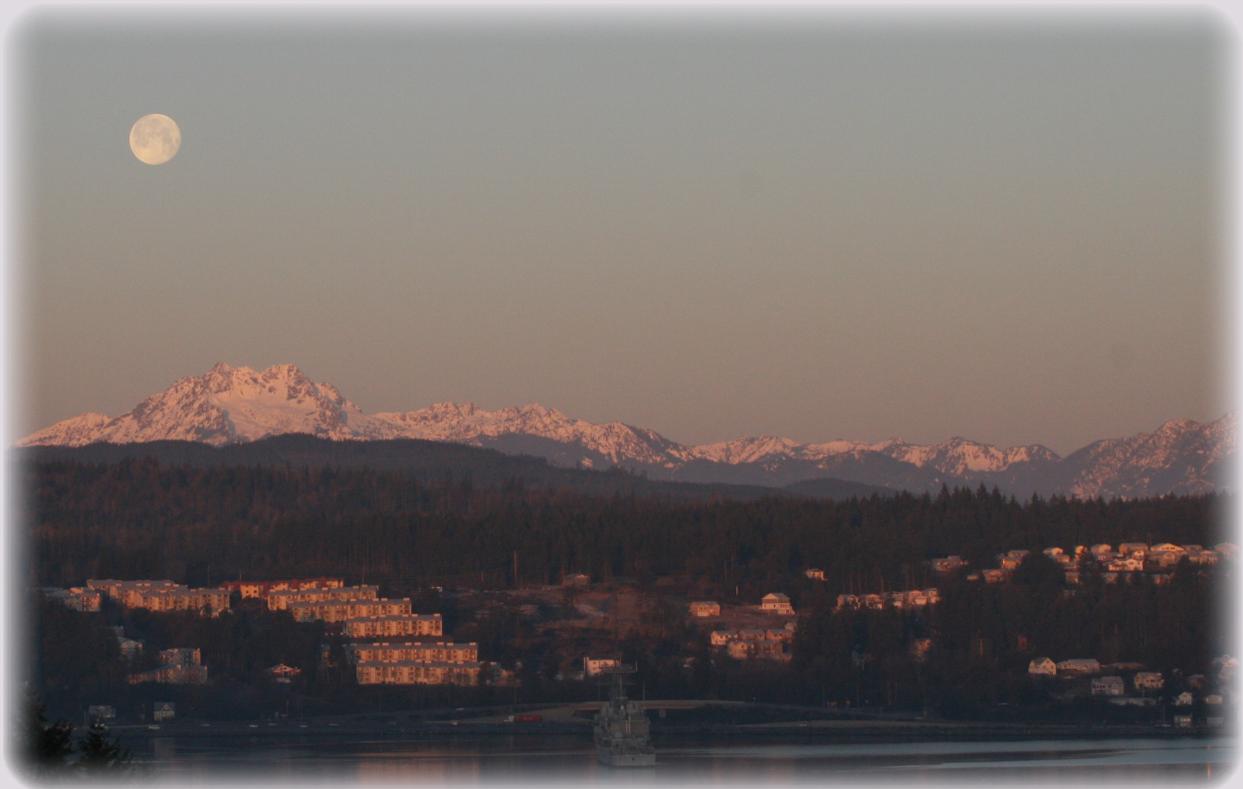




Kitsap County Washington



Comprehensive Annual Financial Report

Fiscal Year Ended December 31, 2011

COVER PHOTO PROVIDED BY DEAN BROWN

COVER DESIGN BY SHAWN DEVINE



**KITSAP COUNTY
COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

County Auditor
Honorable Walter E. Washington

Financial Services Manager
David Schureman, CPA

For The Fiscal Year Ended
December 31, 2011

Prepared by the Auditor's Office

KITSAP COUNTY, WASHINGTON
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended December 31, 2011

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Office of the
KITSAP COUNTY AUDITOR

Walter E. Washington, *Auditor*

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

June 21, 2012

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

We are pleased to present to you the 2011 Comprehensive Annual Financial Report (CAFR) of Kitsap County, Washington. State law requires that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended December 31, 2011. The CAFR is also developed to provide meaningful financial information to legislative bodies, creditors, investors, teachers and students of public finance and the public.

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

The Washington State Auditor's Office, an independent arm of the State of Washington, led by an independently elected official has issued an unqualified opinion on the Kitsap County financial statements for the year ended December 31, 2011. The independent auditor's report is located at the front of the financial section of this report.

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

THE COUNTY

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

The topography is mostly low, flat-topped rolling hills separated by valleys and bays, with altitudes from sea level to 600 feet above, except for Green and Gold mountains, which rise to 1,761 feet above sea level. The climate is moderate, with mild, wet winters and cool, dry summers. Mean annual precipitation ranges from 26 inches in the north to nearly 80 inches in the mountains.

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

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

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

II - I

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

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

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

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

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

The County's annual budget serves as the foundation for Kitsap County's financial planning and control. State law (RCW 36.40) establishes the general requirements of Kitsap County's budget process. The law requires that the Board of County Commissioners adopt a final budget by no later than the close of the fiscal year. The budget is adopted and systematically monitored on the fund level for special revenue and capital project funds and on a department level for the general fund. Personnel service costs in each fund are controlled by position. The acquisition of capital items is approved on an item-by-item basis in accordance with a long-term capital acquisition plan. Budget-to-actual comparisons are provided in the report for each individual governmental fund of which an appropriate annual budget has been adopted. For the General Fund and major Special Revenue Funds, this comparison is presented as part of the basic financial statements. For other governmental fund, this comparison is presented in the non-major governmental fund subsection.

LOCAL ECONOMY

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

Population. Kitsap County has the seventh largest population of Washington State's 39 counties. In 2011, the County's population rose to an estimated 253,900 (+2,767 from 2010).

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

Of the four incorporated cities in Kitsap County, the largest city is Bremerton with a 2011 population of 38,790 (+10% from the 2009 estimate). The 2011 population for Port Orchard is 19,038 (+137% from 2009, due to annexations); Poulsbo 9,200 (+11% from 2009) and Bainbridge Island 23,025(+5% from 2009). Population is expected to remain fairly constant through the current economic climate although annexations by Port Orchard and Poulsbo will also affect population counts going forward. The possible incorporation of Silverdale would also affect population counts.

Employment. Total employment decreased to 121,390 in 2011 (1,020 from 2010) while unemployment was at 7.6%. All employment categories experienced decreases in 2011. Kitsap County's strongest economic asset is the availability of a well-trained, highly motivated workforce. The unemployment rate decreased by 1.2% from 2010. The strong work ethic of a labor pool associated with military employment continues to attract attention from national employers. With the addition of well-qualified students from Olympic College and private training institutes, the County remains a desirable location for prospective employers.

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

In 2011, new construction property values dropped to \$175 million (-11.2% from 2010), and the assessed value of all properties totaled \$27.13 billion (-4.47% from 2010).

The number and value of permits issued is an indicator of future growth in the county property tax base. In 2011, the County issued 1,774 building permits. This represented a 14% increase from 2010.

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

Sales Tax Revenue. Sales tax revenue increased by 1.89% in 2011 to a total of \$26,995,375 (+\$497,375 from 2010). The overall condition of the economy led to an increase in consumer confidence, which led to slightly increased retail sales and sales tax for 2011. Based on current economic forecasts, total sales tax revenues are expected to continue increasing gradually in 2012.

Growth in Expenses. Even as the economy shows signs of rebounding, the County is faced with a problem; growth in revenues are not, nor are they expected to keep up with growth in expenses in the future. This issue along with annexations by cities is causing major changes in the County operation, as operations continue to be reduced.

MAJOR INITIATIVES

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

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

Their 2011 priorities continued to emphasize sustained funding to aggressively combat drug, violent and property crime by strict enforcement coupled with prevention activities. Also, identify and secure lands and shorelines that should be preserved or protected. Other priorities include investing in and maintaining a balanced transportation system of roads, trails, transit and ferries. Another emphasis is to increase citizen understanding, access to and participation in the county government process.

The County spent over \$29.5 million on road maintenance and construction in 2011 and has a budget of over \$33 million for road maintenance and construction in 2012. Emphasis on safe communities is evidenced by an increasingly large percentage of the General Fund budget going to the Law and Justice Programs. Expenditures in these programs were \$56.44 million in 2011 or 75% of general fund expenditures.

Over the past five years, the County has issued more than \$44 million in Revenue bonds to pay for the upgrade of sewer systems. The /county also issued over \$29 million in Refunding bonds to take advantage of low interest rates. The Courthouse, which has housed the administrative functions, along with the Law and Justice functions is in the process of becoming a true Law and Justice Center housing only Law and Justice functions. The County also completed the new state-of-the-art Morgue facility.

Kitsap County's strong fiscal management remains its hallmark. Moody's Investors Service assigned a rating of Aa3, and Standard and Poor's assigned a rating of AA to Kitsap County's Sewer Bonds in December 2010. The County's highly favorable ratings are a reflection of good financial management as

indicated by the reserve balance, moderate and manageable debt burden with limited future capital needs.

RELEVANT FINANCIAL POLICIES

County leadership approved making the county guarantor on certain Kitsap County Consolidated Housing Authority (now Housing Kitsap) loans back in 2005 totaling approximately \$57 million. The County assumed \$40.52 million of this debt in 2009 as Housing Kitsap was near collapse and unable to meet these obligations. In order to pay off this debt the County issued Limited Tax Obligation General Obligation bonds and a Bond Anticipation Note. To pay off these bond issues, the County gained the right to direct and manage the sale of specific property of Housing Kitsap to pay off this debt. As of December 31, 2011 the total issued for these bond issues was \$44.12 million with pledged property sales totaling \$20.18. The County will issue General Obligation bonds to retire the remaining balance of these bonds in 2013.

The County continues to serve as the guarantor on one remaining \$17.25 million outstanding bond issue of Housing Kitsap.

The County approved a resolution that limits the County's ability to guarantee debt of other agencies in the future.

AWARDS AND ACKNOWLEDGEMENTS

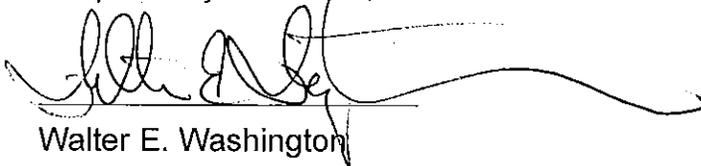
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Kitsap County for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2010. Kitsap County has received this prestigious award for the last fourteen consecutive years. GFOA awards a certificate to governmental entities that exemplify excellence in financial reporting and conform to the stringent reporting requirements promulgated by the Association, GAAP and other applicable legal requirements.

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

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

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

Respectively submitted,

A large, stylized handwritten signature in black ink, appearing to read 'Walter E. Washington', written over a horizontal line.

Walter E. Washington

County Auditor

A smaller, stylized handwritten signature in black ink, appearing to read 'David G. Schureman', written over a horizontal line.

David G. Schureman, CPA

Financial Services Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Kitsap County
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2010

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



Linda C. Sandison

President

Jeffrey R. Egan

Executive Director

KITSAP COUNTY
List of Elected and Appointed Officials
December 31, 2011

Elected Officials

<u>TITLE</u>	<u>INCUMBENT</u>	<u>END OF TERM</u>
Assessor	Jim Avery	12/31/14
Auditor	Walter Washington	12/31/14
Clerk	Dave Peterson	12/31/14
Commissioner, District #1	Robert Gelder	12/31/12
Commissioner, District #2	Charlotte Garrido	12/31/12
Commissioner, District #3	Josh Brown	12/31/14
Coroner	Greg Sandstrom	12/31/14
District Court Judge, #1	James Riehl	12/31/14
District Court Judge, #2	Jeffrey J. Jahns	12/31/14
District Court Judge, #3	Marilyn Paja	12/31/14
District Court Judge, #4	Stephen J. Holman	12/31/14
Prosecuting Attorney	Russ Hauge	12/31/14
Sheriff	Steve Boyer	12/31/14
Superior Court Judge, #1	Jeanette Dalton	12/31/12
Superior Court Judge, #2	Leila Mills	12/31/12
Superior Court Judge, #3	Anna Laurie	12/31/12
Superior Court Judge, #4	Theodore F. Spearman	12/31/12
Superior Court Judge, #5	Jay B. Roof	12/31/12
Superior Court Judge, #6	Russell W. Hartman	12/31/12
Superior Court Judge, #7	M. Karlynn Haberly	12/31/12
Superior Court Judge, #8	Sally F. Olsen	12/31/12
Treasurer	Meredith Green	12/31/14

Appointed Officials

<u>TITLE</u>	<u>INCUMBENT</u>
County Administrator	Vacant
Director of Public Works	Randy Casteel
Director of Administrative Services	Amber D'Amato
Director of Personnel & Human Resources	Bert Furuta
Director of Community Development	Larry Keeton
Director of Parks and Recreation	Jim Dunwiddie
Director of Information Services & Facilities	Bud Harris

Kitsap County Organization 2011

