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COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Fiscal Year Ended
December 31, 2015



Kitsap County, Washington

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**KITSAP COUNTY
COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

County Auditor
Honorable Dolores Gilmore

Financial Manager
David Schureman, CPA

For The Fiscal Year
Ended December 31, 2015

Prepared by the Auditor's Office

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KITSAP COUNTY, WASHINGTON
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended December 31, 2015

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INTRODUCTORY SECTION

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July 25, 2016

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

In accordance with the provisions of Chapter 36.22 of the revised code of Washington, we are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of Kitsap County for the year ended December 31, 2015. The financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by independent auditors from the Office of the Washington State Auditor. 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.

Office of the Washington State Auditor, 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, 2015. 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, 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; selecting our elected representatives; preservation of 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 funds, 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 2015, the County's population increased to an estimated 260,131(+ 1,084 from 2014).

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 decreased to 114,096 in 2015 (-1,042 from 2014) while unemployment was at 5.0%. All employment categories experienced slight decreases in 2015. Kitsap County's strongest economic asset is the availability of a well-trained, highly motivated workforce. The unemployment rate decreased by .1% from 2014.

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 2015, new construction property values climbed to \$202 million (+ 10.3% from 2014), and the assessed value of all properties totaled \$28.33 billion (+4.3% from 2014).

The number and value of permits issued is an indicator of future growth in the county property tax base. In 2014, the County issued 2,655 building permits (2015 numbers not available). This represented a 29% increase from 2013.

Sales Tax Revenue. Sales tax revenue increased by 11% in 2015 to a total of \$35,976,422 (+\$3,593,384 from 2014). The overall condition of the economy led to an increase in consumer confidence, which led to increased retail sales and sales tax for 2015. Based on current economic forecasts, total sales tax revenues are expected to continue increasing gradually in 2016.

Growth in Expenses. Even as the economy rebounds, the County continues to face a problem with growth in revenues not expected to keep up with growth in expenses. This issue along with implementation of a wages and compensation study and future annexations by cities will force major changes in the County operations and will result in reduced services or programs.

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 2015 priorities continued to emphasize sustained funding to aggressively combat drug abuse, violent crimes and property crimes by strict enforcement coupled with prevention activities. Other priorities include identifying and securing lands and shorelines that should be preserved or protected, 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 \$37.5 million on road maintenance and construction in 2015 and has a budget of over \$48 million for road maintenance and construction in 2016. 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 \$63.86 million in 2015 or 75% of general fund expenditures.

Over the past six years, the County has issued more than \$61 million in Revenue bonds to pay for the upgrade of sewer systems. The county also issued over \$99 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 to Kitsap County's Sewer Bonds in December 2010. March 15, 2015, Standard and Poor's assigned a rating of AA+ for Kitsap County's General Obligation and Refunding Bonds. 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 issued General Obligation refunding bonds to retire the remaining \$17.03 million balance of these bonds in 2013.

The refunding bonds also paid off the remaining balance of the Kitsap County Consolidated Housing Authority Revenues bonds from 2003, which was also part of the earlier \$57 million guarantee. 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, 2015.

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, 2014. Kitsap County has received this prestigious award for the last eighteen 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.

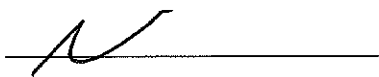
We express our appreciation to everyone in the County who assisted with and contributed to the preparation of this report. The preparation of this report could not have been accomplished without the professional, efficient, and dedicated services of the entire staff of the Auditor's & Public Works Financial Services Divisions. 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,



Dolores Gilmore, County Auditor



David G. Schureman, CPA, Financial Services Manager

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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, 2014

Executive Director/CEO

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KITSAP COUNTY
List of Elected and Appointed Officials
December 31, 2015

Elected Officials

<u>TITLE</u>	<u>INCUMBENT</u>	<u>END OF TERM</u>
<u>Commissioners</u>		
Commissioner, District #1	Robert Gelder	12/31/16
Commissioner, District #2	Charlotte Garrido	12/31/16
Commissioner, District #3	Edward E. Wolfe	12/31/18
 <u>Judges</u>		
Superior Court Judge, #1	Jeanette Dalton	12/31/16
Superior Court Judge, #2	Leila Mills	12/31/16
Superior Court Judge, #3	Melissa A. Hemstreet	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
 District Court Judge, #1	 Claire Bradley	 12/31/18
District Court Judge, #2	Jeffrey J. Jahns	12/31/18
District Court Judge, #3	Marilyn Paja	12/31/18
District Court Judge, #4	Stephen J. Holman	12/31/18
 Assessor	 Phil Cook	 12/31/18
Auditor	Dolores Gilmore	12/31/18
Clerk	Dave Peterson	12/31/18
Coroner	Greg Sandstrom	12/31/18
Prosecuting Attorney	Tina Robinson	12/31/18
Sheriff	Gary Simpson	12/31/18
Treasurer	Meredith Green	12/31/18

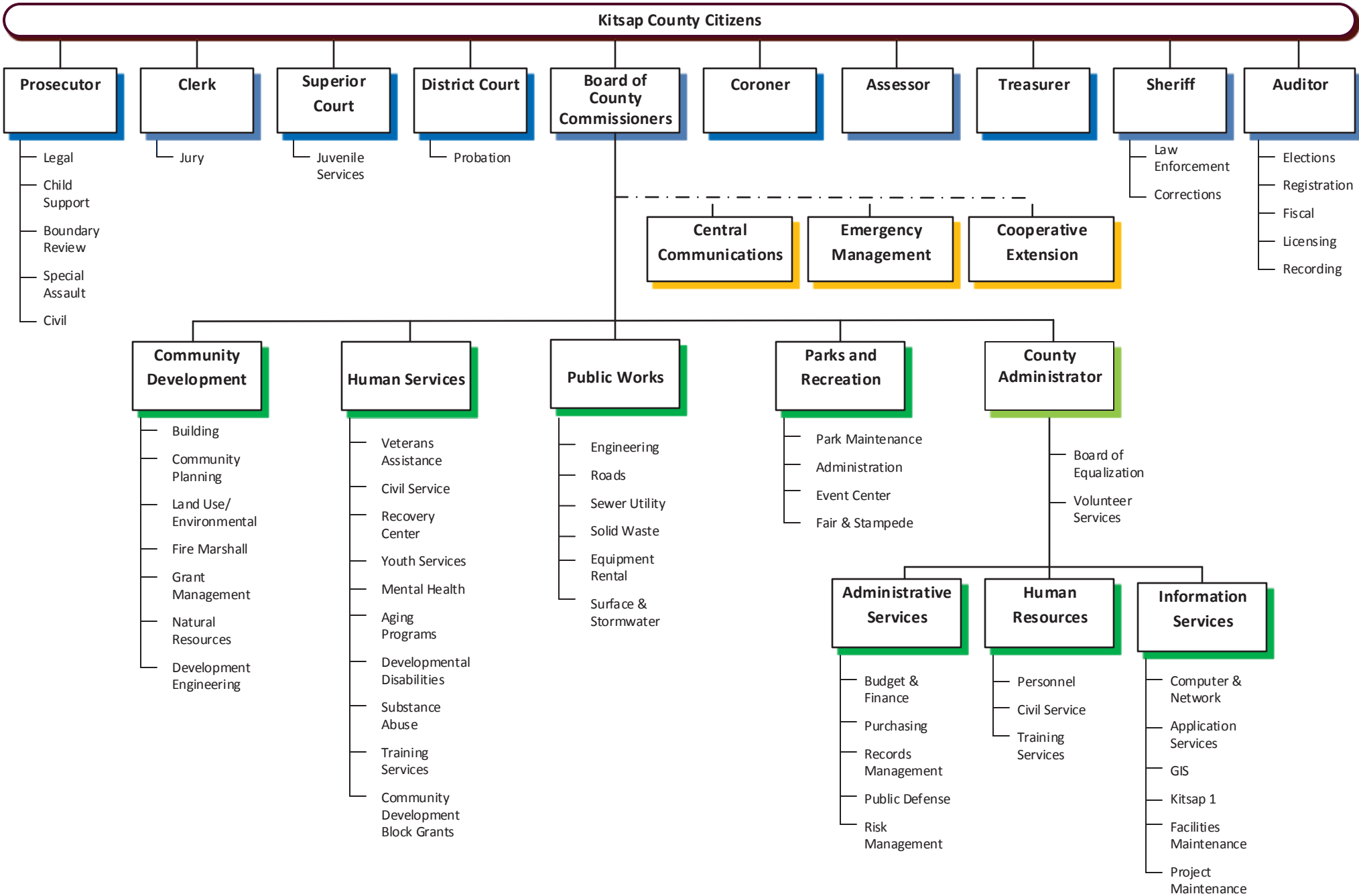
Appointed Officials

<u>TITLE</u>	<u>INCUMBENT</u>
County Administrator	Karen Goon
Director of Administrative Services	Amber D'Amato
Director of Central Communications	Richard Kirton
Director of Community Development	Larry Keeton
Director of Emergency Management	Mike Gordon
Director of Human Resources	Steve McLain
Director of Human Services	Doug Washburn
Director of Information Services & Facilities	Bud Harris
Director of Juvenile Services	Michael Merringer
Director of Parks and Recreation	Jim Dunwiddie
Director of Public Works	Andrew Nelson

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Kitsap County, Washington Functional Organization Chart - 2015



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