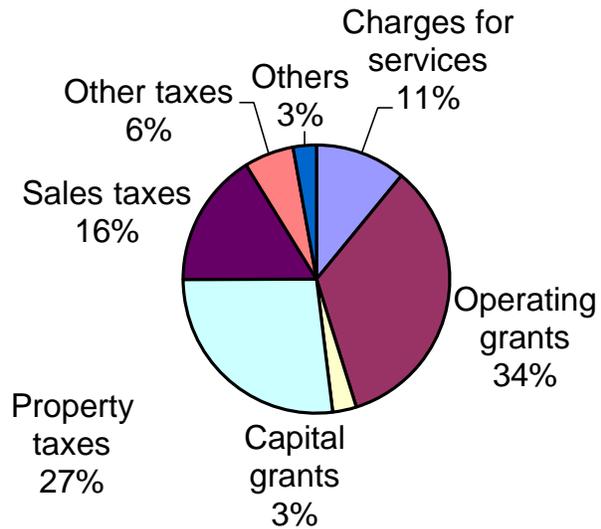
Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2015

Expenses and Program Revenues - Governmental Activities



Revenues by Source – Governmental Activities



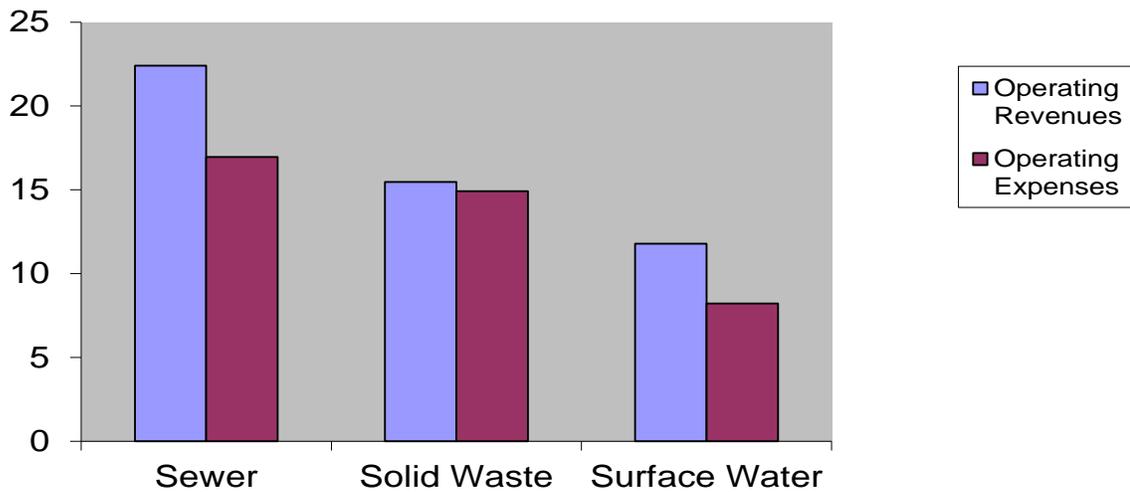
Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2015

Business-type activities. Business-type activities increased the County's net position by \$9.55. The primary elements of this increase were:

- Profitability of the Sanitary Sewer operation \$5.55
- Profitability of the Surface Water utility \$3.34

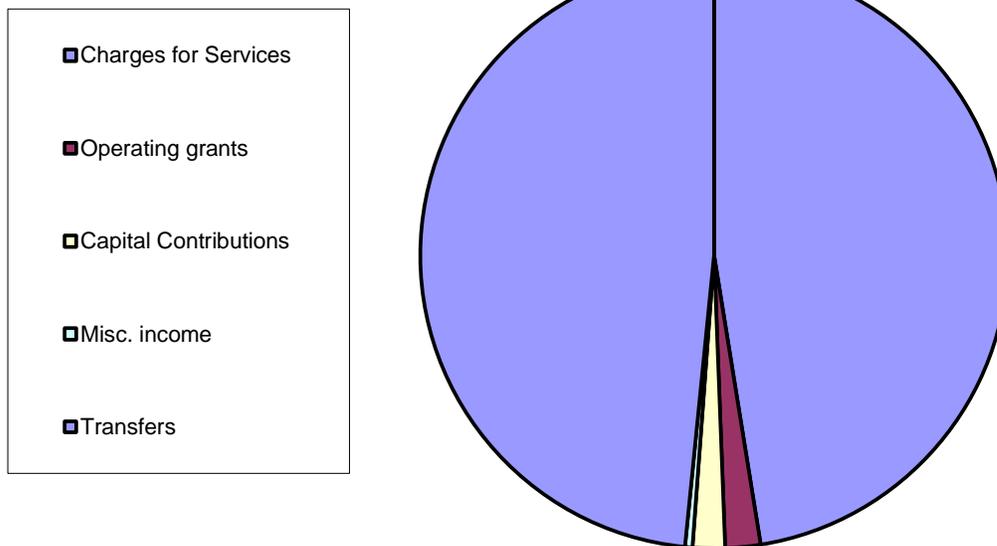
Expenses and Program Revenues – Business-type Activities



Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2015

Business –type Activity Revenues



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, Kitsap County's governmental funds reported combining ending fund balances of \$108.76, an increase of \$6.55 in comparison with the prior year.

The general fund is the chief operating fund of Kitsap County. At the end of the current fiscal year, unassigned fund balance of the general fund decreased to \$18.45, while the total fund balance decreased to \$18.83. As a measure of the general fund's liquidity, it

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2015

may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 21.7 percent of the total general fund expenditures.

The key factor to the decrease was settlement of several major labor agreements which increased salaries and benefit expenditures by over \$2 as the result of retro payments going back to 2012. A small portion of the fund balance is due to the inclusion of fund balances of a number of funds formerly reported as special revenue funds now reported in the general fund, as a result of implementation of GASB 54. These funds accounted for \$0.95 added to the general fund's balance in 2015.

County Roads fund balance increased by \$0.47 primarily due to increased property tax revenues in 2015.

Real Estate Excise Tax fund balance increased from \$3.70 in 2014 to \$6.18 2015. This was due to some major commercial property sales in 2015 helping increase Real Estate Excise Tax collected.

Mental Health Medicaid fund had a balance of \$3.10 in 2015 down slightly from 2014. This reflected stable state funding for the program.

Debt service funds have a total fund balance of \$8.61, all of which is reserved for the payment of debt service. Fund balance has not significantly changed compared with 2014.

Proprietary funds. 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's total net position was \$77.96 in 2015, up \$.78 from 2014. This increase was caused by operating income as operating revenues exceeded operating expenses.

Solid Waste fund's total net position was \$24.08 for 2015, down \$0.49 from 2014 as a result of recording a net pension liability.

Surface Water fund's total net position was \$25.01 for 2015 up \$1.13 from 2014. This was all due to operating income exceeding operating expenses.

General Fund Budgetary Highlights

Actual general fund revenues exceeded final budgeted revenues by \$3.62 during fiscal year 2015. The biggest reasons for this were sales taxes exceeding budget by \$1.91 and intergovernmental revenues exceeding budget by \$1.14.

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.

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2015

During the year there was a \$4.58 increase in appropriations between the original and final amended budget, however, the actual expenditures of the general fund came in well under the final budget total of \$85.56, with a total of \$84.65.

Capital Assets

At the end of fiscal year 2015, Kitsap County's investment in capital assets for its governmental activities was \$810.36 as reflected in the following schedule, which represents a net increase of \$16.60 or 2 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	
	2014	2015	2014	2015	2014	2015
Land	\$ 65.01	\$ 67.28	\$ 2.89	\$ 2.89	\$ 67.90	\$ 70.17
Infrastructure	495.79	497.68	-	-	495.79	497.68
Building	129.27	129.35	56.47	56.47	185.74	185.82
Building Improv	33.85	34.60	93.44	97.06	127.29	131.66
Machinery & Equipment	59.08	61.14	9.66	9.63	68.74	70.77
Construction in progress	10.76	20.31	49.74	56.62	60.50	76.93
Total	793.76	810.36	212.20	222.67	1,005.96	1,033.03
Less: accumulated depreciation	404.78	421.60	86.93	93.05	491.71	514.65
Net capital assets	\$388.98	\$388.76	\$ 125.27	\$ 129.62	\$ 514.25	\$ 518.39

Governmental activities.

Following are the major additions to Capital Assets for Governmental Activities:

- Various infrastructure projects were completed during the year at a cost of \$1.90
- The County purchased land for conservation purposes \$2.97
- Equipment Rental Fleet was updated at a cost of \$2.46

Business-type activities.

Following are the major activities in this area in 2015:

- Infrastructure continues to make up the majority of construction in progress, with completed projects at \$3.62
- Sewer projects construction in progress \$11.46

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2015

Long-term Liabilities

At year-end, the County had \$227.38 in long-term liabilities versus \$164.49 last year, a net increase of \$62.89 and 38.23 percent.

Long-term liabilities, at Year-End

	2014	Additions	Reductions	2015
Government activities:				
Capital leases	\$ 0.38	\$ -	\$ 0.09	\$ 0.29
Bonds Payable	93.46	21.64	29.02	86.08
Compensated absences - Gov	5.27	4.50	4.21	5.56
Compensated absences - Int Serv	0.42	0.36	0.35	0.43
Notes Payable	2.02	-	0.07	1.95
Net OPEB Obligation	5.55	1.18	-	6.73
Net Pension Liability - Gov	-	44.16		44.16
Net Pension Liability - Int Serv	-	3.17		3.17
Other items	0.33	-	0.05	0.28
Total	\$ 107.43	\$ 75.01	\$ 33.79	\$ 148.65
Enterprise activities:				
Bonds Payable	\$ 44.53	\$ 19.27	\$ 2.49	\$ 61.31
Compensated absences	0.60	0.60	0.56	\$ 0.64
Net Pension Liability	-	5.81	-	5.81
Other items	11.93	-	0.95	10.98
Total	\$ 57.06	\$ 25.68	\$ 4.00	\$ 78.74
Total Debt	\$ 164.49	\$ 100.68	\$ 37.79	\$ 227.38

The County implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result of the implementation, the County recorded a net pension liability of \$53.14.

There were two major long-term debt additions for 2015. Refunding Bond issue LTGO 2015 was issued for \$21 and Sewer revenue bond 2015 was issued for \$17.

Refer to the Notes to the Financial Statements to obtain more details on these issues (Note 11).

The Standard and Poor's Corporation and Moody's Investors Service provided a bond rating of AA+ and Aa3 respectively for Kitsap County's debt as of April 2015.

The State limits the amount of general obligation debts the County can issue without the vote of the people to 1.5% of the total assessed value. As of the end of the fiscal year, the County has \$292.46 remaining in debt capacity (non-voted). More detail information on capital assets and long-term debt are provided in the Notes to the Financial Statements (Notes 4, 6 and 9).

Kitsap County, Washington

Management's Discussion and Analysis For the Year Ended December 31, 2015

ECONOMIC FACTORS

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

Contacting the County's Financial Management

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

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



BASIC FINANCIAL STATEMENTS

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KITSAP COUNTY, WASHINGTON

Statement of Net Position
December 31, 2015

	Governmental	Business-type		Component
	Activities	Activities	Total	Unit
				PFD
ASSETS				
Cash and Cash equivalents	\$ 115,549,540	\$ 5,338,961	\$ 120,888,501	339,431
Deposits with fiscal agents	-	-	-	-
Investments	14,125,055	63,602,628	77,727,683	554,991
Receivables(net)				
Property taxes	2,364,794	-	2,364,794	-
Special assessments	1,622	24,855	26,477	-
Accounts	73,073	3,209,327	3,282,400	-
Others	12,120	-	12,120	-
Due from agency agency fund	165,702	-	165,702	-
Internal balances	(173,248)	173,248	(0)	-
Due from other governments	7,114,535	545,508	7,660,043	-
Prepayments	339,156	-	339,156	-
Inventories	1,955,496	247,182	2,202,678	-
Restricted assets:				
Cash and cash equivalents	2,030,987	1,050,388	3,081,375	-
Deposits with fiscal agents	-	-	-	250,000
Investments	4,162,820	4,171,928	8,334,748	-
Notes/Contracts	10,288,119	-	10,288,119	-
Special Assessment Receivable		286,477	286,477	-
Long-term Receivable from Comp. Unit	7,580,030	-	7,580,030	-
Long-term Receivable from KCCHA	16,101,564	-	16,101,564	-
Capital assets, net (Note1)				
Land	67,281,980	2,889,181	70,171,161	-
Infrastructure	180,935,818	-	180,935,818	-
Buildings	83,907,675	18,823,864	102,731,539	-
Improvements & Other Buildings	17,115,608	50,128,293	67,243,901	-
Machinery & Equipment	19,210,925	1,163,895	20,374,820	-
Construction In Progress	20,311,179	56,615,087	76,926,266	-
Net pension asset	4,095,376	-	4,095,376	-
Total assets	<u>574,549,925</u>	<u>208,270,822</u>	<u>782,820,747</u>	<u>1,144,422</u>
DEFERRED OUTFLOWS	<u>6,814,575</u>	<u>688,448</u>	<u>7,503,023</u>	<u>-</u>
Total assets and deferred outflows	<u>581,364,500</u>	<u>208,959,270</u>	<u>790,323,770</u>	<u>1,144,422</u>
LIABILITIES				
Accounts payable and accrued expenses	3,263,849	1,541,556	4,805,405	-
Due to agency fund	-	-	-	-
Due to other governments	10,667,464	264,285	10,931,749	-
Other liabilities	1,936,257	241,592	2,177,849	30
Debt interest payable	-	256,235	256,235	-
Unearned revenue	4,535,590	-	4,535,590	-
Non current Liabilities (Note 2):				
Due within one year	6,666,024	3,630,178	10,296,202	580,000
Due in more than one year	94,643,958	69,293,944	163,937,902	7,000,000
Net pension liability	47,334,747	5,814,307	53,149,054	-
Total liabilities	<u>169,047,889</u>	<u>81,042,097</u>	<u>250,089,987</u>	<u>7,580,030</u>
DEFERRED INFLOWS				
Deferred inflows related to pensions	8,216,630	858,439	9,075,069	-
Golf course service concession arrangement	1,950,766	-	1,950,766	-
Total deferred inflows	<u>10,167,396</u>	<u>858,439</u>	<u>11,025,835</u>	<u>-</u>
Total liabilities and deferred inflows	<u>179,215,286</u>	<u>81,900,536</u>	<u>261,115,822</u>	<u>7,580,030</u>
NET POSITION				
Net investment in capital assets	326,359,780	70,080,320	396,440,100	-
Restricted:				
Capital Projects	3,583,811	-	3,583,811	-
Debt service	8,610,206	5,222,316	13,832,522	-
Unrestricted	63,595,418	51,756,098	115,351,516	(6,435,607)
Total net position	<u>\$ 402,149,215</u>	<u>\$ 127,058,734</u>	<u>\$ 529,207,949</u>	<u>\$ (6,435,607)</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, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Unit
					Governmental Activities	Business-Type Activities	Total	Public Facility District
Primary Government:								
Governmental Activities								
General Government	\$ 21,903,531	\$ 9,060,668	\$ 4,196,007	\$ -	\$ (8,646,856)	\$ -	\$ (8,646,856)	\$ -
Judicial Services	15,098,351	4,701,171	2,002,285	-	(8,394,895)	-	(8,394,895)	-
Public Safety	52,482,736	651,906	8,142,403	-	(43,688,426)	-	(43,688,426)	-
Physical Environment	4,045,434	5,825,923	3,587,771	-	5,368,259	-	5,368,259	-
Transportation	40,574,196	2,987,064	5,986,084	6,368,776	(25,232,272)	-	(25,232,272)	-
Health & Human Services	52,533,340	179,289	50,196,262	-	(2,157,789)	-	(2,157,789)	-
Economic Environment	6,623,060	-	1,318,182	-	(5,304,878)	-	(5,304,878)	-
Culture & Recreation	7,111,537	1,012,761	448,789	-	(5,649,986)	-	(5,649,986)	-
Interest on Long-term Debt	4,287,496	-	-	-	(4,287,496)	-	(4,287,496)	-
Total Governmental Activities	<u>204,659,680</u>	<u>24,418,782</u>	<u>75,877,782</u>	<u>6,368,776</u>	<u>(97,994,339)</u>	<u>0</u>	<u>(97,994,339)</u>	<u>-</u>
Business-type Activities								
Solid Waste	14,907,250	14,854,815	620,878	-	-	568,443	568,443	-
Sewer Utility	16,930,027	20,670,204	-	1,726,262	-	5,466,439	5,466,439	-
Surface Water	8,200,828	10,530,461	1,261,087	-	-	3,590,720	3,590,720	-
Total business-type activities	<u>40,038,105</u>	<u>46,055,480</u>	<u>1,881,965</u>	<u>1,726,262</u>	<u>-</u>	<u>9,625,602</u>	<u>9,625,602</u>	<u>-</u>
Total Primary Government	<u>\$ 244,697,785</u>	<u>\$ 70,474,262</u>	<u>\$ 77,759,747</u>	<u>\$ 8,095,038</u>	<u>(97,994,339)</u>	<u>9,625,602</u>	<u>(88,368,737)</u>	<u>-</u>
Component Units:								
Public Facility District(PFD)	409,556	-	-	-	-	-	-	(409,556)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					59,764,151	-	59,764,151	-
Property taxes, levied for debt service					-	-	-	-
Sales & use taxes					35,976,422	-	35,976,422	1,304,453
Other taxes					13,348,833	-	13,348,833	-
Investment earnings					2,044,355	392,621	2,436,976	2,638
Miscellaneous					4,169,650	-	4,169,650	-
Transfers					471,763	(471,763)	-	-
Total general revenues, special items, and transfers					<u>115,775,175</u>	<u>(79,142)</u>	<u>115,696,033</u>	<u>1,307,091</u>
Change in net position					17,780,836	9,546,460	27,327,296	897,535
Net position - beginning					432,132,404	125,630,119	557,762,523	(7,333,143)
Prior Period Adjustments					(104,685)	(1,871,036)	(1,975,721)	-
Decrease in beginning net position resulting from change in accounting principle					(47,659,342)	(6,246,808)	(53,906,150)	-
Net position - ending					<u>\$ 402,149,215</u>	<u>\$ 127,058,733</u>	<u>\$ 529,207,947</u>	<u>\$ (6,435,608)</u>

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

KITSAP COUNTY, WASHINGTON

Balance Sheet Governmental Funds December 31, 2015

	Special Revenue Funds		
	General Fund	County Roads	Real Estate Excise Tax
ASSETS			
Cash and Cash equivalents	\$ 20,540,021	\$ 32,639,976	\$ 4,256,537
Deposits with fiscal agents	-	-	-
Investments	434,117	2,695,174	1,463,651
Receivables(net)			
Property Taxes	1,490,985	821,631	-
Special assessments	-	1,622	-
Accounts	3,718	-	-
Notes/Contracts	-	1,196	4,105,004
Others	-	-	-
Due from other funds	197,589	577,132	621,147
Due from other governments	1,201,585	2,095,604	-
Interfund loan receivable	-	-	-
Prepayments	215,617	-	-
Advance to other funds	160,000	-	-
Total assets	\$ 24,243,631	\$ 38,832,335	\$ 10,446,339
DEFERRED OUTFLOWS			
Total assets and deferred outflows	\$ 24,243,631	\$ 38,832,335	\$ 10,446,339
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	1,015,406	200,837	-
Due to other funds	1,432,116	1,185,436	-
Due to other governments	-	-	-
Other liabilities	1,314,360	299,324	-
Advance from other fund	-	-	-
Revenues collected in advance	5,434	400	7,480
Unearned revenue	-	-	4,255,004
Interfund loan payable	151,236	-	-
Total liabilities	3,918,551	1,685,997	4,262,484
DEFERRED INFLOWS			
	1,494,703	823,254	-
Fund balances			
Nonspendable	375,617	-	-
Restricted	-	-	6,183,855
Committed	-	36,323,085	-
Assigned	-	-	-
Unassigned	18,454,760	-	-
Total fund balance	18,830,377	36,323,085	6,183,855
Total inflows, liabilities & fund balances	\$ 24,243,631	\$ 38,832,335	\$ 10,446,339

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

KITSAP COUNTY, WASHINGTON

Balance Sheet

Governmental Funds

December 31, 2015

	Special Revenue Fund	Debt Service Fund	
	Mental Health Medicaid Fund	KCLTGO 2013 Refund	KCLTGO 2015 Refund
ASSETS			
Cash and Cash equivalents	\$ 1,784,517	\$ 1,323,270	0
Deposits with fiscal agents	-		
Investments	1,425,834	1,088,454	
Receivables(net)			
Property Taxes	-		
Special assessments	-		
Accounts	-		
Notes/Contracts	-	16,101,564	
Others	-		
Due from other funds	-		305,063
Due from other governments	-	250,000	
Interfund loan receivable	-		
Prepayments	-		
Advance to other funds	-		
Total assets	\$ 3,210,350	\$ 18,763,289	\$ 305,063
DEFERRED OUTFLOWS			
	\$ 3,210,350	\$ 18,763,289	\$ 305,063
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	94,803		
Due to other funds	690	455,452	305,063
Due to other governments	-		
Other liabilities	17,286		
Advance from other fund	-		
Revenues collected in advance	-		
Unearned revenues	-		
Interfund loan payable	-		
Total liabilities	112,779	455,452	305,063
DEFERRED INFLOWS			
	-	16,101,564	-
Fund Balances			
Nonspendable	-		
Restricted	3,097,571	2,206,272	
Committed	-		
Assigned	-		
Unassigned	-		
Total fund balances	3,097,571	2,206,272	-
Total inflows, liabilities and fund balances	\$ 3,210,350	\$ 18,763,289	\$ 305,063

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

Balance Sheet
Governmental Funds
December 31, 2015

	Other Governmental Funds	Total Governmental Funds
ASSETS		
Cash and Cash equivalents	\$ 21,841,280	\$ 82,385,601
Deposits with fiscal agents	-	-
Investments	11,180,645	18,287,875
Receivables(net)		
Property Taxes	52,178	2,364,794
Special assessments	-	1,622
Accounts	31,683	35,401
Notes/Contracts	13,761,949	33,969,713
Others	12,120	12,120
Due from other funds	1,779,021	3,479,951
Due from other governments	3,307,029	6,854,218
Interfund loan receivable	151,236	151,236
Prepayments	-	215,617
Advance to other funds	-	160,000
Total assets	\$ 52,117,141	\$ 147,918,148
DEFERRED OUTFLOWS		
	-	-
	\$ 52,117,141	\$ 147,918,148
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	1,719,337	3,030,383
Due to other funds	724,962	4,103,718
Due to other governments	815,032	815,032
Other liabilities	450,448	2,081,418
Advance from other fund	160,000	160,000
Revenues collected in advance	253,602	266,916
Unearned revenues	13,670	4,268,674
Interfund loan payable	-	151,236
Total liabilities	4,137,051	14,877,377
DEFERRED INFLOWS		
	5,855,024	24,274,545
Fund Balances		
Nonspendable	7,580,000	7,955,617
Restricted	31,104,179	42,591,878
Committed	3,487,741	39,810,826
Assigned	-	-
Unassigned	(46,854)	18,407,906
Total fund balances	42,125,065	108,766,226
Total inflows, liabilities and fund balances	\$ 52,117,140	\$ 147,918,149

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

KITSAP COUNTY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
December 31, 2015

Fund balances of governmental funds - page 21 \$ 108,766,226

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

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

Capital assets	810,364,098	
Accum Depreciation	(421,600,912)	
Capital assets net of depreciation		388,763,186

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

Capital lease	290,391	
Bond payable	86,085,000	
Compensated absences	5,546,747	
Notes payable	1,950,766	
OPEB Liability	6,727,794	
PWTF Loans	283,520	
Net pension liability	47,334,748	
Long-term debt		(148,218,966)

Other assets not available to pay for current-period expenditures and, therefore, are deferred in the funds. 781,317

Taxes/Assessments receivable	2,364,794
Housing Kitsap receivable	16,101,564
Loans receivable CDBG and Home programs	3,841,183
Net pension asset	4,095,376

Pension adjustments 1,499,779

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

Assets	38,297,191	
Liabilities	(14,142,435)	
Uses Other than Operations	-	
Assets less liabilities		24,154,756

Net position of governmental activities - page 17 \$ 402,149,215

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, 2015

	Special Revenue Funds		
	General Fund	County Roads	Real Estate Excise Tax
REVENUES:			
Property taxes	\$ 33,160,694	\$ 24,297,678	\$ -
Retail sales & use taxes	23,793,664	-	-
Other taxes	5,419,680	54,498	5,462,385
Licenses and permits	138,741	164,575	-
Intergovernmental	10,264,700	12,354,860	-
Charges for services	9,158,766	1,409,604	-
Fines & forfeits	2,128,543	-	-
Investment earnings	880,464	15,305	164,894
Miscellaneous	1,057,113	147,314	561,317
Total revenues	<u>86,002,365</u>	<u>38,443,835</u>	<u>6,188,596</u>
EXPENDITURES:			
Current:			
General government	24,559,307	-	-
Judicial Services	14,737,334	-	-
Public safety	40,663,921	-	-
Physical Environment	-	-	-
Transportation	-	28,286,397	-
Health & Human Services	-	-	-
Economic Environment	-	-	-
Culture & recreation	4,611,975	-	-
Debt service			
Principal	-	47,253	-
Interest and other charges	1,512	1,654	2,153
Capital outlay	235,340	9,201,697	-
Total expenditures	<u>84,809,390</u>	<u>37,537,001</u>	<u>2,153</u>
Excess(deficiency) of revenues over expenditures	<u>1,192,975</u>	<u>906,834</u>	<u>6,186,443</u>
OTHER FINANCING SOURCES (USES):			
Sale of capital assets	100,000	-	-
Proceeds of refunding bonds			
Payment to bond refunding escrow agent			
Transfers in	2,894,791	-	-
Transfers out	(5,263,326)	(438,607)	(3,704,254)
Total other financing sources & uses	<u>(2,268,535)</u>	<u>(438,607)</u>	<u>(3,704,254)</u>
Net change in fund balance	<u>(1,075,560)</u>	<u>468,228</u>	<u>2,482,189</u>
Fund balances-beginning	20,975,623	35,854,857	3,701,666
Prior period adjustments	(1,069,685)	-	-
Fund balances	<u>\$ 18,830,378</u>	<u>\$ 36,323,085</u>	<u>\$ 6,183,855</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, 2015

	Special Revenue Fund	Debt Service Funds	
	Mental Health Medicaid Fund	KCLTGO 2013 Refund	KCLTGO 2015 Refund
REVENUES:			
Property taxes	\$ -	\$ -	\$ -
Retail sales & use taxes	-		
Other taxes	-		
Licenses and permits	-		
Intergovernmental	31,840,440	984,384	5,580
Charges for services	-		
Fines & forfeits	-		
Investment earnings	8,092	416,797	
Miscellaneous	-		
Total revenues	31,848,532	1,401,181	5,580
EXPENDITURES:			
Current:			
General government	-		
Judicial Services	-		
Public safety	-		
Physical Environment	-	-	
Transportation	-		
Health & Human Services	32,214,199		
Economic Environment	-		
Culture & recreation	-		
Debt service			
Principal	-	2,000,000	
Interest and other charges	-	1,737,475	634,310
Capital outlay	-		
Total expenditures	32,214,199	3,737,475	634,310
Excess(deficiency) of revenues over expenditures	(365,666)	(2,336,294)	(628,730)
OTHER FINANCING SOURCES (USES):			
Sale of capital assets			
Proceeds of refunding bonds			24,509,132
Payment to bond refunding escrow agent			(24,412,092)
Transfers in	-	3,203,516	531,690
Transfers out	-	-	-
Total other financing sources & uses	-	3,203,516	628,730
Net change in fund balance	(365,665)	867,222	0
Fund balances-beginning	3,463,237	1,339,050	-
Prior period adjustments		-	
Fund balances-ending	\$ 3,097,571	\$ 2,206,272	\$ 0

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, 2015

	Other Governmental Funds	Total Governmental Funds
REVENUES:		
Property taxes	\$ 2,305,779	\$ 59,764,151
Retail sales & use taxes	12,182,758	35,976,422
Other taxes	2,412,271	13,348,833
Licenses and permits	3,840,987	4,144,303
Intergovernmental	26,802,174	82,252,138
Charges for services	4,959,634	15,528,005
Fines & forfeits	253,137	2,381,680
Investment earnings	558,803	2,044,355
Miscellaneous	2,321,929	4,087,673
	<u>55,637,472</u>	<u>219,527,561</u>
EXPENDITURES:		
Current:		
General government	2,328,937	26,888,244
Judicial Services	343,302	15,080,637
Public safety	10,500,009	51,163,931
Physical Environment	4,122,368	4,122,368
Transportation	47,351	28,333,748
Health & Human Services	20,264,662	52,478,860
Economic Environment	6,541,934	6,541,934
Culture & recreation	1,329,965	5,941,941
Debt service		
Principal	4,376,984	6,424,238
Interest and other charges	1,910,393	4,287,496
Capital outlay	1,974,190	11,411,227
Total expenditures	<u>53,740,095</u>	<u>212,674,622</u>
	<u>1,897,377</u>	<u>6,852,939</u>
OTHER FINANCING SOURCES (USES):		
Sale of capital assets	4,289	104,289
Proceeds of refunding bonds		24,509,132
Payment to bond refunding escrow agent		(24,412,092)
Transfers in	9,798,012	16,428,008
Transfers out	<u>(7,525,793)</u>	<u>(16,931,979)</u>
Total other financing sources & uses	<u>2,276,508</u>	<u>(302,642)</u>
Net change in fund balance	<u>4,173,885</u>	<u>6,550,297</u>
Fund balances-beginning	36,986,178	102,320,611
Prior period adjustments	965,000	(104,685)
Fund balances-ending	<u>\$ 42,125,060</u>	<u>\$ 108,766,223</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, 2015

Net change in fund balances-total governmental funds - page 23 \$ 6,550,297

Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of activities because:

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

Capital out-lay	11,411,227
Depreciation	(18,579,154)

Pension transactions	
Pension adjustments	3,017,914

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items

Proceeds from refunding bonds	(24,509,132)
Bond principal	6,424,238
Recording of Net OPEB Obligation	(1,182,239)
Payment to bond refunding escrow agent	24,412,092

Revenues in statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(87,008)
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Accounts Receivable - Housing Kitsap	-
Property taxes receivable	2,364,794
Special Assessments	1,622

Internal services Activities	
Net Transfers	1,065,790
Depreciation already included above	2,214,322
Net profit	4,676,073

Change in net position of governmental activities - page 18	\$ 17,780,836
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The notes to the financial statements are an integral part of this statement.

KITSAP COUNTY, WASHINGTON

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

General Fund

Year Ended December 31, 2015

2015

	Original Budget	Final Budget	Actual	Variance With Final Budget	Budget to GAAP Basis Differences	Actual GAAP Basis
REVENUES:						
Property taxes	\$ 33,003,572	\$ 32,972,814	\$ 33,160,688	\$ 187,874	\$ 6	\$ 33,160,694
Retail sales & use taxes	21,885,418	21,885,418	23,793,664	1,908,246	-	23,793,664
Other taxes	4,968,808	4,968,808	5,416,871	448,063	2,809	5,419,680
Licenses and permits	115,325	115,325	138,741	23,416	-	138,741
Intergovernmental	8,939,470	9,102,094	10,245,704	1,143,610	18,996	10,264,700
Charges for services	9,065,867	9,074,647	9,158,766	84,119	-	9,158,766
Fines & forfeits	2,425,979	2,425,979	2,125,796	(300,183)	2,747	2,128,543
Investment Earnings	695,961	695,961	878,001	182,040	2,464	880,464
Miscellaneous	984,576	996,876	942,642	(54,234)	114,470	1,057,113
	<u>82,084,976</u>	<u>82,237,922</u>	<u>85,860,874</u>	<u>3,622,952</u>	<u>141,491</u>	<u>86,002,365</u>
EXPENDITURES:						
Current:						
Administrative Services	\$ 791,742	\$ 791,742	\$ 772,236	\$ 19,506	\$ -	772,236
Assessor	2,246,582	2,256,582	2,182,529	74,053	-	2,182,529
Auditor	1,779,925	1,779,925	1,719,363	60,562	-	1,719,363
Commissioners	1,469,269	1,478,049	1,489,789	(11,740)	9,377	1,499,166
General Administration	4,233,481	4,330,252	6,039,687	(1,709,435)	-	6,039,687
Personnel & Human resources	1,284,206	1,361,606	1,284,969	76,637	-	1,284,969
Prosecuting attorney	8,891,516	8,943,576	8,455,174	488,402	-	8,455,174
Facilities Maintenance	1,798,258	1,798,258	1,679,869	118,389	-	1,679,869
Treasurer	956,462	956,462	926,313	30,149	-	926,313
Total general government	<u>23,451,441</u>	<u>\$ 23,696,452</u>	<u>24,549,930</u>	<u>(853,478)</u>	<u>9,377</u>	<u>24,559,307</u>
Judicial Services						
Clerk	\$ 3,186,143	\$ 3,332,270	\$ 3,312,800	\$ 19,470	\$ -	3,312,800
District court	2,728,592	2,728,592	2,654,202	74,390	-	2,654,202
Superior court	3,009,578	3,149,402	2,992,135	157,267	-	2,992,135
Juvenile	2,673,941	2,689,816	2,549,901	139,915	-	2,549,901
Public defense	2,695,349	3,125,349	3,228,296	(102,947)	-	3,228,296
Total Judicial services	<u>14,293,603</u>	<u>15,025,429</u>	<u>14,737,334</u>	<u>288,095</u>	<u>-</u>	<u>14,737,334</u>
Public safety						
Sheriff	\$ 19,014,467	\$ 21,185,460	\$ 20,612,964	\$ 572,496	\$ 445	20,613,409
Jail	13,243,804	14,320,936	14,327,974	(7,038)	-	14,327,974
Juvenile	4,982,179	5,036,536	4,626,946	409,590	-	4,626,946
Coroner	1,120,361	1,120,361	1,095,592	24,769	-	1,095,592
Personnel & Human Resources	-	-	-	-	-	-
Total Public Safety	<u>38,360,811</u>	<u>41,663,293</u>	<u>40,663,476</u>	<u>999,817</u>	<u>445</u>	<u>40,663,921</u>
Physical Environment						
Culture & recreation						
Parks	\$ 4,052,423	\$ 4,087,363	3,860,294	\$ 227,069	\$ 150,579	4,010,873
Cooperative Extension	386,392	386,392	382,284	4,108	-	382,284
Personnel & Human Resources	238,143	238,143	218,818	19,325	-	218,818
Total Culture & Recreation	<u>4,676,958</u>	<u>4,711,898</u>	<u>4,461,397</u>	<u>250,501</u>	<u>150,579</u>	<u>4,611,975</u>
Interest and other charges	-	-	-	-	1,512	1,512
Capital outlay	200,000	462,470	235,340	227,131	-	235,340
Total expenditures	<u>80,982,813</u>	<u>85,559,542</u>	<u>84,647,477</u>	<u>912,065</u>	<u>161,913</u>	<u>84,809,390</u>
Excess(deficiency) of revenues over expenditures	1,102,163	(3,321,620)	1,213,397	4,535,017	(20,422)	1,192,975
OTHER FINANCING SOURCES (USES):						
Sale of capital assets	-	-	100,000	100,000	-	100,000
Transfers in	3,028,304	3,181,610	2,894,791	(286,819)	-	2,894,791
Transfers out	(4,130,467)	(5,586,140)	(5,263,326)	322,814	-	(5,263,326)
Total other financing sources & uses	<u>(1,102,163)</u>	<u>(2,404,530)</u>	<u>(2,268,535)</u>	<u>135,995</u>	<u>-</u>	<u>(2,268,535)</u>
Net change in fund balance	<u>-</u>	<u>(5,726,150)</u>	<u>(1,055,138)</u>	<u>4,671,012</u>	<u>(20,422)</u>	<u>(1,075,560)</u>
Fund balances-beginning	20,009,121	20,009,121	20,009,121	-	966,501	20,975,622
Prior period adjustments			(1,069,684)	(1,069,684)		(1,069,684)
Fund balances-ending	<u>20,009,121</u>	<u>14,282,971</u>	<u>17,884,299</u>	<u>3,601,328</u>	<u>946,079</u>	<u>18,830,378</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, 2015

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 23,975,797	\$ 23,975,797	\$ 24,297,678	\$ 321,881
Other taxes	30,000	30,000	54,498	24,498
Licenses and permits	150,000	150,000	164,575	14,575
Intergovernmental	10,141,905	10,141,905	12,354,860	2,212,955
Charges for services	3,388,831	3,388,831	1,409,604	(1,979,227)
Investment earnings	2,700	2,700	15,305	12,605
Miscellaneous	5,000	5,000	147,314	142,314
Total revenues	<u>37,694,233</u>	<u>37,694,233</u>	<u>38,443,835</u>	<u>749,602</u>
EXPENDITURES:				
Current:				
Transportation	27,775,621	27,775,621	28,286,397	(510,776)
Debt service				
Principal	48,000	48,000	47,253	747
Interest and other charges	2,600	2,600	1,654	946
Capital outlay	13,755,000	17,602,000	9,201,697	8,400,303
Total expenditures	<u>41,581,221</u>	<u>45,428,221</u>	<u>37,537,001</u>	<u>7,891,220</u>
Excess(deficiency) of revenues over expenditures	<u>(3,886,988)</u>	<u>(7,733,988)</u>	<u>906,834</u>	<u>8,640,822</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital asset			-	-
Transfers in	-	-	-	-
Transfers out	(442,858)	(1,192,858)	(438,607)	754,251
Total other financing sources & uses	<u>(442,858)</u>	<u>(1,192,858)</u>	<u>(438,607)</u>	<u>754,251</u>
Net change in fund balance	<u>(4,329,846)</u>	<u>(8,926,846)</u>	<u>468,228</u>	<u>9,395,074</u>
Fund balances-beginning	35,854,857	35,854,857	35,854,857	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 31,525,011</u>	<u>\$ 26,928,011</u>	<u>\$ 36,323,085</u>	<u>\$ 9,395,074</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, 2015

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Other taxes	\$ 3,876,052	\$ 3,876,052	\$ 5,462,385	1,586,333
Investment earnings	158,000	158,000	164,894	6,894
Miscellaneous	155,250	155,250	561,317	406,067
Total revenues	<u>4,189,302</u>	<u>4,189,302</u>	<u>6,188,596</u>	<u>1,999,294</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Debt service	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	2,153	(2,153)
Capital Outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>2,153</u>	<u>(2,153)</u>
Excess(deficiency) of revenues over expenditures	<u>4,189,302</u>	<u>4,189,302</u>	<u>6,186,443</u>	<u>1,997,141</u>
OTHER FINANCING SOURCES (USES):				
Issuance of GO bonds	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(3,041,614)	(3,711,614)	(3,704,254)	7,360
Premiums on bonds	-	-	-	-
Total other financing sources & uses	<u>(3,041,614)</u>	<u>(3,711,614)</u>	<u>(3,704,254)</u>	<u>7,360</u>
Net change in fund balance	<u>1,147,688</u>	<u>477,688</u>	<u>2,482,189</u>	<u>2,004,501</u>
Fund balances-beginning	3,701,666	3,701,666	3,701,666	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 4,849,354</u>	<u>\$ 4,179,354</u>	<u>\$ 6,183,855</u>	<u>\$ 2,004,501</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, 2015

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 30,100,000	\$ 33,490,000	\$ 31,840,440	\$ (1,649,560)
Investment earnings	10,000	10,000	8,092	(1,908)
Miscellaneous	-	-	-	-
Total revenues	<u>30,110,000</u>	<u>33,500,000</u>	<u>31,848,532</u>	<u>(1,651,468)</u>
EXPENDITURES:				
Current:				
Health & Human Services	30,110,000	33,500,000	32,214,199	1,285,801
Total expenditures	30,110,000	33,500,000	32,214,199	1,285,801
Excess(deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(365,666)</u>	<u>(365,666)</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	-	-
Total other financing sources & uses	-	-	-	-
Net change in fund balance	-	-	(365,666)	(365,666)
Fund balances-beginning	3,463,237	3,463,237	3,463,237	-
Prior period adjustments	-	-	-	-
Fund balances-ending	<u>\$ 3,463,237</u>	<u>\$ 3,463,237</u>	<u>\$ 3,097,571</u>	<u>\$ (365,666)</u>

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

KITSAP COUNTY, WASHINGTON

Statement of Net Position Proprietary Funds December 31, 2015

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal Service Funds
ASSETS					
Current assets:					
Cash and Cash equivalents	\$ 1,775,831	\$ 2,903,602	\$ 659,528	\$ 5,338,961	\$ 35,194,926
Deposits with fiscal agents	-	-	-	-	-
Investments	40,324,811	21,544,237	1,733,580	63,602,628	-
Receivables(net)	-	-	-	-	14,140
Special assessments	24,855	-	-	24,855	-
Accounts	1,965,347	1,043,608	200,372	3,209,327	23,532
Due from other funds	178,368	6,753	829,962	1,015,083	750,375
Due from other governments	-	211,642	333,866	545,508	235,183
Prepayments	-	-	-	-	123,539
Inventories	247,182	-	-	247,182	1,955,496
Restricted assets:					
Cash and cash equivalents	1,050,388	-	-	1,050,388	-
Deposits with fiscal agents	-	-	-	-	-
Investments	4,171,928	-	-	4,171,928	-
Total current assets	<u>49,738,710</u>	<u>25,709,842</u>	<u>3,757,308</u>	<u>79,205,860</u>	<u>38,297,191</u>
Noncurrent assets					
Special Assessment Receivable-Deferred	286,477	-	-	286,477	-
Capital assets					
Land	1,040,362	472,444	1,376,375	2,889,181	-
Buildings	55,493,066	802,991	178,556	56,474,613	821,327
Improvements & Other Buildings	78,193,288	1,651,625	17,215,720	97,060,633	-
Machinery & Equipments	9,330,371	90,291	213,004	9,633,666	34,401,482
Construction In Progress	45,457,549	172,743	10,984,795	56,615,087	182,727
Less accumulated depreciation	(85,529,058)	(1,938,909)	(5,584,893)	(93,052,860)	(20,083,550)
Total noncurrent assets	<u>104,272,055</u>	<u>1,251,185</u>	<u>24,383,557</u>	<u>129,906,797</u>	<u>15,321,986</u>
Total assets	<u>\$ 154,010,765</u>	<u>\$ 26,961,027</u>	<u>\$ 28,140,865</u>	<u>\$ 209,112,657</u>	<u>\$ 53,619,177</u>
DEFERRED OUTFLOWS					
Deferred Outflows Related to Pensions	375,517	125,172	187,759	688,448	375,517
Total assets and deferred outflows	<u>\$ 154,386,282</u>	<u>\$ 27,086,199</u>	<u>\$ 28,328,624</u>	<u>\$ 209,801,105</u>	<u>\$ 53,994,694</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	254,667	903,816	383,073	1,541,556	233,466
Due to other funds	69,182	128,876	643,777	841,835	134,388
Due to other governments	9,347	38,196	216,742	264,285	-
Other liabilities	124,177	37,779	79,636	241,592	9,852,432
Debt interest payable	256,235	-	-	256,235	-
Current portion of long term liabilities	3,569,852	42,921	17,405	3,630,178	42,576
Total current liabilities	<u>4,283,460</u>	<u>1,151,588</u>	<u>1,340,633</u>	<u>6,775,681</u>	<u>10,262,862</u>
Noncurrent Liabilities					
Net Pension Liability	3,171,440	1,057,147	1,585,720	5,814,307	3,171,439
Due in more than one year	68,502,336	634,966	156,642	69,293,944	708,134
Total noncurrent liabilities	<u>71,673,776</u>	<u>1,692,113</u>	<u>1,742,362</u>	<u>75,108,251</u>	<u>3,879,573</u>
Total liabilities	<u>\$ 75,957,236</u>	<u>\$ 2,843,701</u>	<u>\$ 3,082,995</u>	<u>\$ 81,883,932</u>	<u>\$ 14,142,435</u>
DEFERRED INFLOWS					
Deferred Inflows Related to Pensions	468,239	156,080	234,120	858,439	468,240
Total liabilities and deferred inflows	<u>\$ 76,425,475</u>	<u>\$ 2,999,781</u>	<u>\$ 3,317,115</u>	<u>\$ 82,742,371</u>	<u>\$ 14,610,675</u>
NET POSITION					
Net investment in capital assets	44,445,578	1,251,185	24,383,557	70,080,320	15,321,986
Restricted:					
Debt service	5,222,316	-	-	5,222,316	-
Unrestricted	28,292,913	22,835,233	627,952	51,756,098	24,062,033
Total net position	<u>\$ 77,960,807</u>	<u>\$ 24,086,418</u>	<u>\$ 25,011,509</u>	<u>\$ 127,058,734</u>	<u>\$ 39,384,019</u>

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

KITSAP COUNTY, WASHINGTON

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

Proprietary Funds

For the Year Ended December 31, 2015

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal Service Funds
Operating revenues:					
Charges for services	\$ 20,603,154	\$ 14,793,154	\$ 10,520,246	\$ 45,916,554	\$ 38,705,918
Miscellaneous	67,050	61,661	10,215	138,926	293,981
Total operating revenues	<u>20,670,204</u>	<u>14,854,815</u>	<u>10,530,461</u>	<u>46,055,480</u>	<u>38,999,899</u>
Operating expenses:					
Personal services	5,429,088	1,910,857	2,810,537	10,150,482	7,356,922
Contractual services	887,367	1,981,920	2,434,909	5,304,196	16,515,324
Utilities	1,208,643	10,299,491	76,998	11,585,132	22,369
Repair and maintenance	137,805	75,270	409,013	622,088	901,354
Other supplies and expenses	1,735,758	516,548	1,552,658	3,804,964	6,229,533
Insurance claims and expenses	25,202	8,676	78,434	112,312	2,245,766
Depreciation	5,174,866	114,488	838,279	6,127,633	2,214,322
Total operating expenses	<u>14,598,729</u>	<u>14,907,250</u>	<u>8,200,828</u>	<u>37,706,807</u>	<u>35,485,590</u>
Operating income	<u>6,071,475</u>	<u>(52,435)</u>	<u>2,329,633</u>	<u>8,348,673</u>	<u>3,514,309</u>
Nonoperating revenue (expenses)					
Interest and investment revenue	222,292	123,784	46,545	392,621	-
Miscellaneous revenue	90,056	620,878	1,261,087	1,972,021	-
Interest expense	(2,331,298)	-	-	(2,331,298)	-
Miscellaneous expense	-	-	-	-	-
Total nonoperating expenses	<u>(2,018,950)</u>	<u>744,662</u>	<u>1,307,632</u>	<u>33,344</u>	<u>-</u>
Income (loss) before contributions & transfers	4,052,525	692,227	3,637,265	8,382,017	3,514,309
Capital contributions	1,726,262	-	-	1,726,262	128,545
Transfers in	-	-	-	-	1,082,972
Transfers out	(224,515)	(37,500)	(299,804)	(561,819)	(17,182)
Change in net position	5,554,272	654,727	3,337,461	9,546,460	4,708,644
Total net position - beginning	73,773,503	23,431,691	22,178,116	119,383,310	34,675,375
Prior period adjustment	(1,366,968)	-	(504,068)	(1,871,036)	-
Total net position - ending	<u>\$ 77,960,807</u>	<u>\$ 24,086,418</u>	<u>\$ 25,011,509</u>	<u>\$ 127,058,734</u>	<u>\$ 39,384,019</u>

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

KITSAP COUNTY, WASHINGTON

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2015

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 20,622,713	\$ 14,777,330	\$ 9,594,410	\$ 44,994,453	\$ 39,049,618
Payments to suppliers	(4,536,841)	(12,928,706)	(4,247,414)	(21,712,961)	(26,413,737)
Payments to employees	(5,570,638)	(1,951,438)	(2,854,144)	(10,376,220)	(7,497,765)
Net cash provided by operating activities	\$ 10,515,234	\$ (102,814)	\$ 2,492,852	\$ 12,905,272	\$ 5,138,116
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants received	\$ -	\$ 633,980	\$ 2,025,696	\$ 2,659,676	\$ -
Transfers in	90,056	-	-	90,056	1,082,972
Transfers out	(224,515)	(37,500)	(299,804)	(561,819)	(17,182)
Net cash provided by noncapital activities	\$ (134,459)	\$ 596,480	\$ 1,725,892	\$ 2,187,913	\$ 1,065,790
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	\$ 1,301,773	\$ -	\$ -	\$ 1,301,773	\$ -
Proceeds from sales of bonds	19,267,846	-	-	19,267,846	-
Purchases of capital assets	(6,817,850)	(118,281)	(5,009,317)	(11,945,448)	(2,711,574)
Principal paid on capital debt	(3,191,126)	-	-	(3,191,126)	-
Interest paid on capital debt	(2,514,334)	-	-	(2,514,334)	-
Net cash from related financing activities	\$ 8,046,309	\$ (118,281)	\$ (5,009,317)	\$ 2,918,711	\$ (2,711,574)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of invest	\$ 3,000,000	\$ 825,000	\$ 2,550,000	\$ 6,375,000	\$ -
Purchase of Investment	(26,842,281)	(823,784)	(2,147,839)	(29,813,904)	-
Interest and dividends	212,762	123,784	46,545	383,091	-
Net cash provided by investing activities	(23,629,519)	125,000	448,706	(23,055,813)	-
Net increase (decrease) in cash and cas	(5,202,435)	500,385	(341,867)	(5,043,917)	3,492,332
Balances - beginning of the year	8,028,654	2,403,217	1,001,395	11,433,266	31,702,594
Balances - end of the year	\$ 2,826,219	\$ 2,903,602	\$ 659,528	\$ 6,389,349	\$ 35,194,926
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 6,038,906	\$ (63,291)	2,313,348	\$ 8,288,963	3,481,738
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	5,174,866	114,488	838,279	6,127,633	2,214,322
Change in assets and liabilities:					
Receivables, net	(60,897)	(65,330)	(145,611)	(271,838)	489,042
Due from other funds	13,406	(12,155)	(790,440)	(789,189)	(315,758)
Due from other governments	-	-	-	-	(123,564)
Prepayments	-	-	-	-	3,456
Inventories	(9,752)	-	-	(9,752)	(346,737)
Deferred inflows	471,471	157,157	235,737	864,365	471,472
Accounts and other payables	(417,487)	110	159,261	(258,116)	(177,066)
Due to other funds	39,290	27,444	82,574	149,308	(37,586)
Due to other governments	81	3,588	125,066	128,735	-
Accrued expenses	(154,198)	(77,943)	(62,304)	(294,445)	58,541
Deferred outflows	(272,461)	(90,820)	(136,230)	(499,511)	(272,460)
Net pension liability	(309,629)	(103,209)	(154,815)	(567,653)	(309,630)
Employee benefits	1,638	7,147	27,987	36,772	2,346
Net cash provided by operating activities	\$ 10,515,234	\$ (102,814)	\$ 2,492,852	\$ 12,905,272	\$ 5,138,116
Noncash investing, capital and financing activities					
Contribution of capital assets	424,489			424,489	128,545

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

KITSAP COUNTY, WASHINGTON

Statement of Fiduciary Net Position

December 31, 2015

	Agency Funds
ASSETS	
Cash	\$ 38,405,587
Deposits with Fiscal Agents	-
Investments	260,484,487
Taxes Receivable	6,346,384
Other Current Receivables	220,794
Due From Other Funds	228
Due From Other Governments	266,285
Total Assets	<u>\$ 305,723,765</u>
LIABILITIES	
Warrants Payable	\$ 3,201,907
Accounts Payable	-
Sales Tax Payable	-
Other Accrued Liabilities	-
Due to Other Funds	165,702
Due to Other Governments	-
Interfund loans	-
Custodial Account	302,356,155
Total Liabilities	<u>\$ 305,723,765</u>

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



NOTES TO FINANCIAL STATEMENTS

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TABLE OF CONTENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	36
A. Reporting entity	36
B. Government-Wide and Fund Financial Statements	37
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	37
D. Budgetary Information	39
E. Assets, Liabilities and Equity	42
NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS	38
NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY	38
NOTE 4. DEPOSITS AND INVESTMENTS	38
NOTE 5. PROPERTY TAX	40
NOTE 6. CAPITAL ASSETS	41
NOTE 7. PENSION PLANS	43
NOTE 8. RISK MANAGEMENT	54
NOTE 9. LONG-TERM DEBT	56
A. General Obligation Bonds	57
B. Notes Payable	58
C. Revenue bonds	59
D. Pollution Remediation Obligation	60
E. Compensated absences	60
NOTE 10. LEASES	60
NOTE 11. CHANGES IN LONG-TERM LIABILITIES	62
NOTE 12. CONTINGENCIES AND LITIGATIONS	63
NOTE 13. INTER-FUND BALANCES AND TRANSFERS	63
NOTE 14. RECEIVABLES AND PAYABLES	64
NOTE 15. DEFERRED COMPENSATION	65
NOTE 16. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES	66
NOTE 17. SERVICE CONCESSION ARRANGEMENT	67
NOTE 18. OTHER POST-EMPLOYMENT BENEFITS	68
NOTE 19. POLLUTION REMEDIATION OBLIGATION	70
NOTE 20. OTHER NOTE DISCLOSURES	70

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting entity

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

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

Blended component units. The Industrial Development Corporation of Kitsap County was created and approved by the Kitsap County Board of County Commissioners on May 17, 1999 to construct and maintain industrial facilities throughout Kitsap County. All three County Commissioners are on its board of directors, therefore, the County is financially responsible for the operation of the corporation. IDC sold \$2 million in non-recourse revenue bonds in 2003 which neither the County, nor IDC is responsible to repay under the loan agreement. The issuer (IDC) loaned the proceeds of the bonds to CARA Group, LLC, a Washington limited liability company (the Borrower) pursuant to a loan agreement dated March 1, 2003. The Borrower is obligated to make payments to the trustee in amounts sufficient to pay the principal and premium, if any, interest on the bonds, and certain other fees and expenses and to make payments sufficient to pay the purchase price of bonds tendered or deemed tendered for purchase to the extent that other moneys are not

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The County considers property taxes as available if they are collected within 60 days after year

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered measurable and available only when cash is received by the County.

The County reports the following major *governmental funds*:

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

The County Roads Fund receives most of its revenue from property taxes and federal and state grants. The Fund is used to account for the maintenance and the construction of County roads and bridges.

The Real Estate Excise Tax Fund is used to account for the collection of real estate excise taxes to be used for capital projects.

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

The 2013 LTGO Refunding Bonds Fund is used to account for activity related to the issuance of refunding bonds in 2013.

The 2015 LTGO Refunding Bonds Fund is used to account for activity related to the issuance of refunding bonds in 2015.

The County reports the following major *proprietary funds*:

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

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

The Surface Water Utility Fund is used to account for costs of providing surface water utilities to the residents of Kitsap County.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are use charges for sewer, collection fees for solid waste, and use charges for surface water. Operating expenses for

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

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.

Additionally, the County reports the following fund types:

Internal Service Funds provide services to County departments and offices on a cost reimbursement basis:

Equipment Rental & Revolving (ER&R) Fund manages the County's fleet of vehicles and road construction and maintenance equipment;

Building Repair & Replacement (BR&R) Fund provides building services for the County;

Employer Benefits Fund manages and administers the County's self-funded employee welfare plan;

Self Insurance Fund manages the County's general liability, property, crime/dishonesty, workers compensation and unemployment insurance policies and programs;

Elections Fund provides election services for the County and Junior Taxing Districts; and

Information Services Fund maintains and manages the County's computer equipment and software.

Fiduciary Funds

Agency funds are used to account for the funds held in a custodial nature for other governmental entities, the vast majority in the form of cash and investments. The entities include school districts, the public utility district, recreation districts, the public health district, the library district, cities and towns, ports, water districts, fire districts and sewer districts.

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

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

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

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:

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

Special Purpose Path
Electronic Technology Excise Fund
GMA Transportation Impact Fee, Central Kitsap Fund
Wetland Mitigation Bank
Bucklin Ridge Park Development
Clear Creek Ed/Awareness
Regional Septic Loan Program
Indianola Forest Fund
Service Area 1 Road Impact Fee Fund
Service Area 2 Road Impact Fee Fund
Service Area 3 Road Impact Fee Fund
Service Area 4 Road Impact Fee Fund
Regional Service Area Roads Fund
McCormick Village Traffic Impact Fee Fund
McCormick Village Park Impact Fee
ARRA EECBG

Budgets were not adopted for these funds in 2015 because no expenditures were anticipated in 2015.

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

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

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

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

2. Amending the Budget

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

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

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

The budgets are integrated into the accounting system. The budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the budgetary comparison statement for the General fund and Special Revenue funds present actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. The General Fund statement includes information about Budget to Actual Basis Differences which arose as a result of including non-qualifying Special Revenue funds in the General Fund for financial statement presentation purposes. Thirteen Special Revenue funds did not meet the GASB 54 classification criteria and were rolled up into the General Fund. See *Note 1. E. 13, Fund Balance Classification*, for further details.

Budget revisions

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

<u>Fund Description</u>	<u>Original Budget</u>	<u>Budget Change</u>	<u>Final Budget</u>
General Fund	\$ 85,113,280	\$ 6,032,402	\$ 91,145,682
Major Funds	\$ 78,913,171	\$ 34,119,305	\$ 113,032,476
Non Major Funds	\$ 69,425,607	\$ 4,705,596	\$ 74,131,203
		<u>\$ 44,857,303</u>	

3. Excess of expenditures over appropriations

For the year ended December 31, 2015 expenditures did not exceed appropriations in any of the general fund departments.

4. Deficit Balance

At December 31, 2015, the following Special Revenue funds reported a deficit balance of fund net position, which is a violation of state statute:

<u>Fund Name</u>	<u>Deficit Fund Balance</u>
Emergency Services	\$ 27,277
Kitsap Preparedness (KRPEP)	\$ 19,578

The year-end fund balance deficit for the Emergency Services was reversed in 2016.

Kitsap Preparedness (KPREP) reduced its fund balance deficit by \$91,894 in 2015 and continues to work towards eliminating it.

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

E. Assets, Liabilities and Equity

1. Cash and Cash Equivalents

It is the County's policy to invest all temporary cash surpluses. At December 31, 2015, the Treasurer was holding \$151.7 million in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is credited to the General fund.

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

2. Investments

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

3. Receivables

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

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2015, 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 13, Interfund Balances and Transfers*.

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

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

5. Inventories and Prepaid Items

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

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

The County pays annual insurance premiums for various insurance policies it purchases during the year. The portion of these premiums that covers future periods are recorded as prepaid insurance.

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

6. Restricted Assets and Liabilities

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

7. Capital Assets

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. Items with an estimated useful life in excess of one year and with initial, individual cost of more than \$5,000 are considered capital assets and the threshold for infrastructure assets is \$25,000 (amounts not rounded). 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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

constructed. During the current fiscal year, the total interest expense incurred by County proprietary funds attributable to capital projects was \$2,514,334. Of this amount, \$131,092 was included as part of the cost of capital assets under construction in connection with sewer projects during 2015.

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

<u>Capital Asset Type</u>	<u>Life in Years</u>
Buildings & Other Improvements	20 - 45
Machinery & Equipment	4 - 12
Vehicles	6 - 10
Trucks & Trailers	7 - 15
Sewer System	20 - 50
Road System	7 - 25
Bridges	40
Sidewalks	30

8. Compensated Absences

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

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

9. Other Accrued Liabilities

These accounts consist primarily of accrued wages and accrued employee benefits.

10. Long Term Debt

The County issued various Limited Tax General Obligation Bonds and Revenue Bonds. Additionally, in 2011 the County purchased a golf course for which it signed a 20-year promissory note. For more information about the County's long term debt, see *Note 9, Long Term Debt*.

11. Unearned Revenues

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

12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See *Note 7, Pension Plans* for more information about pensions.

13. Fund Balance Classification

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

Each year, Special Revenue fund balances are analyzed; funds not meeting the GASB Statement No. 54 definition of Special Revenue funds are reclassified and reported with the General Fund (see *Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual, General Fund, page 27*).

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

- *Nonspendable Fund Balance* includes items that cannot be spent because the related assets are not in spendable form or must be maintained intact. This includes nonspendable resources such as advances and prepaid amounts in the general fund and the long-term portion of notes receivable in a debt service fund.
- *Restricted Fund Balance* represents resources that have constraints placed upon their use either by external parties or imposed by law through a constitutional provision or enabling legislation.
- *Committed Fund Balance* includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the Kitsap County Board of Commissioners, the County's highest level of decision making authority. By formal action (Resolution #203-2011 dated 12/19/2011), the Board of County Commissioners identified committed fund balances.
- *Assigned Fund Balance* represents amounts that are constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. Use of assigned fund balance may be established by the Board of County Commissioners or an official designated by the Board, for this purpose. The County had no Assigned Fund Balance in 2015.
- *Unassigned Fund Balance* is the residual amount of the General Fund not included in the four categories described above. Any deficit fund balances within governmental fund types are also reported as unassigned.

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

As a result of 2015 analysis of the County's special revenue funds, thirteen funds did not meet the special revenue fund definition of GASB 54 and their fund balances were reported as unassigned fund balance in the General Fund.

The following table illustrates the composition of the General Fund's fund balance as of December 31, 2015:

	Unassigned Fund Balance	Total Fund Balance
General Fund (prior to inclusion of other funds)	<u>\$ 17,508,681</u>	<u>\$ 17,884,298</u>
<u>Non-qualifying Special Revenue Funds</u>		
Human Resources Board	79,059	79,059
Special Purpose Path	73,469	73,469
1% for Art Program	18,254	18,254
Drug Forfeiture Enforcement	43,245	43,245
Wetland Mitigation	18,025	18,025
Bucklin Ridge Park	1,217	1,217
Clear Creek Education	2	2
Kingston Commuter Parking	1,824	1,824
Kitsap County Grants	54	54
Indianola Forest	270,644	270,644
KC Forest Stewardship	(113,897)	(113,897)
McCormick Village Traffic	388,638	388,638
McCormick Village Park	<u>165,544</u>	<u>165,544</u>
General Fund (after inclusion of non-qualifying Special Revenue funds)	<u>\$ 18,454,761</u>	<u>\$ 18,830,377</u>

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

As of December 31, 2015, nonspendable fund balance was \$7.96 million, restricted fund balance totaled \$42.66 million, committed fund balance was \$39.81 million and unassigned fund balance was \$18.83 million. The County had no assigned fund balance in 2015.

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

A summary of Governmental fund balances as of December 31, 2015 is presented in the table below:

<u>Fund Balances</u>	<u>General</u>	<u>County</u> <u>Roads</u>	<u>Special Revenue</u> <u>Real Estate</u> <u>Excise Tax</u>	<u>Mental</u> <u>Health</u> <u>Medicaid</u>	<u>Debt Service</u> <u>KCLTGO</u> <u>2013</u> <u>Refunding</u>	<u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>
<u>Nonspendable</u>						
Petty cash, change funds						
Advances	\$ 160,000	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid Items	215,617	-	-	-	-	-
Note Receivable	-	-	-	-	-	7,580,000
Total Nonspendable	-	-	-	-	-	7,580,000
Fund Balance	<u>\$ 375,617</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,580,000</u>
<u>Restricted for:</u>						
Transportation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,679,579
General Government	-	-	6,183,855	-	-	2,253,069
Affordable Housing	-	-	-	-	-	2,278,836
Health & Human Services	-	-	-	-	-	739,547
Veterans Relief Programs	-	-	-	-	-	169,649
Mental Health Programs	-	-	-	3,097,571	-	6,797,406
Substance Abuse Prev.	-	-	-	-	-	268,592
Developmental Disabilities	-	-	-	-	-	1,051,653
Public Safety	-	-	-	-	-	1,255,550
Cencom	-	-	-	-	-	3,624,765
Recovery Center	-	-	-	-	-	1,691,628
Jail & Juvenile Programs	-	-	-	-	-	1,985,960
Judicial Services	-	-	-	-	-	536,329
Physical Environment	-	-	-	-	-	1,311,457
Conservation Futures	-	-	-	-	-	1,489,157
Culture & Recreation	-	-	-	-	-	2,908,281
Economic Environment	-	-	-	-	-	32,515
Debt service	-	-	-	-	2,206,272	1,030,206
Total Restricted	-	-	-	-	2,206,272	1,030,206
Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,183,855</u>	<u>\$ 3,097,571</u>	<u>\$ 2,206,272</u>	<u>\$ 31,104,179</u>
<u>Committed for:</u>						
Road maintenance	\$ -	\$36,323,085	\$ -	\$ -	\$ -	\$ 172,284
General Government	-	-	-	-	-	127,042
Public Safety	-	-	-	-	-	238,860
Physical Environment	-	-	-	-	-	162,497
Culture & Recreation	-	-	-	-	-	434,844
Economic Environment	-	-	-	-	-	2,352,214
Total Committed	-	-	-	-	-	2,352,214
Fund Balance	<u>\$ -</u>	<u>\$36,323,085</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,487,741</u>
<u>Unassigned:</u>						
Unassigned Fund Balance	<u>\$18,454,761</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (46,854)</u>
Total Fund Balance	<u>\$18,830,377</u>	<u>\$36,323,085</u>	<u>\$ 6,183,855</u>	<u>\$ 3,097,571</u>	<u>\$ 2,206,272</u>	<u>\$ 42,125,066</u>

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

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

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

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

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

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

NOTE 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 4. DEPOSITS AND INVESTMENTS

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

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

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

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.

<u>Investment Type</u>	<u>Rating</u>	<u>Weighted Average Maturities</u>	<u>%</u>	<u>Amortized Cost</u>	<u>Fair Value of County's Investments</u>	<u>Fair Value of Investments Held by County as Agent for Other Local Governments</u>	<u>Total Fair Value</u>
FHLB	AAA/AA+	1.16	8.2%	\$ 41.01	\$ 19.53	\$ 21.40	\$ 40.93
FFCB	AAA/AA+	1.65	17.5%	87.48	41.65	45.65	87.30
FHLMC	AAA/AA+	1.74	14.9%	74.36	35.40	38.80	74.20
FNMA	AAA/AA+	2.18	7.0%	35.09	16.68	18.27	34.95
US Treasuries	AAA/AA+	1.89	7.7%	38.38	18.25	20.00	38.24
Municipal Securities	A1*	1.37	2.5%	12.51	5.97	6.54	12.50
Money Mkt Savings	NR	0.01	3.1%	15.56	7.42	8.14	15.56
WA State LGIP	NR	0.01	<u>39.0%</u>	<u>194.46</u>	<u>92.78</u>	<u>101.68</u>	<u>194.46</u>
			<u>100.0%</u>	<u>\$ 498.85</u>	<u>\$ 237.68</u>	<u>\$ 260.47</u>	<u>\$ 498.14</u>

*Both Cost and Fair Value include accrued interest of \$0.64.
Amortized cost and total fair value stated in millions.*

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

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

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

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

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

NOTE 5. PROPERTY TAX

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

Property Tax Calendar

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

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

The County's regular levy for the year 2015 was \$1.1535 per \$1,000 on an assessed valuation of \$27,160,214,037 for a total regular levy of \$31,393,116.

The County's road levy for the year 2015 was \$1.6274 per \$1,000 on an assessed valuation of \$16,467,193,976 for total road levy of \$26,874,333.

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

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

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

NOTE 6. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2015 was as follows:

<u>Governmental activities</u>	<u>Beginning Balance 1/1/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 12/31/2015</u>
Capital assets, not being depreciated:				
Land	\$ 65,009,855	\$ 2,272,124	\$ -	\$ 67,281,980
Land - Infrastructure	69,838,666	-	-	69,838,666
Construction in progress	<u>10,764,674</u>	<u>12,726,006</u>	<u>3,179,501</u>	<u>20,311,179</u>
Total capital assets, not being depreciated	<u>\$ 145,613,196</u>	<u>\$ 14,998,130</u>	<u>\$ 3,179,501</u>	<u>\$ 157,431,824</u>
Capital assets, being depreciated:				
Buildings	\$ 129,265,829	\$ 85,548	\$ -	\$ 129,351,377
Building Improvements	33,850,513	751,356	-	34,601,869
Machinery and equipment	59,078,633	3,952,591	1,894,727	61,136,497
Infrastructure	<u>425,947,189</u>	<u>1,895,340</u>	<u>-</u>	<u>427,842,530</u>
Total capital assets being depreciated	<u>\$ 648,142,165</u>	<u>\$ 6,684,835</u>	<u>\$ 1,894,727</u>	<u>\$ 652,932,274</u>
Less accumulated depreciation for:				
Buildings	\$ 42,524,165	\$ 2,919,537		\$ 45,443,702
Building Improvements	16,009,055	1,477,206	-	17,486,261
Machinery and equipment	40,133,922	3,545,879	1,754,229	41,925,572
Infrastructure	<u>306,108,845</u>	<u>10,636,532</u>	<u>-</u>	<u>316,745,378</u>
Total accumulated depreciation	<u>\$ 404,775,988</u>	<u>\$ 18,579,154</u>	<u>\$ 1,754,229</u>	<u>\$ 421,600,912</u>
Total capital assets, being depreciated, net	<u>\$ 243,366,178</u>	<u>\$ (11,894,319)</u>	<u>\$ 140,498</u>	<u>\$ 231,331,362</u>
Governmental activities capital assets, net	<u>\$ 388,979,374</u>	<u>\$ 3,103,811</u>	<u>\$ 3,319,999</u>	<u>\$ 388,763,185</u>

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

<u>Business-type activities</u>	<u>Beginning Balance 1/1/2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance 12/31/2015</u>
Capital assets, not being depreciated				
Land	\$ 2,889,181	\$ -	\$ -	\$ 2,889,181
Construction in progress	<u>49,744,327</u>	<u>11,457,753</u>	<u>4,586,994</u>	<u>56,615,086</u>
Total capital assets, not being depreciated	<u>\$ 52,633,508</u>	<u>\$ 11,457,753</u>	<u>\$ 4,586,994</u>	<u>\$ 59,504,267</u>
Capital assets, being depreciated				
Buildings	\$ 56,474,612	\$ -	\$ -	\$ 56,474,612
Building Improvements	93,437,106	3,623,528	-	97,060,634
Equipment & Machinery	<u>9,660,603</u>	<u>16,161</u>	<u>43,100</u>	<u>9,633,665</u>
Total capital assets being depreciated	<u>\$ 159,572,322</u>	<u>\$ 3,639,689</u>	<u>\$ 43,100</u>	<u>\$ 163,168,911</u>
Less accumulated depreciation for:				
Buildings	\$ 35,523,885	\$ 2,126,864	\$ -	\$ 37,650,749
Building Improvements	43,661,380	3,270,960	-	46,932,340
Machinery and equipment	<u>7,740,559</u>	<u>729,810</u>	<u>599</u>	<u>8,469,771</u>
Total accumulated depreciation	<u>\$ 86,925,824</u>	<u>\$ 6,127,634</u>	<u>\$ 599</u>	<u>\$ 93,052,859</u>
Total business-type assets, being depreciated, net	<u>\$ 72,646,498</u>	<u>\$ (2,487,945)</u>	<u>\$ 42,501</u>	<u>\$ 70,116,052</u>
Business-type activities capital assets, net	<u>\$ 125,280,006</u>	<u>\$ 8,969,808</u>	<u>\$ 4,629,495</u>	<u>\$ 129,620,319</u>

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

<u>Function</u>	<u>Governmental</u>	<u>Business-type</u>
General Government	\$ 1,853,015	
Judicial Services	17,714	
Public Safety	3,154,480	
Transportation	12,240,448	
Health & Human Services	139,718	
Economic Environment	4,183	
Culture & Recreation	1,169,596	
Utilities	-	6,127,634
Total Depreciation	<u>\$ 18,579,154</u>	<u>\$6,127,634</u>

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

Construction commitments

The County had no active construction projects as of December 31, 2015.

NOTE 7. PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

<u>Aggregate Pension Amounts – All Plans</u>	
Pension liabilities	\$ (53,149,054)
Pension assets	\$ 4,095,376
Deferred outflows of resources	\$ 7,503,023
Deferred inflows of resources	\$ (9,075,070)
Pension expense/expenditures	\$ (2,976,129)

State Sponsored 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 state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<u>PERS Plan 1</u> <u>Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee*</u>
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%

The County actual contributions to the plan were \$124,007 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<u>PERS Plan 2/3</u> <u>Actual Contribution Rates</u>	<u>Employer 2/3</u>	<u>Employee 2*</u>
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

* For employees participating in JBM, the contribution rate was 15.30%

The County's actual contributions to the plan were \$6,221,803 for the year ended December 31, 2015.

Public Safety Employees' Retirement System (PSERS)

PSERS Plan 2 was created by the 2004 Legislature and became effective July 1, 2006. To be eligible for membership, an employee must work on a full time basis and:

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS membership includes:

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

PSERS covered employers include:

- Certain State of Washington agencies (Department of Corrections, Department of Natural Resources, Gambling commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol),
- Washington State Counties,
- Washington State Cities (except for Seattle, Spokane, and Tacoma),
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Retirement before age 60 is considered an early retirement. PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a three percent per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions

The PSERS Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The Plan 2 employer rates include components to address the PERS Plan 1 unfunded actuarial accrued liability and administrative expense currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates.

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2015 were as follows:

<u>PSERS Plan 2</u> <u>Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
January through June 2015	10.54%	6.36%
July through December 2015	11.54%	6.59%

The County's actual contributions to the plan were \$621,120 for the year ended December 31, 2015.

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

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

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 ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The LEOFF Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

<u>LEOFF Plan 2</u>		
<u>Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
State and local governments	5.23%	8.41%
Ports and Universities	8.59%	8.41%

The County's actual contributions to the plan were \$618,384 for the year ended December 31, 2015.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2015, the state contributed \$58,339,032 to LEOFF Plan 2.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 3% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>% Long-Term Expected Real Rate of Return Arithmetic</u>
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of Net Pension Liability (Asset)

The table below presents the County proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the County's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

<u>Plan</u>	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
PERS 1	\$ 36,176,089	\$ 29,713,356	\$ 24,155,998
PERS 2/3	\$ 67,674,188	\$ 23,143,976	\$ (10,951,137)
PSERS 2	\$ 2,216,679	\$ 291,721	\$ (1,077,588)
LEOFF 1	\$ (555,761)	\$ (868,711)	\$ (1,135,443)
LEOFF 2	\$ 3,231,296	\$ (3,226,665)	\$ (8,086,526)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the County reported a net pension liability of \$53,149,054 and a net pension asset of \$4,095,376 for its proportionate share of the net pension liabilities (assets) as follows:

<u>Plan</u>	<u>Liability</u>	<u>Asset</u>
PERS 1	\$ 29,713,356	\$ -
PERS 2/3	23,143,976	-
PSERS 2	291,721	-
LEOFF 1	-	868,711
LEOFF 2	-	3,226,665
Total	<u>\$ 53,149,054</u>	<u>\$ 4,095,376</u>

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

The amount of the asset reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to the County. The amount recognized by the County as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the County were as follows:

<u>LEOFF 2 State Pension Support</u>	<u>(Asset)</u>
Employer's proportionate share	\$ (3,226,665)
State's proportionate share of the net pension liability associated with the employer	<u>(304,296)</u>
Total	<u>\$ (3,530,961)</u>

At June 30, the County's proportionate share of the collective net pension liabilities was as follows:

<u>Plan</u>	<u>Proportionate Share 6/30/14</u>	<u>Proportionate Share 6/30/15</u>	<u>Change in Proportion</u>
PERS 1	0.575%	0.568%	(1.238%)
PERS 2/3	0.646%	0.648%	0.259%
PSERS 2	1.632%	1.598%	(2.075%)
LEOFF 1	0.072%	0.072%	0.714%
LEOFF 2	0.331%	0.314%	(5.183%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

Pension Expense

For the year ended December 31, 2015, the County recognized pension expense as follows:

<u>Plan</u>	<u>Pension Expense</u>
PERS 1	\$ 1,565,501
PERS 2/3	(5,554,832)
PSERS 2	(601,300)
LEOFF 1	175,692
LEOFF 2	(224,619)
Total	<u>\$ (4,636,558)</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>PERS 1 (includes UAAL)</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	1,625,645
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	<u>1,736,282</u>	<u>-</u>
Total	<u>\$ 1,736,282</u>	<u>\$ 1,625,645</u>

<u>PERS 2/3</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,460,211	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	6,178,346
Changes of assumptions	37,290	-
Changes in proportion and differences between contributions and proportionate share of contributions	53,864	-
Contributions subsequent to the measurement date	<u>1,970,972</u>	<u>-</u>
Total	<u>\$ 4,522,337</u>	<u>\$ 6,178,346</u>

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

<u>PSERS 2</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 273,309	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	144,694
Changes of assumptions	1,806	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	2,067
Contributions subsequent to the measurement date	<u>212,336</u>	<u>-</u>
Total	<u>\$ 487,451</u>	<u>\$ 146,761</u>

<u>LEOFF 1</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	146,656
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	<u>-</u>	<u>-</u>
Total	<u>\$ -</u>	<u>\$ 146,656</u>

<u>LEOFF 2</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 282,548	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	977,663
Changes of assumptions	8,511	-
Changes in proportion and differences between contributions and proportionate share of contributions	89,942	-
Contributions subsequent to the measurement date	<u>375,950</u>	<u>-</u>
Total	<u>\$ 756,951</u>	<u>\$ 977,663</u>

Deferred outflows of resources related to pensions resulting from the County's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

<u>Year ended December 31:</u>	<u>PERS 1</u>	<u>PERS 2/3</u>	<u>PSERS</u>	<u>LEOFF 1</u>	<u>LEOFF 2</u>
2016	(630,044)	(1,661,606)	(12,236)	(56,908)	(308,914)
2017	(630,044)	(1,661,606)	(12,236)	(56,908)	(308,914)
2018	(630,044)	(1,661,606)	(12,252)	(56,908)	(308,917)
2019	264,487	1,357,845	74,072	24,068	242,159
2020	-	-	45,511	-	73,272
Thereafter	-	-	45,495	-	14,654

NOTE 8. RISK MANAGEMENT

A. General Liability, Property and Workers Compensation

The County is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors or omissions, injuries to employees, and natural disasters. Kitsap County uses its Risk Management Fund, an internal service fund, to finance and administer the County's property/casualty and workers' compensation self insurance programs. The County contracts with a plan administrator to process medical and dental claims made against its workers' compensation program.

RCW 48.62 authorizes the governing body of any governmental entity to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Kitsap County was a member of the Washington Counties Risk Pool until October 2010, when it made the determination to withdraw from the risk pool in order to have more control over decisions made with respect to risk management activities.

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

General liability

The County purchased an excess insurance policy with a \$20 million 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 million per occurrence. The County has never had a claim in excess of the policy limits. This policy also covers auto liability, employment and public officials' liability. As of December 31, 2015, the County's estimated total undiscounted outstanding liability for general liability is \$6,889,646.

Property insurance

The county has a \$50,000 per occurrence deductible and is insured for up to \$250 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 million maximum deductible.

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

The County's property insurance policy includes \$2 million cyber liability coverage which provides third party liability coverage for information security and privacy liability, privacy notification costs, claims expenses and penalties, and website media content. Cyber liability coverage also provides first party computer security for cyber extortion loss, data protection loss and business interruption loss. The cyber liability coverage has a \$50,000 deductible per occurrence.

Crime/dishonesty insurance

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

Workers compensation

The County assumes risk for workers' compensation of up to \$500,000 per occurrence, as allowed by State statute. The County purchases an excess workers' compensation policy that provides statutory limits coverage. Interfund premiums are based on each department's loss experience and number and class of employees. As of December 31, 2015, the County's estimated total undiscounted outstanding liability for the workers' compensation program is \$2,824,705.

Self Insured Workers Compensation and General Liability Claims Activity

The County maintains a balance in a liability account within the Self Insurance fund to provide for claims payments. Workers Compensation and Claims liability will not be adjusted in 2015 because we believe that the current reserve balance is adequate:

- According to the most recently actuarial report available a reserve balance of \$8.988 million indicates reserve funding at a 90% confidence level; the County's reserve balance is currently \$9,714 million, indicating reserve funding at a greater than 90% confidence level;
- There have been no significant changes in fund revenue or expenses (claims payments) in the past two years and the fund ended the years with modest net surpluses; and
- Current year workers compensation and general liability claims payments approximate ten year average annual claims payments.

Workers Compensation and Claims liability balance will be evaluated in 2016 to determine whether the balance is adequate.

Following is a summary of the changes in the self-insurance fund liabilities for estimated claim settlements for the years ended December 2014 and 2015:

<u>Workers Compensation</u>	<u>Year Ended</u>	
	<u>12/31/2014</u>	<u>12/31/2015</u>
Claims liability, beginning of year	\$ 2,824,705	\$ 2,824,705
Estimated claims (including IBNRs)	\$ 1,280,536	\$ 1,099,658
Claims payments	<u>(\$ 1,280,536)</u>	<u>(\$ 1,099,658)</u>
Claims liability, end of year	<u>\$ 2,824,705</u>	<u>\$ 2,824,705</u>

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

<u>General Liability</u>	Year Ended	
	<u>12/31/2014</u>	<u>12/31/2015</u>
Claims liability, beginning of year	\$ 6,889,646	\$ 6,889,646
Estimated claims (including IBNRs)	\$ 213,234	\$ 695,202
Claims payments	(\$ 213,234)	(\$ 695,202)
Claims liability, end of year	<u>\$ 6,889,646</u>	<u>\$ 6,889,646</u>

B. Self Funded Employee Welfare Benefit Plan

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

In order to limit its financial liability for large claims, the County purchased a Stop Loss insurance policy. For 2015, the policy reimburses the County for medical claims in excess of \$185,000 per covered person.

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

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

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

C. Unemployment Risk

The County has elected to retain the risk for unemployment compensation payable to former County employees. The State of Washington Employment Security Department bills the County for the unemployment compensation benefits paid to former employees. Expenditures are then recognized in various County funds. The County's unemployment program is managed by the Human Resources department.

NOTE 9. LONG-TERM DEBT

In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

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, 2015 the debt limits for the County were as follows:

	<u>Without a Vote</u>	<u>With a Vote</u>	
		<u>2.5%</u>	<u>5.0%</u>
Legal Limit	\$ 407,403,211	\$ 679,005,351	\$ 1,358,010,702
Applicable Outstanding Debt	<u>\$ 88,609,676</u>	<u>\$ 88,609,676</u>	<u>\$ 88,609,676</u>
Margin Available	<u>\$ 318,793,535</u>	<u>\$ 590,395,675</u>	<u>\$ 1,269,401,026</u>

A. General Obligation Bonds

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

General obligation bonds currently outstanding are as follows:

<u>Issued Name and Purpose</u>	<u>Maturity Range</u>	<u>Interest Rate %</u>	<u>Original Amount</u>	<u>Amount of Installment</u>
2006 - Improve Bldgs & Parks	7/1/16	5.0	\$ 18,085,000	\$555,000
2010 - Refunding; Coroner's Bldg & CKCC; BAN (Prop.Acq.)	12/1/16 - 12/1/30	3.0 - 4.0	9,220,000	190,000 - 530,000
2011 - Refunding	12/1/16 - 12/1/27	2.0 - 4.0	20,370,000	500,000 - 1,550,000
2013 - Refunding	12/1/16 - 12/1/34	3.0 - 4.0	48,280,000	530,000 - 5,265,000
2015 - Refunding	6/1/16 - 6/1/31	2.0 - 5.0	21,635,000	560,000 - 2,020,000
2001 - Rds PW I F Ln # PW-01- 691-037 - Anderson Hill	7/1/16 - 7/1/21	0.5	<u>\$ 897,812</u>	47,253
Total			<u>\$ 118,487,812</u>	

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

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

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 5,810,000	\$ 3,232,608
2017	6,040,000	3,055,108
2018	6,250,000	2,872,608
2019	8,945,000	2,659,608
2020	6,190,000	2,314,708
2021 - 2025	33,295,000	7,352,068
2026 - 2030	16,605,000	1,921,470
2031 - 2034	<u>\$ 2,950,000</u>	<u>\$ 219,450</u>
Total	<u>\$ 86,085,000</u>	<u>\$ 23,627,628</u>

<u>Year Ending</u> <u>December 31</u>	<u>PWTF Loan</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 47,253	\$ 1,418
2017	47,253	1,181
2018	47,253	945
2019	47,253	709
2020	47,253	473
2021	<u>\$ 47,255</u>	<u>\$ 236</u>
Total	<u>\$ 283,520</u>	<u>\$ 4,962</u>

Kitsap County, Washington, Limited Tax General Obligation Refunding Bonds, 2015

During 2015, the County issued \$21,635,000 Limited Tax General Obligation Refunding Bonds. Proceeds were used to provide funds to refund the County's Limited Tax General Obligation Refunding Bonds, Series 2005 and a portion of Limited Tax General Obligation Bonds, Series 2006, and to pay costs of issuance for the Bonds.

This current and advance refunding was undertaken to reduce total debt service payments over the next ten years by \$2,231,038 and to obtain an economic gain of \$2,003,511 (LTGO Refunding Bonds, Series 2005); and to reduce total debt service payments over the next sixteen years by \$1,934,238 and to obtain an economic gain of \$1,649,497 (LTGO Bonds, Series 2006).

Kitsap County, Washington, Sewer Revenue Bonds, 2015

The County issued \$17,360,000 Sewer Revenue Bonds during 2015. This bond issue provided funds to finance certain capital improvements to the County's Sanitary Sewage Collection and Treatment System, to fund the Reserve Fund, and to pay costs of issuance for the Bonds.

B. Notes Payable

The County has a note payable of \$1.95 million due to the Rolling Hills Golf Course Partnership from the purchase of the Rolling Hills Golf Course in March 2011. Principal and interest payments are due annually for 20 years, beginning in October 2012. The note matures in 2031.

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

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

<u>Year Ending</u> <u>December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 72,787	\$ 127,213
2017	77,534	122,466
2018	82,590	117,410
2019	87,976	112,024
2020	93,713	106,287
2021 - 2025	568,602	431,398
2026 - 2030	779,809	220,191
2031	\$ 187,756	\$ 12,244
Total	<u>\$ 1,950,766</u>	<u>\$ 1,249,234</u>

C. Revenue bonds

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

<u>Issued Name</u> <u>and Purpose</u>	<u>Maturity</u> <u>Range</u>	<u>Interest</u> <u>Rate %</u>	<u>Original</u> <u>Amount</u>	<u>Amount of</u> <u>Installment</u>
Sewer Refunding 2001	7/1/16	5.625	\$ 13,075,000	1,620,000
Sewer Refunding 2010A	12/1/16 - 12/1/18	3.0 - 4.0	5,775,000	745,000 - 805,000
Sewer 2010B	12/1/28 - 12/1/40	6.714 - 7.364	37,120,000	1,090,000 - 4,100,000
Sewer 2010C	12/1/28	6.696	1,110,000	1,110,000
Sewer 2015	12/1/17 - 12/1/27	2.75 - 5.0	17,360,000	880,000 - 1,920,000
D.O.E. Loan L0400026	5/1/16 - 5/1/25	1.5	14,188,000	303,064 - 599,355
PWTF Loan PW-01-691-036	7/1/16 - 7/1/21	0.5	2,605,000	150,816
PWTF Loan PC-12-951-040	6/1/16 - 6/1/31	0.25	<u>\$ 5,205,000</u>	256,600
Total			<u>\$ 96,438,000</u>	

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

<u>Year Ending</u> <u>December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 2,365,000	\$ 2,544,829
2017	1,660,000	2,427,629
2018	1,805,000	2,370,029
2019	1,760,000	2,297,829
2020	1,830,000	2,227,429
2021 - 2025	8,360,000	9,930,718
2026 - 2030	10,375,000	8,451,891
2031 - 2035	13,585,000	5,913,743
2036 - 2040	\$ 17,800,000	\$ 2,415,827
Total	<u>\$ 59,540,000</u>	<u>\$ 38,579,924</u>

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

<u>Year Ending</u> <u>December 31</u>	<u>Ecology & PWTF Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 939,036	\$ 93,856
2017	947,065	84,431
2018	955,216	74,885
2019	963,489	65,216
2020	971,888	55,421
2021 - 2025	4,081,321	130,209
2026 - 2030	1,282,998	12,830
2031	\$ 256,600	\$ 641
Total	<u>\$ 10,397,613</u>	<u>\$ 517,489</u>

D. Pollution Remediation Obligation

In 2011, the Solid Waste fund recorded a liability of \$742,805 which represents the County's share of cleanup costs of the Hansville Landfill. The liability was adjusted to \$579,425 in 2015 as a result of recalculation of the costs. The Washington State Department of Ecology identified the County and Waste Management, Inc. as Potentially Liable Parties (PLPs) for remediation of the site. See Note 20, *Pollution Remediation Obligation* for additional information.

E. Compensated absences

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

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

NOTE 10. LEASES

Operating leases

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

Capital Leases

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

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

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

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

<u>Asset</u>	<u>Governmental Activities</u>
Computer equipment – non-capitalized	<u>\$ 29,987</u>
Computer equipment – capitalized	\$ 76,144
Less: accumulated depreciation	<u>(\$ 50,763)</u>
Computer equipment capitalized, net	<u>\$ 25,381</u>
Total capital and non capital assets	<u>\$ 55,368</u>

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

The future minimum lease obligation and the net present value of these minimum lease payments as of December 31, 2015 were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2016	\$ 100,028
2017	100,028
2018	<u>100,028</u>
Total minimum lease payments	300,084
Less: Interest portion of payments	<u>(9,694)</u>
Present value of minimum lease payments	<u>\$ 290,391</u>

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

NOTE 11. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental activities</u>					
Bonds payable:					
General obligation bonds	\$ 93,465,000	\$ 21,635,000	\$ 29,015,000	\$ 86,085,000	\$ 5,810,000
Total bonds payable	<u>93,465,000</u>	<u>21,635,000</u>	<u>29,015,000</u>	<u>86,085,000</u>	<u>5,810,000</u>
Capital leases	384,044	-	93,653	290,391	95,208
Comp Absences - Gov	5,255,058	4,497,813	4,206,124	5,546,747	598,199
Comp Absences - Int Svc	423,417	355,095	352,748	425,764	42,576
Notes payable	2,019,097	-	68,331	1,950,766	72,787
Net OPEB obligation	5,545,555	1,182,239	-	6,727,794	-
Net Pension Liability - Gov	-	44,163,308	-	44,163,308	-
Net Pension Liability - Int Svc	-	3,171,440	-	3,171,440	-
Other liabilities	<u>330,773</u>	<u>-</u>	<u>47,253</u>	<u>283,520</u>	<u>47,253</u>
Governmental activities					
Long-term liabilities	<u>\$ 107,422,944</u>	<u>\$ 75,004,895</u>	<u>\$ 33,783,110</u>	<u>\$ 148,644,729</u>	<u>\$ 6,666,024</u>
<u>Business-type activities</u>					
Bonds payable:					
Revenue bonds	44,440,000	17,360,000	2,260,000	59,540,000	2,365,000
Unamortized premium/ discount	<u>84,615</u>	<u>1,907,846</u>	<u>226,552</u>	<u>1,765,909</u>	<u>226,552</u>
Total bonds payable	<u>44,524,615</u>	<u>19,267,846</u>	<u>2,486,552</u>	<u>61,305,909</u>	<u>2,591,552</u>
Other liabilities	11,933,538	-	956,501	10,977,038	972,111
Net Pension Liability	-	5,814,307	-	5,814,307	-
Compensated absences	<u>604,403</u>	<u>598,393</u>	<u>561,623</u>	<u>641,174</u>	<u>66,515</u>
Business-type activities					
Long-term liabilities	<u>\$ 57,062,557</u>	<u>\$ 25,680,546</u>	<u>\$ 4,004,676</u>	<u>\$ 78,738,427</u>	<u>\$ 3,630,178</u>
Total	<u>\$ 164,485,501</u>	<u>\$ 100,685,441</u>	<u>\$ 37,787,786</u>	<u>\$ 227,383,156</u>	<u>\$ 10,296,202</u>

The County implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in 2015. The County participates in the State's cost sharing multiple employer retirement system and is now required to include its share of the plan's net pension liability in the County's financial statements. The table above Net Pension Liability for governmental funds, \$44,163,308; internal service funds, \$3,171,440; and business type funds, \$5,814,307 are included on the County's financial statements and in the table above.

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for these funds are included as part of the above totals for governmental activities. At year end, in addition to the internal service funds' share of the net pension liability noted above, \$425,764 of internal service funds' compensated absences are included in the above amounts.

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

The general fund generally liquidates the claims, judgments, compensated absences and OPEB obligations from governmental activities.

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

NOTE 12. CONTINGENCIES AND LITIGATIONS

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

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

NOTE 13. INTER-FUND BALANCES AND TRANSFERS

1. Advances To/From other funds

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

Advances From	Advances to		
	Non major Funds	Fiduciary Funds	Total
General Fund	\$ 160,000	\$ -	\$ 160,000
Total	\$ 160,000	\$ -	\$ 160,000

2. Due from other funds/Due to other funds

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

Due to	DUE FROM OTHER FUNDS											Total
	General	County	Mentl Hlth	LTGO	LTGO	Non	Solid	Sewer	Surface	Internal	Agency	
Other Funds	Fund	Roads	Medicaid	2013	2015	Major	Waste	Utility	Storm	Service	Funds	
General Fd	\$ -	\$ 23				\$ 116,145	\$ 42	\$ 334	\$ 56,616	\$ 24,429		\$ 197,589
County Rds	1,844	-				69,332	3,616	5,543	482,255	14,542		577,132
REET				455,452							165,694	621,147
LTGO 2015					-	305,063						305,063
Non Major	1,180,856	98,958			305,063	152,733	6,515			34,897		1,779,021
Solid Waste		4,159				198	-	767	1,629			6,753
Sewer Utility							100,997	-	77,370			178,368
Surface Strm		805,506					8,423	13,515	-	2,518		829,962
Internal Serv.	249,417	276,790	690			81,492	9,283	48,795	25,906	-		692,372
Agency	-	-	-	-	-	-	-	228	-	-	-	228
Total	\$ 1,432,116	\$ 1,185,436	\$ 690	\$ 455,452	\$ 305,063	724,962	\$ 128,876	\$ 69,182	\$ 643,777	\$ 76,385	\$ 165,694	\$ 5,187,633

3. Transfers

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

TRANSFERS - FUND FINANCIAL STATEMENTS						
IN	General	Non	LTGO	LTGO	Internal	Total
OUT	Fund	Major	2013	2015	Service	
General Fund		\$3,854,179	\$ 626,175		\$ 782,972	\$ 5,263,326
County Roads		316,442		34,665	87,500	438,607
REET		1,478,666	2,077,851	147,737		3,704,254.14
Non Major	2,894,791	3,782,224	499,489	349,289		7,525,793
Solid Waste					37,500	37,500
Sewer Utility		137,015			87,500	224,515
Surface Stormwater		212,304			87,500	299,804
Internal Service		17,182			-	17,182
Total	\$2,894,791	\$9,798,012	\$3,203,516	\$ 531,690	\$1,082,972	\$ 17,510,980

NOTE 14. RECEIVABLES AND PAYABLES

Federal grants and assistance awards

Federal grants and assistance awards made on the basis of entitlement periods are reported as “due from other governments” (inter-government receivables) and revenues in the year in which entitlement occurs. Federal or state reimbursement type grants for the acquisition of capital

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

assets of proprietary fund types are reported as “due from other governments” (inter-governmental receivables) and “capital contributions” in the year during which the related expenditure occurs. All other federal and state reimbursement type grants are reported as “due from other governments” (inter-governmental receivables) and revenues in the year in which the related expenditure or expenses are incurred.

Public Facility District receivable

The County has a \$7.58 million long-term receivable due from the Public Facility District, one of its component units. The County sold G.O. bonds and gave the proceeds to the PFD and the PFD pledged its sales tax revenue to repay the County. The debt is carried on the County's books and the note is reflected on the PFD books as well.

Housing Kitsap receivable

The County has a \$16.1 million long-term receivable due from Housing Kitsap.

The County and Housing Kitsap entered into a loan and repayment agreement in 2013, following issuance of Kitsap County LTGO Refunding bonds to settle loans in connection with Housing Kitsap's Harborside Condominiums and Poplars Apartments projects, for which the County became liable when Housing Kitsap found that it was unable to repay or restructure the loans.

The original receivable amount was reported as \$16.48 million. The term of the note receivable is 41 years, maturing June 30, 2053.

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

In 2014, the County changed its position with respect to the reoffering premiums and restated Housing Kitsap's receivable balance to include the premiums that were paid, for a total restated original balance of \$18.32 million. Payments made in 2013 and 2014 were recalculated and applied to the receivable, reducing the balance to \$17.08 million as of December 31, 2014.

During 2015, the County received payments of \$1.395 million, of which \$982,550 was applied to principal and \$412,607 was applied to interest. The receivable balance as of December 31, 2015 was \$16.1 million.

NOTE 15. DEFERRED COMPENSATION

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

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

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

The investment carrying values of the plans as of December 31, 2015, are as follows:

<u>Investment company</u>	<u>Fair Value</u>
Nationwide	\$ 15,722,456
Voya	7,380,581
Mass Mutual	7,441,223
ICMA	\$ 1,390,630
Total	<u>\$ 31,934,890</u>

NOTE 16. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Under GASB 65, *Items Previously Reported as Assets and Liabilities*, a number of items are now reported as deferred outflows and inflows of resources.

<u>Fund</u>	<u>Item</u>	<u>Deferred Inflows</u>	<u>Deferred Outflows</u>
General Fund	Taxes receivable	\$ 1,494,703	\$ -
County Roads	Taxes receivable	823,254	-
Noxious Weed Control	Taxes receivable	10,897	-
Veterans Relief	Taxes receivable	9,753	-
Conservation Futures	Taxes receivable	42,425	-
CDBG	Notes receivable	300,000	-
HOME	Notes receivable	3,541,183	-
2013 LTGO Refunding Bonds	Notes receivable	16,101,564	-
Parks Capital Improvement	Service Concession Arrangement	1,950,766	-
Various	Pensions (GASB 68)	\$ 9,075,070	\$ 7,503,023
Total		<u>\$ 33,349,616</u>	<u>\$ 7,503,024</u>

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

In 2013, Housing Kitsap (formerly known as Kitsap County Consolidated Housing Authority) agreed to repay debt previously assumed by the County, resulting in a Note Receivable and an offsetting Deferred Inflow of \$17.08 million. Deferred Inflows associated with the note receivable are \$16.1 million as of December 31, 2015. For further details about this transaction see Note 14, *Receivables and Payables*.

The County implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in 2015. Deferred Inflows and Deferred Outflows related to GASB 68 are included in the table above. See *Note 7, Pension Plans* and *Note 20, Other Note Disclosures* for more information.

NOTE 17. SERVICE CONCESSION ARRANGEMENT

In March 2011, the County purchased a golf course property consisting of approximately 104 acres encompassing the golf course, clubhouse, outbuildings and storage sheds, and various property and equipment items necessary to operate the golf course and clubhouse. The purchase was financed by a note payable to the seller, the terms of which are annual payments of \$200,000 for a period of 20 years. The note bears interest at 6.5% and the note balance was \$1,950,766 as of December 31, 2015.

The cost of the golf course was \$2,200,400 of which \$2,112,855 was capitalized. The County reports the golf course and related equipment as a capital asset which had a net book value of \$1,943,825 at year-end.

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

Beginning in October 2012 and annually thereafter, RHGC will pay the County installment payments of \$200,000 over the course of the arrangement; the present value of these installment payments at the time the agreement was entered into were estimated to be \$2,200,000. Deferred inflows related to the golf course are \$1,950,766 as of December 31, 2015.

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

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

NOTE 18. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

As required by the Revised Code of Washington (RCW) Chapter 41.26, the County provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1977 under a defined benefit multi-employer healthcare plan. The members necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan or any other similar source are covered. Under the authorization of the 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, 2015 there were 37 inactive participants in this closed plan.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The Annual Required Contribution (ARC) represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years as of January 1, 2008. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB. The net OPEB obligation of \$6,727,794 is included as a noncurrent liability on the Statement of Net Position. The actuarial valuation was performed on December 31, 2015.

	<u>Year Ended</u> <u>12/31/2015</u>
<u>Other Post Employment Benefits Obligation</u>	
Determination of Annual Required Contribution:	
Normal Cost at year end	\$ -
Amortization of UAAL*	<u>1,775,063</u>
Annual Required Contribution (ARC)	\$ 1,775,063
Determination of Net OPEB Obligation:	
Annual Required Contribution	\$ 1,775,063
Interest on prior year Net OPEB Obligation	221,822
Adjustment to ARC	<u>(498,773)</u>
Annual OPEB Cost	\$ 1,498,112
Contributions	<u>315,873</u>
Increase in Net OPEB Obligations	\$ 1,182,239
Net OPEB Obligation - beginning of year	\$ 5,545,555
Increase in Net OPEB Obligations	<u>\$ 1,182,239</u>
Net OPEB Obligation - end of year	<u>\$ 6,727,794</u>

*Unfunded Actuarial Accrued Liability

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

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

<u>Year Ended</u>	<u>Annual Cost</u>	<u>Contribution</u>	<u>Percentage of Annual OPEB cost contributed</u>	<u>Net OPEB Obligations</u>
2009	\$ 1,072,127	\$ 450,113	42%	\$ 2,219,478
2010	\$ 984,620	\$ 472,936	48%	\$ 2,731,162
2011	\$ 885,327	\$ 474,752	54%	\$ 3,141,737
2012	\$ 1,025,832	\$ 417,652	41%	\$ 3,749,917
2013	\$ 1,411,439	\$ 384,928	27%	\$ 4,776,428
2014	\$ 1,166,478	\$ 397,351	34%	\$ 5,545,555
2015	\$ 1,498,112	\$ 315,873	21%	\$ 6,727,794

Funding Status

As of December 31, 2015 the most recent alternative method measurement date, the plan was 0% funded. The accrued liability for benefits was \$19,735,843 and the actuarial value of assets was \$0 resulting in a UAAL of \$19,735,843. Historically Kitsap County has used a pay-as-you-go approach to funding. If Kitsap County were to contribute the ARC to the plan every year, a liability would not be recorded. If the ARC is not fully funded in a given year, a liability is reported for the unpaid portion of the ARC.

Actuarial Methods and Assumptions

The County's annual other post employment benefit (OPEB) cost is calculated based upon the Annual Required Contribution (ARC), an amount determined using the alternative method permitted under GASB No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the actuarial liability. Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the June 30, 2011 actuarial valuation issued by the Office of State Actuary (OSA). Healthcare costs and trends were determined by Millman and used by OSA in the state-wide LEOFF 1 medical performed in 2015. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purpose of this valuation. The healthcare cost inflation rates were the only assumed inflation rates considered.

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

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

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

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

NOTE 19. POLLUTION REMEDIATION OBLIGATION

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

Hansville Landfill

The Hansville Landfill closed in 1989. Kitsap County, together with Waste Management of Washington, Inc. were identified as Potentially Liable Parties (PLPs) for remediation of contamination at the Hansville Landfill under the Model Toxics Control Act (MTCA). The Cleanup Action Plan (CAP) providing for Natural Attenuation of Groundwater with Enhanced Monitoring and Institutional Controls was approved by the Washington State Department of Ecology in 2011 as part of the Amended Consent Decree.

The current closure cost estimate for the Hansville Landfill site was revised to \$1,655,500 in September 2015, for the years 2016 - 2034. The Solid Waste Fund recognized a liability of \$579,425 for its share of the estimated costs remaining to be recognized as determined by the Washington State Department of Ecology.

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

NOTE 20. OTHER NOTE DISCLOSURES

A. Change in Accounting Principle

The County implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* in 2015. Net position as of January 1, 2015 has been restated as follows:

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

Net Position as previously reported at December 30, 2014	\$ 557,762,523
Change in Accounting Principle - adjustment to beginning net position:	
Net Pension Asset (measurement date as of June 30, 2015)	4,095,376
Net Pension Liability (measurement date as of June 30, 2015)	(53,149,054)
Deferred Outflows related to Pensions	7,503,023
Deferred Inflows related to Pensions	(9,075,070)
Pension Expense adjustment	(2,976,129)
LEOFF 2 Special Funding Situation	<u>(304,296)</u>
Total prior period adjustment	<u>(53,906,150)</u>
Net position as restated January 1, 2015	<u>\$ 503,856,373</u>

B. Subsequent Events

In 2016, the County will be amending its 2013 loan and repayment agreement with Housing Kitsap to clarify terms, specifically regarding the reoffering premium (for more information about this agreement, see Note 14, *Receivables and Payables* and Note 16, *Deferred Outflows and Inflows of Resources*).

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

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

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

C. Prior Period Adjustments

The General Fund reported a prior period adjustment of \$1,150,000. In 2014, the General Fund forgave DCD interfund loans totaling \$1,150,000; the prior period adjustment corrects the fund balances for the General Fund and DCD.

The General Fund reported a prior period adjustment of \$80,315. The prior period adjustment corrects the General Fund's fund balance for the 2015 repayment of duplicate payments made to the Kitsap Humane Society in 2010.

The Sewer Construction fund reported a prior period adjustment of \$1,366,968 to build a sewer pump station in Lemolo. The project was postponed and it has now been determined that it will not be completed. Prior year costs are being removed from construction in progress.

Kitsap County, Washington

Notes to Financial Statements

December 31, 2015

The Surface Stormwater fund reported a prior period adjustment of \$504,068 to build a storm water pond at the Port of Bremerton Facilities. It has now been determined that the project will not be completed by the utility. Prior year costs are being removed from construction in progress.

D. Other adjustment

Kitsap County received \$621,147 from Housing Kitsap as the result of the refunding of LTGO Bond 2003. This amount included the refunding of bond reserves held by the County in the amount of \$106,805 (this amount includes interest earned on the bond reserves) and \$455,452 of principal and interest held in escrow investment accounts by the trustee US Bank.

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