

**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

For The Fiscal Year Ended
December 31, 2013



Kitsap County, Washington



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ANNUAL
FINANCIAL
REPORT**

County Auditor
Honorable Walter E. Washington

Financial Services Manager
David Schureman, CPA

For The Fiscal Year Ended
December 31, 2013

Prepared by the Auditor's Office

KITSAP COUNTY, WASHINGTON
 Comprehensive Annual Financial Report
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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

July 17, 2014

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

We are pleased to present the 2013 Comprehensive Annual Financial Report (CAFR) of Kitsap County, Washington in accordance with Chapter 36.22 of the Revised Code of Washington. This report is published to fulfill that requirement for the fiscal year ended December 31, 2013. 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, 2013. 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 with a moderate climate.

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,

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

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 2013, the County's population increased to an estimated 256,536 (+ 1,903 from 2012).

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.

Employment. Total employment increased to 129,782 in 2013 (+5,472 from 2012) while unemployment was at 6.4%. All employment categories experienced increases in 2013. Kitsap County's strongest economic asset is the availability of a well-trained, highly motivated workforce. The unemployment rate decreased by 1.2% from 2012. The strong work ethic of a labor pool associated with military employment continues to attract attention from national 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 2013, new construction property values dropped to \$173 million (-.7% from 2012), and the assessed value of all properties totaled \$25.91 billion (-.8% from 2012). Both of these trends are leveling off.

The number and value of permits issued is an indicator of future growth in the county property tax base. In 2013, the County issued 1,793 building permits. This represented a 7% increase from 2012.

Sales Tax Revenue. Sales tax revenue increased by 2.44% in 2013 to a total of \$27,666,837 (+\$658,354 from 2012). The overall condition of the economy led to an increase in consumer confidence, which led to slightly increased retail sales and sales tax for 2012. Based on current economic forecasts, total sales tax revenues are expected to continue increasing gradually in 2014. In addition the sale of the Kitsap Mall has boosted sales tax revenue.

Growth in Expenses. Even as the economy rebounds, the County is faced with a problem; growth in revenues is not, nor is 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 operations, as operations continue to be reduced.

MAJOR INITIATIVES

The Board of County Commissioners continues 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 2013 priorities continued to emphasize sustained funding to aggressively combat drug abuse and violent and property crimes 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 \$30.3 million on road maintenance and construction in 2013 and has a budget of over \$40 million for road maintenance and construction in 2014. Emphasis on safe communities is evidenced by the large percentage of the General Fund budget going to the Law and Justice Programs. Expenditures in these programs were \$56.94 million in 2013 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 \$77 million in Refunding bonds to take advantage of low interest rates.

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. Early in 2014 Standard and Poor's upgraded their rating to AA+. 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, 2013 the total issued for these bond issues was \$44.34 million with pledged property sales totaling \$27.31. The County issued General Obligation refunding bonds to retire the remaining balance of these bonds in 2013.

The refunding bonds also refunded the remaining balance of the Kitsap County Consolidated Housing Authority Revenues bonds from 2003, which the County also guaranteed. In return Housing Kitsap pledged to pay back the County. A receivable from Housing Kitsap was recorded with a balance of \$16.10 million as of December 31, 2013.

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, 2012. Kitsap County has received this prestigious award for the last sixteen 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 our CAFR team, who assisted with and contributed to the preparation of this report, especially the staff in the Auditor's Office - Financial Services Division. We extend special recognition to the Treasurer's and Assessor's staff. We also recognize the professional efforts of the State Auditor's Office in their audit, and in the direction, and advice they provide to us throughout the year.

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

Respectively submitted,



Walter E. Washington
Kitsap County Auditor



David G. Schureman, CPA
Financial Services Manager



Government Finance Officers Association

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, 2012

Executive Director/CEO

KITSAP COUNTY
List of Elected and Appointed Officials
December 31, 2013

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	12/31/15
Commissioner, District #2	Charlotte Garrido	12/31/15
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	12/31/16
Superior Court Judge, #2	Leila Mills	12/31/16
Superior Court Judge, #3	Anna Laurie	12/31/16
Superior Court Judge, #4	William Houser	12/31/16
Superior Court Judge, #5	Jay B. Roof	12/31/16
Superior Court Judge, #6	Kevin D Hull	12/31/16
Superior Court Judge, #7	Jennifer Forbes	12/31/16
Superior Court Judge, #8	Sally F. Olsen	12/31/16
Treasurer	Meredith Green	12/31/14

Appointed Officials

<u>TITLE</u>	<u>INCUMBENT</u>
Chief Administrative Officer	Vacant
Director of Public Works	Vacant
Director of Administrative Services	Amber D'Amato
Director of Human Resources	Penny Starkey
Director of Human Services	Doug Washburn
Director of Community Development	Larry Keeton
Director of Parks and Recreation	Jim Dunwiddie
Director of Information Services & Facilities	Bud Harris



Kitsap County, Washington Functional Organization Chart - 2014

