



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements and Federal Single Audit  
Report**  
**Kitsap County**

**For the period January 1, 2017 through December 31, 2017**

**Published August 2, 2018**

**Report No. 1021897**





## Office of the Washington State Auditor

**Pat McCarthy**

August 2, 2018

Board of Commissioners  
Kitsap County  
Port Orchard, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on Kitsap County's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the County's financial condition.

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
Schedule of Audit Findings and Responses.....	6
Schedule of Federal Award Findings and Questioned Costs.....	10
Summary Schedule of Prior Audit Findings .....	21
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	22
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance .....	25
Independent Auditor's Report on Financial Statements.....	29
Financial Section.....	33
Corrective Action Plan for Findings Reported Under Uniform Guidance .....	162
About the State Auditor's Office.....	165

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Kitsap County January 1, 2017 through December 31, 2017

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Kitsap County are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

##### Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the County.

#### Federal Awards

##### Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the County's compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs:**

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
12.300	Basic and Applied Scientific Research
20.205	Highway Planning and Construction Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds Cluster
93.558	Temporary Assistance for Needy Families Cluster
97.067	Homeland Security Grant Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The County did not qualify as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

See finding 2017-001.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

See finding 2017-002, 2017-003 and 2017-004.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### Kitsap County

January 1, 2017 through December 31, 2017

**2017-001** The County's internal controls over financial statement preparation were inadequate to ensure accurate and complete reporting.

#### *Background*

County management is responsible for designing, implementing and maintaining internal controls to fairly present financial statements and provide reasonable assurance regarding reliability of financial reporting. The County prepares its financial statements in accordance with generally accepted accounting principles (GAAP) as prescribed by the *Budgeting, Accounting and Reporting System (BARS)* Manual. Our audit identified deficiencies in controls over financial statement reporting that hindered the County's ability to produce reliable financial statements. These deficiencies represent a material weakness. Government Auditing Standards requires the auditor to communicate material weaknesses, defined in the Applicable Laws and Regulations section below, as a finding.

#### *Description of Condition*

We identified the following deficiencies in internal controls over financial reporting which, when taken together, represent a material weakness:

- The County did not have adequate controls to properly classify funding as federal or state grants, or contracted services.
- The County did not properly accrue sales and other taxes and related receivables in compliance with accounting standards.
- Management's review of the financial statements was not adequate to ensure financial statement balances and presentation were accurate, and disclosures were complete.

#### *Cause of Condition*

We identified the following causes:

- Staff responsible for preparing the Schedule of Expenditures of Federal Awards (SEFA) relied on the County's decentralized departments for the correct identification of contracted services, or state or federal grant awards.

Staff did not always have adequate knowledge to correctly identify the type of funding.

- The County misinterpreted the accounting guidance regarding accrual of sales and other taxes.
- The County's review process of the financial statements was not effectively applied throughout the financial statement preparation and the final review.

### *Effect of Condition*

Financial reports cannot be relied upon by County officials, the public, state and federal agencies, and other interested parties, if financial activity is not accurately reported. The above stated deficiencies resulted in the following misstatements and presentation errors on the original financial statements we received for audit:

- Federal grant awards of \$588,948 were added to the fiscal year 2017 SEFA to correct awards previously misclassified as contracted services in 2014, 2015 and 2016
- The General Fund sales and other taxes receivable balances were understated by \$5,746,424 because the County did not recognize the revenues until they were received. Accounting standards require tax revenues to be recognized when earned.
- The County omitted required disclosures for major fund analysis for two funds in the Management's Discussion and Analysis
- The County omitted required disclosures for related organizations and major corrections of prior year misstatements in the Notes to the Financial Statements
- Reported net position and fund balance amounts did not agree between financial statements, Notes to the Financial Statements and supplementary schedules
- The Fiduciary Statement of Net Position incorrectly reported net position rather than liabilities for the Agency funds
- The Fiduciary Statement of Net Position cash and investments balance was understated \$2.5 million because the County did not include three bank accounts

The County corrected the misstatements identified above in its final financial statements.

## ***Recommendations***

We recommend the County:

- Provide training and establish controls to ensure County staff can correctly identify and distinguish contracted service agreements from state or federal grant award agreements.
- Adequately review the financial statements to ensure financial statement balances and presentation are accurate, and disclosures are complete
- Ensure all derived tax revenues are accrued and reported in compliance with governmental accounting standards

## ***County's Response***

*Kitsap County appreciates the thorough review provided by SAO of our 2017 Financial Statements. In response, Kitsap County will take the following corrective action:*

- 1. Kitsap County will offer training and guidance to all employees who administer federal grant programs.*
- 2. Kitsap County will provide more time to review financial statements to ensure a higher level of accuracy. The Auditor's Office will examine and refine its current financial statement preparation process in order to allow for more review time to improve the quality of the county's CAFR.*
- 3. Kitsap County will accrue all taxes, including sales tax, in compliance with governmental standards. The county implemented the accrual of sales taxes for the current year (2017) and plans to implement accrual of other types of taxes and revenues in next year's CAFR (2018), pending further research.*

## ***Auditor's Remarks***

We thank the County for its cooperation and assistance throughout the audit and appreciate the steps the County is taking to resolve these issues. We will review the corrective action taken during our next regular audit.

## ***Applicable Laws and Regulations***

*Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.*



The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 256, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

GASB 33 par 16, 27-28 – Sales taxes are earned by local governments when the underlying sales transaction takes place as this revenue stream qualified as a derived tax revenue

The *Budgeting, Accounting and Reporting Systems (BARS) Manual*, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives

RCW 43.09.200 – Local government accounting – Uniform system of accounting, requires the State auditor to prescribe the system of accounting and reporting for all local governments.

**SCHEDULE OF FEDERAL AWARD FINDINGS AND  
QUESTIONED COSTS**

**Kitsap County  
January 1, 2017 through December 31, 2017**

**2017-002    The County lacked adequate internal controls to ensure compliance with subrecipient monitoring and equipment management requirements.**

<b>CFDA Number and Title:</b>	97.067, Homeland Security Grant Program
<b>Federal Grantor Name:</b>	Federal Emergency Management Agency (FEMA)
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Department of Homeland Security (via the Washington State Military Department)
<b>Pass-through Award/Contract Number:</b>	E17-063
<b>Questioned Cost Amount:</b>	\$0

***Description of Condition***

The purpose of the Homeland Security Grant Program is to support state, local and tribal efforts to prevent terrorism and other catastrophic events and to prepare the United States for the threats and hazards that pose the greatest risk to the nation’s security.

Subrecipient monitoring

The County spent \$332,714 in Homeland Security Grant Program funds, \$122,971 of which was passed through to two subrecipients. Federal regulations require the County to ensure every subaward clearly identifies the federal award and applicable requirements. Further, the County must evaluate the subrecipient’s risk of noncompliance with federal requirements for the purposes of determining the appropriate subrecipient monitoring. Subrecipient monitoring requirements include ensuring compliance with program requirements, ensuring the subrecipient receives an audit when required, following up and ensuring the subrecipient takes timely and appropriate action on all audit findings, and issuing a management decision as required.

The County did not have internal controls in place to ensure it followed the requirements to subaward federal funds. Specifically, it did not issue award documents, such as a contract or interlocal agreement, and pass on the required information about the federal award. Additionally, the County did not perform a risk assessment of its subrecipients and did not perform monitoring as required.

#### Equipment management

Federal regulations require the County to perform a physical inventory of the equipment it purchased with federal funds at least every two years and to reconcile the inventory counts with the County's equipment records. These requirements help to ensure grant funds are used and assets are safeguarded in accordance with federal-program requirements.

Although the County performed an inventory annually, controls were not adequate to ensure all equipment purchased with federal funds were accounted for in the County's inventory records.

We consider these deficiencies in internal controls to be material weaknesses. These issues were not reported as findings in the prior audit.

### ***Cause of Condition***

#### Subrecipient monitoring

Key staff responsible for subrecipient monitoring were not aware of the federal requirements.

#### Equipment inventory

The County recently experienced turnover in staff responsible for maintaining equipment inventory in accordance with federal requirements. Although records of all equipment purchased with federal funds were maintained, there was no process in place to ensure the equipment was either included in the County's annual inventory or subject to some form of physical verification and inspection at least once every two years.

### ***Effect of Condition***

#### Subrecipient monitoring

Key staff responsible for subrecipient monitoring were not aware of the federal requirements.

### Equipment inventory

The County recently experienced turnover in staff responsible for maintaining equipment inventory in accordance with federal requirements. Although records of all equipment purchased with federal funds were maintained, there was no process in place to ensure the equipment was either included in the County's annual inventory or subject to some form of physical verification and inspection at least once every two years.

### ***Recommendations***

#### Subrecipient monitoring

We recommend the County maintain award contracts with all subrecipients of federal funds that include all the required subaward information. We additionally recommend the County perform monitoring activities, including performing a risk assessment of the subrecipient, ensuring subrecipients receive an audit (when necessary) and following up on any findings the subrecipients receive.

#### Equipment management

We recommend the County establish internal controls to ensure a physical verification and inspection of equipment it purchased with federal funds is performed at least every two years as required by federal regulations.

### ***County's Response***

*Kitsap County appreciates the thorough review provided by the Washington State Auditor's Office (SAO) of our 2017 Financial Statements. In response, Kitsap County will take the following corrective action:*

- 1. The Department of Emergency Management (DEM) will complete a physical inventory of all listed assets to identify those purchased with grant funds and will compile a list of grant-purchased assets, by August 31, 2018. The list will include assets that are included on the County's inventory, as well as assets not on the County's inventory that are tracked internally, by the Department.*
- 2. DEM will document its process for subrecipient monitoring, ensuring that it is in compliance with federal requirements. The process will include a system to maintain and organize the records of their sub-recipient monitoring activity. The process will be implemented by early 2019.*

### ***Auditor's Remarks***

We thank the County for its cooperation and assistance throughout the audit and appreciate the steps the County is taking to resolve these issues. We will review the corrective action taken during our next regular audit.

### ***Applicable Laws and Regulations***

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516 Audit findings, establishes reporting requirements for audit findings.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 303 Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 200.331 Requirements for pass-through entities, establishes subrecipient monitoring requirements.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 313 Equipment, outlines federal equipment requirements.

**SCHEDULE OF FEDERAL AWARD FINDINGS AND  
QUESTIONED COSTS**

**Kitsap County  
January 1, 2017 through December 31, 2017**

**2017-003    The County lacked adequate internal controls to ensure compliance with federal cash management requirements.**

<b>CFDA Number and Title:</b>	93.558, Temporary Assistance for Needy Families (TANF) Cluster
<b>Federal Grantor Name:</b>	Department of Health and Human Services
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Washington State Department of Commerce
<b>Pass-through Award/Contract Number:</b>	S17-32710-008 & S18-32710-008
<b>Questioned Cost Amount:</b>	\$0

***Description of Condition***

The objectives of the TANF program are to: provide time-limited assistance to needy families with children so that the children can be cared for in their own homes or in the homes of relatives; end dependence of needy parents on government benefits by promoting job preparation, work and marriage; prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and encourage the formation and maintenance of two-parent families. During fiscal year 2017, Kitsap County spent \$876,388 in TANF funds, most of which were passed through to a subrecipient. Funds spent in this program are subject to cash management requirements. For cash advances, the County must minimize the time between receipt of federal funds from the grantor and disbursement of those funds to vendors or subrecipients.

The County did not disburse federal funds to its subrecipient promptly after it received the funds from the grantor.

We consider this deficiency in internal controls to be a material weakness. This issue was not reported as a finding in the prior audit.

### ***Cause of Condition***

The County did not follow its own procedures or federal regulations to ensure it disbursed federal funds promptly upon receipt. The County claimed reimbursement of grant funds using draft invoices it received from its subrecipient and remitted payment when its subrecipient submitted the final invoice, resulting in a delayed payment.

### ***Effect of Condition***

The County did not reimburse its subrecipient costs totaling \$338,897 from five monthly invoices until eight to 22 business days after the County received the funds from the grantor agency.

### ***Recommendations***

We recommend the County establish and follow internal controls to ensure compliance with cash management requirements. Specifically, the County should:

- Provide staff with adequate training and guidance to ensure compliance with federal program requirements
- Ensure federal funds are disbursed to vendors or subrecipients within seven business days of receipt in compliance with County procedures and federal regulations

### ***County's Response***

*Kitsap County appreciates the thorough review provided by the SAO of our 2017 Financial Statements. In response, Kitsap County will take the following corrective action:*

- 1. Kitsap County Department of Human Services will examine its current processes and implement procedures to ensure that original invoices are received timely in compliance with cash management regulations. The department will work with the vendor to streamline the invoice submission process so that invoices are received in a timely manner.*

### ***Auditor's Remarks***

We thank the County for its cooperation and assistance throughout the audit and appreciate the steps the County is taking to resolve these issues. We will review the corrective action taken during our next regular audit.

### ***Applicable Laws and Regulations***

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516 Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303 Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 CFR Part 200, Uniform Guidance, section 305 Payment, establishes requirements for cash management procedures.



**SCHEDULE OF FEDERAL AWARD FINDINGS AND  
QUESTIONED COSTS**

**Kitsap County  
January 1, 2017 through December 31, 2017**

**2017-004    The County lacked adequate internal controls to ensure compliance with federal procurement and suspension and debarment requirements.**

<b>CFDA Number and Title:</b>	12.300, Basic and Applied Scientific Research
<b>Federal Grantor Name:</b>	Department of Defense
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Department of the Navy
<b>Pass-through Award/Contract Number:</b>	N44255-14-2-0002
<b>Questioned Cost Amount:</b>	\$0

***Description of Condition***

During fiscal years 2014 through 2017, the County spent \$2,972,130 in Basic and Applied Scientific Research grant funds. Grant expenditures from 2014 through 2016 were reported on the 2017 Schedule of Expenditures of Federal Awards (SEFA) because the expenditures were not previously reported on the SEFA for the respective fiscal years. The County and Naval Facilities Engineering Command (NAVFAC) are using grant funds to cooperatively design and construct a new bridge on Northeast West Kingston Road over the Carpenter Creek estuary to replace an existing 5-foot culvert.

The County’s controls were not effective in identifying it needed to comply with the federal procurement and suspension and debarment requirements during the contractor selection and contracting process.

**Procurement**

Federal grant regulations require recipients to follow the more restrictive of state or federal law and maintain documentation to show its rationale for selecting the method it used to procure all professional architecture and engineering services. Federal regulations require grant recipients to select architectural and engineering services using a competitive proposal process to identify the most qualified

competitor, not the lowest bidder. A contract must be negotiated once a firm is selected.

We found the County's controls were not adequate to identify it needed to use a competitive proposal process to award one design and management contract totaling \$628,328.

#### Suspension and debarment

Federal regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. The County must verify that all contractors receiving \$25,000 or more in federal funds have not been suspended or debarred or otherwise excluded.

The County is responsible only for determining the status of the primary contractor. The primary contractor must check the status of any covered transactions it enters into at the next lower subcontractor level; however, the County is responsible for informing the primary contractor of its responsibility.

During the audit period, the County awarded one construction contract, totaling \$2,243,744 that included 23 subcontractors. The County's controls were not adequate to ensure it informed the primary contractor of its responsibility to ensure subcontractors to be paid \$25,000 or more were not suspended or debarred.

We consider these deficiencies in internal controls to be material weaknesses. These issues were not reported as findings in the prior audit.

#### ***Cause of Condition***

During the contractor selection and contracting process, the County did not identify federal funds would be used to fund the project. The County misunderstood its arrangement with the granting agency as a contract for service, rather than a federal grant contract.

#### ***Effect of Condition***

The County did not comply with the federal procurement and suspension and debarment requirements when selecting its architectural and engineering contractor and when negotiating the related contract for services.

#### Procurement

The County cannot demonstrate it contracted with the most qualified firm, including the negotiation of reasonable compensation.

## Suspension and debarment

There is an increased risk of the contractor entering into contracts with subcontractors who are suspended or debarred from receiving federal funds. Payments on contracts to suspended or debarred contractors are unallowable and would be subject to recovery by the funding agency.

## ***Recommendations***

We recommend the County strengthen its internal controls to ensure:

- Responsible staff receive adequate training to correctly identify and distinguish contracted service agreements from state or federal grant award agreements
- Services paid for with federal funds are properly procured and documentation to demonstrate compliance with federal procurement requirements is retained. This includes the rationale for the procurement method, contractor selection or rejection, and the basis for the contract price.
- Primary contractors are informed of their responsibility to check the suspension and debarment status of any covered transactions that they enter into at the next subcontractor level

## ***County's Response***

*Kitsap County appreciates the thorough review provided by SAO of our 2017 Financial Statements. In response, Kitsap County will take the following corrective action:*

- 1. Kitsap County will provide employees adequate training and guidance to ensure compliance with federal program requirements. The county recognizes that departments and offices could benefit from increased training and guidance with respect to grant administration and reporting. In addition to training, grant administration staff will be provided with checklists and other aids to help them remain compliant as they administer county grants.*
- 2. All eContracts will be routed and reviewed by the County Auditor. This corrective action has been implemented. The county's improved eContracts system contains contract templates that include language appropriate to federal grants with respect to suspension and debarment.*

### ***Auditor's Remarks***

We thank the County for its cooperation and assistance throughout the audit and appreciate the steps the County is taking to resolve these issues. We will review the corrective action taken during our next regular audit.

### ***Applicable Laws and Regulations***

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516 Audit findings, establishes reporting requirements for audit findings.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 303 Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 317 through 326 Procurement Standards, establishes internal control and compliance requirements for procurement with federal funds.

Title 32 U.S. Code of Federal Regulations (CFR) Part 33, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, section 36 Procurement, establishes internal control and compliance requirements for procurement with National Defense funds.

Title 2 U.S. Code of Federal Regulations (CFR) Part 180, *OMB Guidelines to Agencies on Government-wide Debarment and Suspension (Non-procurement)*, establishes non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Kitsap County

January 1, 2017 through December 31, 2017

This schedule presents the status of federal findings reported in prior audit periods.

<b>Audit Period:</b> 1/1/2016 – 12/31/2016	<b>Report Ref. No.:</b> 1019584	<b>Finding Ref. No.:</b> 2016-001	<b>CFDA Number(s):</b> 66.458
<b>Federal Program Name and Granting Agency:</b> Capitalization Grants for Clean Water State Revolving Funds – Environmental Protection Agency		<b>Pass-Through Agency Name:</b> Washington Department of Ecology	
<b>Finding Caption:</b> The County did not have adequate internal controls in place to ensure compliance with federal procurement and suspension and debarment requirements.			
<b>Background:</b> <u>Procurement</u> The County awarded two engineering service contracts totaling \$1,115,607 in 2016, and the County was not able to provide documentation to sufficiently demonstrate either contract was awarded to the most qualified firm. <u>Suspension &amp; Debarment</u> The County paid two engineering firms a total of \$1,115,607 in 2016, but was unable to provide sufficient evidence that it verified the firms were not suspended or debarred before entering into the contracts.			
<b>Status of Corrective Action: (check one)</b> <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>We added the extra control of the Auditor’s Office reviewing each contract that comes through the e-contracts process. Not all County contracts go through the e-contract process, so we are continuing to determine the best way to address these contracts.</i>			

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**Kitsap County  
January 1, 2017 through December 31, 2017**

Board of Commissioners  
Kitsap County  
Port Orchard, Washington

We have audited, 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, the 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, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 26, 2018. As discussed in Note 1 to the financial statements, during the year ended January 31, 2017, the County implemented Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying

Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 to be material weaknesses.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of the County's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **COUNTY'S RESPONSE TO FINDINGS**

The County's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control

and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

July 26, 2018



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**Kitsap County**  
**January 1, 2017 through December 31, 2017**

Board of Commissioners  
Kitsap County  
Port Orchard, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of Kitsap County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2017. The County's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the County's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2017-002, 2017-003 and 2017-004. Our opinion on each major federal program is not modified with respect to these matters.

### **County's Response to Findings**

The County's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform

Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2017-002, 2017-003 and 2017-004 to be material weaknesses.

### **County's Response to Findings**

The County's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy  
State Auditor  
Olympia, WA

July 26, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Kitsap County** **January 1, 2017 through December 31, 2017**

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, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 33.

#### **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, as of December 31, 2017, 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 discussed in Note 1 to the financial statements, in 2017, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, in 2017, the County re-classified assets and activity of the Kitsap County Investment Pool from an Agency fund to an Investment Trust fund. This is a material correction of a prior period misstatement. 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 and required supplementary information listed on page 33 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 Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule 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 basic financial statements. The information has been subjected to the 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 basic financial statements or to the basic 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.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2018 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. 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.



Pat McCarthy  
State Auditor  
Olympia, WA

July 26, 2018



## FINANCIAL SECTION

### Kitsap County January 1, 2017 through December 31, 2017

#### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

#### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Activities – 2017

Balance Sheet – Governmental Funds – 2017

Reconciliation of the Balance Sheet of Governmental Funds to the Government Wide  
Statement of Net Position – 2017

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2017

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balances of Governmental Funds to the Government Wide Statement of Activities –  
2017

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and  
Actual – General Fund – 2017

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and  
Actual – County Roads Fund – 2017

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and  
Actual – Real Estate Excise Tax Fund – 2017

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and  
Actual – Mental Health Medicaid Fund – 2017

Statement of Net Position – Proprietary Funds – 2017

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
– 2017

Statement of Cash Flows – Proprietary Funds – 2017

Statement of Fiduciary Net Position – Fiduciary Funds – 2017

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2017

Notes to Financial Statements – 2017

## **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress – (LEOFF) – 2017  
Schedule of Proportionate Share of the Net Pension Liability – PERS 1 – 2017  
Schedule of Proportionate Share of the Net Pension Liability – PERS 2/3 – 2017  
Schedule of Proportionate Share of the Net Pension Liability – PSERS – 2017  
Schedule of Proportionate Share of the Net Pension Liability – LEOFF 1 – 2017  
Schedule of Proportionate Share of the Net Pension Liability – LEOFF 2 – 2017  
Schedule of Employer Contributions – PERS 1 – 2017  
Schedule of Employer Contributions – PERS 2/3 – 2017  
Schedule of Employer Contributions – PSERS 2 – 2017  
Schedule of Employer Contributions – LEOFF 2 – 2017

## **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2017  
Notes to the Schedule of Expenditures of Federal Awards – 2017

# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2017*

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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, 2017. 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 \$596.38 (net position). Of this amount, \$136.17 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased \$35.62 with a \$27.35 increase on the Governmental side and an \$ 8.27 increase on the Business-Type side. The economy continues to improve but over half of the increase on the governmental side was due to the reduction in the pension liability.
- As of the close of the current fiscal year, Kitsap County's governmental funds reported combined ending fund balances of \$126, an increase of \$16.1 from the prior year. Approximately \$25.64 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 \$25.81 or 28 percent of the total general fund expenditures. \$1.22 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 \$8 (10 percent) during the current fiscal year. This represents 2017 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.

## Kitsap County, Washington

### *Management's Discussion and Analysis For the Year Ended December 31, 2017*

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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, 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 35 - 36 of this report.

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

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

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

## Kitsap County, Washington

### *Management's Discussion and Analysis For the Year Ended December 31, 2017*

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Kitsap County maintains ninety-two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, county roads fund, real estate excise tax fund, mental health Medicaid fund and KC LTGO 2013 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 ninety-two 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 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 37 - 48 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 49 - 51 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 52 - 53 of this report.

## Kitsap County, Washington

### *Management's Discussion and Analysis For the Year Ended December 31, 2017*

**Notes to 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 55 - 124 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 137 - 229 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 \$596.39 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 (74 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.

<b>Kitsap County's Net Position</b>						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
<b>Assets:</b>						
Current & other assets	\$ 191.07	\$ 211.36	\$ 75.75	\$ 71.18	\$ 266.82	\$ 282.53
Capital assets	392.92	397.39	142.98	153.55	535.90	550.94
<b>Total assets</b>	<b>583.99</b>	<b>608.74</b>	<b>218.73</b>	<b>224.73</b>	<b>802.72</b>	<b>833.47</b>
Deferred outflows	11.93	7.41	1.47	0.92	13.40	8.32
<b>Liabilities</b>						
Other liabilities	32.10	31.37	6.05	6.53	38.15	37.90
Long-term liabilities	147.27	126.16	73.85	69.16	221.12	195.32
<b>Total liabilities</b>	<b>\$ 179.37</b>	<b>\$ 157.53</b>	<b>\$ 79.90</b>	<b>\$ 75.69</b>	<b>\$ 259.27</b>	<b>\$ 233.22</b>
Deferred inflows	3.48	11.05	0.20	1.14	3.68	12.19
<b>Net position</b>						
Net investment in capital assets	335.51	347.09	85.81	96.67	421.32	443.76
Restricted	11.71	11.93	4.47	4.52	16.18	16.45
Unrestricted	65.85	88.55	49.83	47.61	115.68	136.17
<b>Total net position</b>	<b>\$ 413.07</b>	<b>\$ 447.57</b>	<b>\$ 140.11</b>	<b>\$ 148.81</b>	<b>\$ 553.18</b>	<b>\$ 596.39</b>

An additional portion of Kitsap County's net position (3.0 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance

## Kitsap County, Washington

### *Management's Discussion and Analysis For the Year Ended December 31, 2017*

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of unrestricted net position (\$136) 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 increased by \$35.62 during the current fiscal year. The increase was partially propelled by the reduction in the pension liability for the County. In addition, the economy continued to rebound. We also saw major increases in our proprietary operations.

Refer to the Notes to the Financial Statements (Note 5) for a more in-depth discussion of capital assets.

The government's restricted net position increased slightly from \$16.18 in 2016 to \$16.45 in 2017. This was caused by an overall reduction in outstanding debt. Unrestricted net position jumped to \$136.17 due to the decrease in the net pension payable.

**Governmental activities.** Governmental activities increased the County's net position by \$27.35. The key element of this net change was the decrease in pension liability as it dropped by over \$13.

# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2017*

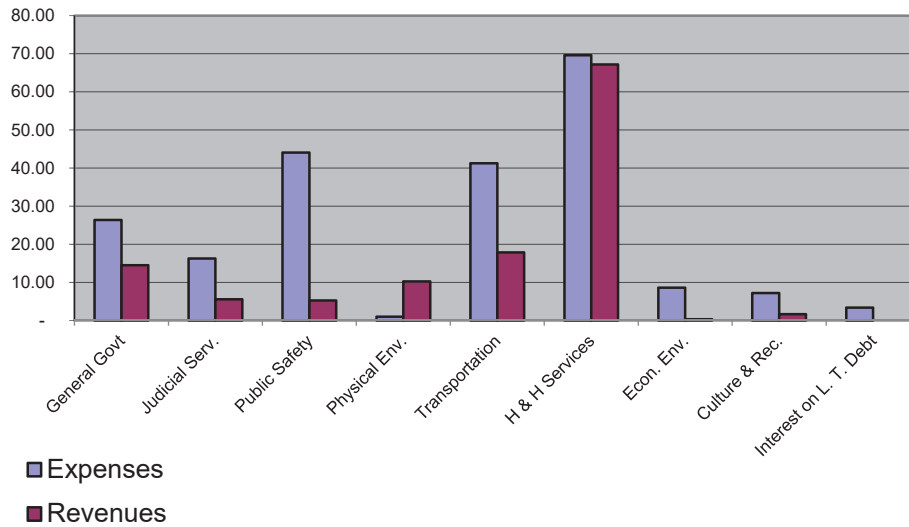
	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 26.48	\$ 25.47	\$ 47.32	\$ 49.00	\$ 73.80	\$ 74.47
Operating grants	87.47	87.78	4.95	4.10	92.42	91.88
Capital grants	7.26	9.42	3.64	1.69	10.90	11.11
General revenues						
Property taxes	60.22	61.72	-	-	60.22	61.72
Sales taxes	39.44	37.38	-	-	39.44	37.38
Other taxes	13.92	12.77	-	-	13.92	12.77
Investment earnings	2.28	2.84	0.50	0.66	2.78	3.50
Other income	4.07	7.34	-	-	4.07	7.34
<b>Total revenues</b>	<b>241.14</b>	<b>244.71</b>	<b>56.41</b>	<b>55.45</b>	<b>297.55</b>	<b>300.15</b>
<b>Expenses</b>						
General government	23.37	26.39	-	-	23.37	26.39
Judicial services	15.76	16.27	-	-	15.76	16.27
Public safety	59.46	44.06	-	-	59.46	44.06
Physical environment	3.75	0.98	-	-	3.75	0.98
Transportation	42.46	41.25	-	-	42.46	41.25
Health & human services	59.97	69.62	-	-	59.97	69.62
Economic environment	7.18	8.61	-	-	7.18	8.61
Culture & recreation	7.40	7.21	-	-	7.40	7.21
Interest on LT debt	3.64	3.36	-	-	3.64	3.36
Utilities	-	-	42.70	46.78	42.70	46.78
<b>Total expenses</b>	<b>222.99</b>	<b>217.75</b>	<b>42.70</b>	<b>46.78</b>	<b>265.69</b>	<b>264.54</b>
Incr (decr) in net position before	18.15	26.95	13.71	8.66	31.86	35.62
Transfers	0.35	0.40	(0.35)	(0.40)	-	-
Special items	(7.73)	-	-	-	(7.73)	-
<b>Incr (decr) in net position</b>	<b>10.77</b>	<b>27.35</b>	<b>13.36</b>	<b>8.27</b>	<b>24.13</b>	<b>35.62</b>
Beginning Net position	402.15	413.07	127.06	140.12	529.21	553.19
Prior period adjustments	0.15	7.15	(0.30)	0.43	(0.15)	7.58
<b>Ending Net position</b>	<b>\$ 413.07</b>	<b>\$ 447.57</b>	<b>\$ 140.12</b>	<b>\$ 148.81</b>	<b>\$ 553.19</b>	<b>\$ 596.38</b>



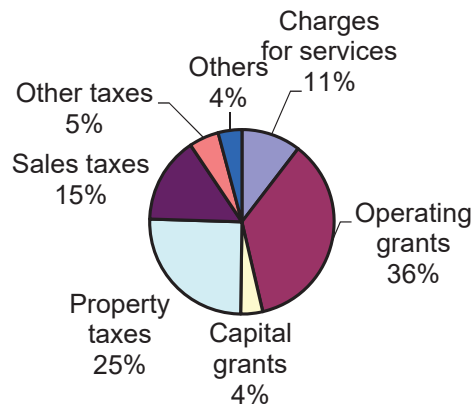
# Kitsap County, Washington

## Management's Discussion and Analysis For the Year Ended December 31, 2017

### Expenses and Program Revenues - Governmental Activities



### Revenues by Source – Governmental Activities



**Business-type activities.** Business-type activities increased the County's net position by \$8.27. The primary elements of this increase were:

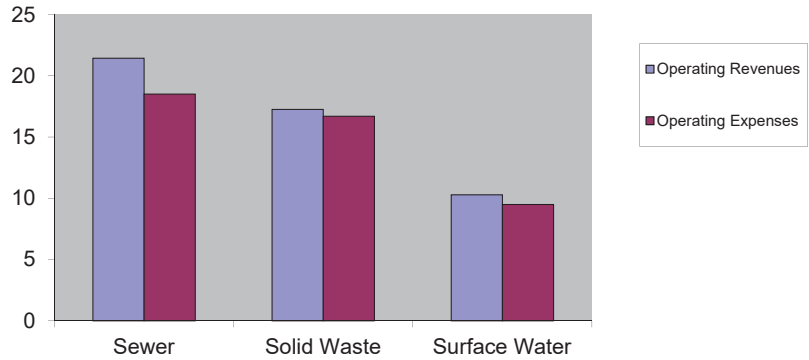
- Profitability of the Sanitary Sewer operation \$5.94

# Kitsap County, Washington

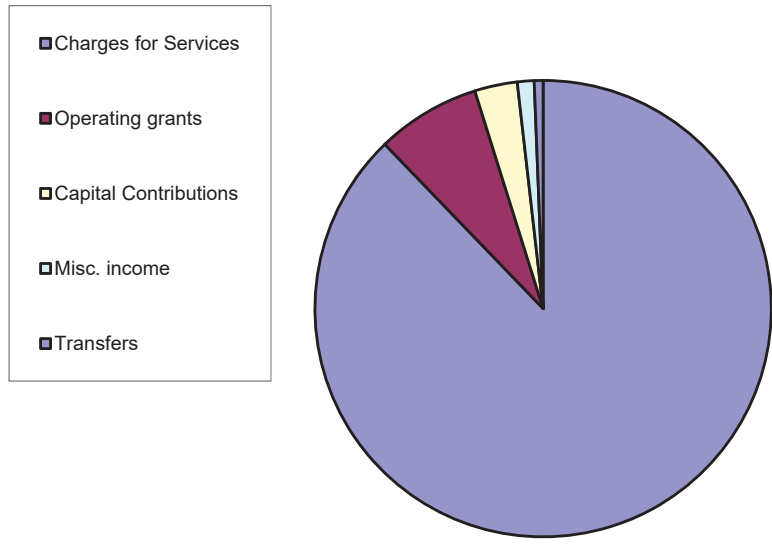
## Management's Discussion and Analysis For the Year Ended December 31, 2017

- Profitability of the Surface Water utility \$.91

### Expenses and Program Revenues – Business-type Activities



### Business –type Activity Revenues



# Kitsap County, Washington

## *Management's Discussion and Analysis For the Year Ended December 31, 2017*

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### **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 \$126, an increase of \$16.10 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 increased to \$25.81, while the total fund balance increased to \$26.28. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 28 percent of the total general fund expenditures.

The key factor to the increase was the continued increase in sales tax. A portion of the increase is attributable to a one-time adjustment (increase) to sales tax revenue as a result of change in accounting method, as described in the Notes to Financial Statements.

County Roads fund balance increased by \$1.77 primarily due to the timing of federal grant revenue collections.

Real Estate Excise Tax fund balance increased from \$7.31 in 2016 to \$12.01 in 2017. The fund does not qualify as a major fund but is included in the category because it is an important economic indicator for the county. Major commercial property sales activity continued to improve in 2017 resulting in an increase Real Estate Excise Tax collected.

Mental Health Medicaid fund had a balance of \$6.56 in 2017 slightly more than the 2016 balance of \$6.25. This reflected increased state funding for the program.

The major debt service fund has a total fund balance of \$1.77, all of which is reserved for the payment of debt service. Fund balance decreased by \$1.39 from \$3.17 in 2016.

**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 \$92.59 in 2017, up \$5.90 from 2016. The increase was due to utility rate increases and timing of major capital projects.

## Kitsap County, Washington

### *Management's Discussion and Analysis For the Year Ended December 31, 2017*

Solid Waste fund's total net position was \$26.64 for 2017, up \$1.88 from 2016. Utility rate increases were the major contributing factor to the increase in net position, as well as a temporary lull in construction activity.

Surface Water fund's total net position was \$29.57 for 2017 up \$.91 from 2016, primarily due to utility rate increases.

#### **General Fund Budgetary Highlights**

Actual general fund revenues exceeded final budgeted revenues by \$.75 during fiscal year 2017. The biggest reasons for this were sales taxes exceeding budget by \$.44 and investment earnings exceeding budget by \$.87.

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.

During the year there was a \$1.67 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 \$94.03, with a total of \$92.63.

#### **Capital Assets**

At the end of fiscal year 2017, Kitsap County's investment in capital assets for its governmental activities was \$829.14 (and \$397.39 net of accumulated depreciation) as reflected in the following schedule, which represents a net increase of \$16.97 or 2 percent from last year. See Note 5 to the financial statements for further details on Capital Assets.

Change in Capital Assets (millions)

	Governmental Activities		Business-type Activities		Total	
	2016	2017	2016	2017	2016	2017
Land	\$ 69.76	\$ 74.75	\$ 3.53	\$ 4.68	\$ 73.29	\$ 79.43
Infrastructure	503.02	527.90	-	-	503.02	527.90
Building	120.99	117.08	56.76	63.96	177.76	181.04
Building Improv	34.42	34.75	104.56	136.44	138.98	171.19
Machinery & Equipment	49.07	50.77	9.65	25.29	58.71	76.05
Construction in progress	34.92	23.89	67.56	30.01	102.48	53.90
Total	812.17	829.14	242.06	260.38	1,054.23	1,089.52
Less: accumulated depreciation	419.25	431.75	99.08	106.83	518.33	538.58
Net capital assets	\$ 392.92	\$ 397.39	\$ 142.98	\$ 153.55	\$ 535.90	\$ 550.96

## Kitsap County, Washington

### *Management's Discussion and Analysis For the Year Ended December 31, 2017*

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 \$24.34;
- The County purchased land for conservation purposes \$5.31;
- Equipment Rental Fleet was updated at a cost of \$3.80.

Business-type activities.

Following are the major activities in this area in 2017:

- Infrastructure continues to make up the majority of construction in progress, with on-going projects at \$13.81.

### **Long-term Liabilities**

At year-end, the County had \$205.25 in long-term liabilities versus \$230.70 last year, a net decrease of \$25.45 and 11 percent.

Long-term liabilities, at Year-End:

	2016	Additions	Reductions	2017
<b>Government activities:</b>				
Capital leases	\$ 0.21	\$ -	\$ 0.10	\$ 0.11
Bonds Payable	80.27	-	8.00	72.27
Compensated absences - Gov	5.31	0.20	-	5.51
Compensated absences - Int Serv	0.45	0.01	-	0.46
Notes Payable	1.88	-	0.09	1.79
Net OPEB Obligation	7.70	0.77	-	8.47
Net Pension Liability - Gov	54.19	-	13.42	40.77
Net Pension Liability - Int Serv	3.92	-	0.44	3.48
Other items	0.24	-	0.05	0.19
Total	\$ 154.17	\$ 0.98	\$ 22.10	\$ 133.04
<b>Enterprise activities:</b>				
Bonds Payable	\$ 58.72	\$ -	\$ 1.83	\$ 56.89
Compensated absences	0.68	-	-	\$ 0.68
Net Pension Liability	7.14	-	1.67	5.47
Other items	10.00	0.12	0.95	9.17
Total	\$ 76.54	\$ 0.12	\$ 4.45	\$ 72.21
Total Debt	\$ 230.71	\$ 1.11	\$ 26.55	\$ 205.24

GASB Statement No. 68, Accounting and Financial Reporting for Pensions continued to impact the County in 2017. The County's net pension liability decreased by over \$15 in 2017.

## Kitsap County, Washington

### *Management's Discussion and Analysis For the Year Ended December 31, 2017*

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The Standard and Poor's Corporation and Moody's Investors Service provided a bond rating of AA+ and Aa2 respectively for Kitsap County's debt as of April 2017.

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 \$394.69 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 5, 8 and 10).

#### **ECONOMIC FACTORS**

The economy of the County is based mostly on government services. The largest employer by far is Kitsap Naval Base with over 33,800 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 1,950, and Washington State Government is third employing over 1,700.

#### **Long-term Financial Planning**

The County has the following capital investments over the next six years:

- \$13.2 million for regional parks, trails and open spaces
- \$11.39 for Solid Waste projects, including an expansion of the existing Solid Waste transfer station and developing a north end household waste collection facility.
- \$16 million for water and sewer improvements.
- A part of the Capital Facilities Plan, the six-year Transportation Plan includes \$70.7 million for roads, bridges, sidewalks, bike lanes and other roadway features.
- \$34 million planned to be spent on various county buildings with \$31.6 million to be spent on the new Courthouse.

#### **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](http://www.kitsapgov.com)

## KITSAP COUNTY, WASHINGTON

Statement of Net Position  
December 31, 2017

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Unit PFD</b>
<b>ASSETS</b>				
Cash and Cash equivalents	\$ 131,364,386	\$ 13,138,717	\$ 144,503,103	257,301
Deposits with fiscal agents	-	-	-	-
Investments	11,088,622	50,219,145	61,307,767	1,395,268
Receivables(net)				
Property taxes	2,017,835	-	2,017,835	-
Sales taxes	6,992,988	-	6,992,988	-
Special assessments	1,622	20,092	21,714	-
Accounts	632,898	3,251,564	3,884,462	-
Others	-	-	-	-
Due from agency agency fund	-	-	-	-
Internal balances	607,147	(607,147)	(0)	-
Due from other governments	11,462,109	191,052	11,653,161	-
Prepayments	338,919	-	338,919	-
Inventories	1,922,439	232,765	2,155,204	-
Restricted assets:				
Cash and cash equivalents	4,432,929	284,449	4,717,378	-
Deposits with fiscal agents	-	-	-	250,000
Investments	3,043,710	4,239,167	7,282,877	-
Notes/Contracts	9,600,563	-	9,600,563	-
Special Assessment Receivable	-	205,414	205,414	-
Long-term Receivable from Comp. Unit	6,405,000	-	6,405,000	-
Long-term Receivable from KCCHA	15,574,307	-	15,574,307	-
Capital assets, net (Note 5)				
Land	74,753,715	4,676,399	79,430,114	-
Infrastructure	191,369,919	-	191,369,919	-
Buildings	70,758,296	21,866,100	92,624,396	-
Improvements & Other Buildings	14,892,274	81,803,663	96,695,937	-
Machinery & Equipment	21,723,107	15,190,564	36,913,671	-
Construction In Progress	23,888,880	30,013,515	53,902,395	-
Net pension asset	5,870,074	-	5,870,074	-
Total assets	<u>608,741,739</u>	<u>224,725,459</u>	<u>833,467,198</u>	<u>1,902,569</u>
<b>DEFERRED OUTFLOWS</b>				
Deferred outflows related to pensions	7,407,449	915,528	8,322,977	-
Total assets and deferred outflows	<u>616,149,188</u>	<u>225,640,987</u>	<u>841,790,175</u>	<u>1,902,569</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	6,884,270	2,746,614	9,630,884	-
Due to agency fund	-	-	-	-
Due to other governments	1,042,563	211,146	1,253,709	-
Other liabilities	12,324,715	322,264	12,646,979	30
Debt interest payable	-	203,700	203,700	-
Unearned revenue	3,987,335	-	3,987,335	-
Non current Liabilities (Note 10):				
Due within one year	7,134,888	3,042,775	10,177,663	595,000
Due in more than one year	81,912,380	63,693,599	145,605,979	5,810,000
Net pension liability	44,245,075	5,468,492	49,713,567	-
Total liabilities	<u>157,531,226</u>	<u>75,688,590</u>	<u>233,219,816</u>	<u>6,405,030</u>
<b>DEFERRED INFLOWS</b>				
Deferred inflows related to pensions	9,258,057	1,144,254	10,402,311	-
Golf course service concession arrangement	1,789,381	-	1,789,381	-
Total deferred inflows	<u>11,047,438</u>	<u>1,144,254</u>	<u>12,191,692</u>	<u>-</u>
Total liabilities and deferred inflows	<u>168,578,664</u>	<u>76,832,844</u>	<u>245,411,508</u>	<u>6,405,030</u>
<b>NET POSITION</b>				
Net investment in capital assets	347,090,497	96,670,494	443,760,991	-
Restricted:				
Capital Projects	3,215,855	-	3,215,855	-
Debt service	8,710,942	4,523,616	13,234,558	-
Unrestricted	88,553,230	47,614,034	136,167,264	(4,502,460)
Total net position	<u>\$ 447,570,524</u>	<u>\$ 148,808,146</u>	<u>\$ 596,378,670</u>	<u>\$ (4,502,460)</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, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government			Public Facility District
						Business-Type Activities	Total		
<b>Primary Government:</b>									
Governmental Activities									
General Government	\$ 26,392,997	\$ 9,289,429	\$ 5,207,488	\$ -	\$ (11,896,080)	\$ -	\$ (11,896,080)	\$ -	
Judicial Services	16,266,977	3,816,613	1,733,271	-	(10,717,093)	-	(10,717,093)	-	
Public Safety	44,064,846	632,650	4,597,401	-	(38,834,794)	-	(38,834,794)	-	
Physical Environment	975,641	7,959,455	2,299,545	-	9,283,359	-	9,283,359	-	
Transportation	41,248,392	2,256,366	6,195,701	9,422,294	(23,374,031)	-	(23,374,031)	-	
Health & Human Services	69,624,086	554,434	66,742,487	-	(2,327,165)	-	(2,327,165)	-	
Economic Environment	8,611,773	-	311,758	-	(8,300,015)	-	(8,300,015)	-	
Culture & Recreation	7,211,547	961,423	689,895	-	(5,560,228)	-	(5,560,228)	-	
Interest on Long-term Debt	3,358,679	-	-	-	(3,358,679)	-	(3,358,679)	-	
<b>Total Governmental</b>	<b>217,754,939</b>	<b>25,470,370</b>	<b>87,777,548</b>	<b>9,422,294</b>	<b>(95,084,727)</b>	<b>0</b>	<b>(95,084,727)</b>	<b>-</b>	
<b>Business-type Activities</b>									
Solid Waste	16,710,182	17,272,014	623,826	-	-	1,185,658	1,185,658	-	
Sewer Utility	20,582,115	21,435,352	3,181,608	1,690,129	-	5,724,974	5,724,974	-	
Surface Water	9,491,333	10,289,061	299,237	-	-	1,096,965	1,096,965	-	
Total business-type activities	46,783,630	48,996,427	4,104,671	1,690,129	-	8,007,597	8,007,597	-	
<b>Total Primary Government</b>	<b>\$ 264,538,569</b>	<b>\$ 74,466,797</b>	<b>\$ 91,882,218</b>	<b>\$ 11,112,423</b>	<b>(95,084,727)</b>	<b>8,007,597</b>	<b>(87,077,130)</b>	<b>-</b>	
<b>Component Units:</b>									
Public Facility District(PFD)	396,412	-	-	-	-	-	-	(396,412)	
<b>General revenues:</b>									
Taxes:									
Property taxes, levied for general purposes					61,716,606	-	61,716,606	-	
Property taxes, levied for debt service					-	-	-	-	
Sales & use taxes					37,377,359	-	37,377,359	1,507,252	
Other taxes					12,765,295	-	12,765,295	-	
Investment earnings					2,843,588	655,173	3,498,761	11,411	
Miscellaneous					7,335,466	-	7,335,466	400	
Transfers					395,182	(395,182)	-	(15,000)	
Total general revenues, special items, and transfers					122,433,496	259,991	122,693,487	1,504,063	
Change in net position					27,348,769	8,267,588	35,616,357	1,107,651	
Net position - beginning					413,069,748	140,115,269	553,185,017	(5,609,159)	
Prior Period Adjustments					7,152,007	425,289	7,577,296	(951)	
Net position - ending					\$ 447,570,524	\$ 148,808,146	\$ 596,378,670	\$ (4,502,460)	

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



# KITSAP COUNTY, WASHINGTON

Balance Sheet  
 Governmental Funds  
 December 31, 2017

	Special Revenue Funds		
	General Fund	County Roads	Real Estate Excise Tax
<b>ASSETS</b>			
Cash and Cash equivalents	\$ 21,683,619	\$ 24,130,679	\$ 10,695,105
Deposits with fiscal agents	-	-	-
Investments	441,113	2,729,592	1,487,241
Receivables(net)			
Property taxes	1,268,005	695,597	-
Sales taxes	5,206,446	-	-
Special assessments	-	1,622	-
Accounts	116,403	449,755	-
Notes/Contracts	-	1,196	3,790,004
Others	-	-	-
Due from other funds	219,416	376,847	-
Due from other governments	1,378,676	5,257,894	-
Interfund loan receivable	-	-	-
Prepayments	193,617	-	-
Advance to other funds	280,000	-	-
<b>Total assets</b>	<b>\$ 30,787,294</b>	<b>\$ 33,643,182</b>	<b>\$ 15,972,350</b>
<b>DEFERRED OUTFLOWS</b>			
Total assets and deferred outflows	<u>\$ 30,787,294</u>	<u>\$ 33,643,182</u>	<u>\$ 15,972,350</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	1,263,104	1,209,170	-
Due to other funds	253,942	626,371	-
Due to other governments	-	-	-
Other liabilities	1,571,077	634,882	-
Advance from other fund	-	-	-
Revenues collected in advance	5,569	400	7,480
Unearned revenues	-	-	3,955,004
Interfund loan payable	128,849	-	-
Other long term liabilities	-	-	-
<b>Total liabilities</b>	<b>3,222,542</b>	<b>2,470,824</b>	<b>3,962,484</b>
<b>DEFERRED INFLOWS (Note 15)</b>	<b>1,284,048</b>	<b>697,219</b>	<b>-</b>
<b>Fund balances</b>			
Nonspendable	473,617	-	-
Restricted	-	-	12,009,866
Committed	-	30,475,139	-
Assigned	-	-	-
Unassigned	25,807,088	-	-
<b>Total fund balance</b>	<b>26,280,705</b>	<b>30,475,139</b>	<b>12,009,866</b>
<b>Total inflows, liabilities &amp; fund balances</b>	<b>\$ 30,787,294</b>	<b>\$ 33,643,182</b>	<b>\$ 15,972,350</b>

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

# KITSAP COUNTY, WASHINGTON

## Balance Sheet

Governmental Funds  
December 31, 2017

	Special Revenue Funds	Debt Service Funds
	Mental Health Medicaid Fund	KCLTGO 2013 Refund
<b>ASSETS</b>		
Cash and Cash equivalents	\$ 6,425,233	\$ 419,455
Deposits with fiscal agents	-	-
Investments	1,448,814	1,105,997
Receivables(net)		
Property taxes	-	-
Sales taxes	-	-
Special assessments	-	-
Accounts	-	-
Notes/Contracts	-	15,574,307
Others	-	-
Due from other funds	-	-
Due from other governments	-	250,000
Interfund loan receivable	-	-
Prepayments	-	-
Advance to other funds	-	-
<b>Total assets</b>	<b>\$ 7,874,047</b>	<b>\$ 17,349,759</b>
<b>DEFERRED OUTFLOWS</b>		
	<b>\$ 7,874,047</b>	<b>\$ 17,349,759</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities</b>		
Accounts payable	960,097	-
Due to other funds	315,362	-
Due to other governments	-	-
Other liabilities	35,745	-
Advance from other fund	-	-
Revenues collected in advance	-	-
Unearned revenues	-	-
Interfund loan payable	-	-
Other long term liabilities	-	-
<b>Total liabilities</b>	<b>1,311,203</b>	<b>-</b>
<b>DEFERRED INFLOWS (Note 15)</b>	<b>-</b>	<b>15,574,307</b>
<b>Fund Balances</b>		
Nonspendable	-	-
Restricted	6,562,843	1,775,452
Committed	-	-
Assigned	-	-
Unassigned	-	-
<b>Total fund balances</b>	<b>6,562,843</b>	<b>1,775,452</b>
<b>Total inflows, liabilities and fund balances</b>	<b>\$ 7,874,047</b>	<b>\$ 17,349,759</b>

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

# KITSAP COUNTY, WASHINGTON

Balance Sheet  
 Governmental Funds  
 December 31, 2017

	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>		
Cash and Cash equivalents	\$ 34,118,202	\$ 97,472,292
Deposits with fiscal agents	-	-
Investments	6,919,575	14,132,332
Receivables(net)		
Property taxes	54,233	2,017,835
Sales taxes	1,786,542	6,992,988
Special assessments	-	1,622
Accounts	53,748	619,906
Notes/Contracts	12,214,364	31,579,871
Others	-	-
Due from other funds	948,288	1,544,552
Due from other governments	3,822,108	10,708,678
Interfund loan receivable	128,849	128,849
Prepayments	-	193,617
Advance to other funds	-	280,000
<b>Total assets</b>	<b>\$ 60,045,910</b>	<b>\$ 165,672,542</b>
<b>DEFERRED OUTFLOWS</b>		
	-	-
	<b>\$ 60,045,910</b>	<b>\$ 165,672,542</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities</b>		
Accounts payable	3,109,200	6,541,571
Due to other funds	304,764	1,500,440
Due to other governments	1,042,563	1,042,563
Other liabilities	491,986	2,733,690
Advance from other fund	280,000	280,000
Revenues collected in advance	13,859	27,309
Unearned revenues	5,022	3,960,026
Interfund loan payable	-	128,849
Other long term liabilities	250,000	250,000
<b>Total liabilities</b>	<b>5,497,395</b>	<b>16,464,448</b>
<b>DEFERRED INFLOWS (Note 15)</b>	<b>5,658,597</b>	<b>23,214,170</b>
<b>Fund Balances</b>		
Nonspendable	6,609,999	7,083,616
Restricted	36,073,845	56,422,007
Committed	6,370,824	36,845,963
Assigned	-	-
Unassigned	(164,751)	25,642,337
<b>Total fund balances</b>	<b>48,889,918</b>	<b>125,993,923</b>
<b>Total inflows, liabilities and fund balances</b>	<b>\$ 60,045,910</b>	<b>\$ 165,672,542</b>

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 GOVERNMENT WIDE STATEMENT OF NET POSITION December 31, 2017

Fund balances of governmental funds - page 39 \$ 125,993,923

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	829,142,666	
Accum Depreciation	(431,756,476)	
Capital assets net of depreciation		397,386,190

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

Capital lease	113,653	
Bond payable	72,275,000	
Compensated absences	5,506,185	
Notes payable	1,789,381	
OPEB Liability	8,467,551	
PWTF Loans	189,013	
Net pension liability	40,765,125	
Other Liabilities	110,467	
Long-term debt		(129,216,375)

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

Taxes/Assessments receivable	2,019,457	
Housing Kitsap receivable	15,574,307	
Loans receivable CDBG and HOME programs	3,814,982	
Net pension asset	5,870,074	

Pension adjustments (1,850,608)

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	41,767,961	
Liabilities	(13,789,388)	

Assets less liabilities 27,978,573

Net position of governmental activities - page 35 \$ 447,570,524

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

# KITSAP COUNTY, WASHINGTON

## Statement of Revenue, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2017

	General Fund	Special Revenue Funds	
		County Roads	Real Estate Excise Tax
<b>REVENUES:</b>			
Property taxes	\$ 34,273,237	\$ 24,895,643	\$ -
Retail sales & use taxes	27,992,311	-	-
Other taxes	5,121,015	49,429	7,591,026
Licenses and permits	151,048	155,220	-
Intergovernmental	9,810,997	15,617,995	-
Charges for services	9,103,172	899,402	-
Fines & forfeits	1,821,161	-	-
Investment earnings	1,750,604	28,483	161,976
Miscellaneous	1,239,130	604,323	-
Total revenues	<u>91,262,676</u>	<u>42,250,496</u>	<u>7,753,002</u>
<b>EXPENDITURES:</b>			
Current:			
General government	27,021,112	-	-
Judicial Services	15,837,719	-	-
Public safety	42,597,307	-	-
Physical Environment	-	-	-
Transportation	-	29,500,527	-
Health & Human Services	-	-	-
Economic Environment	2,085,481	-	-
Culture & recreation	4,849,538	-	-
Debt service			
Principal	-	47,253	-
Interest and other charges	10,817	1,181	-
Capital outlay	413,043	11,178,650	-
Total expenditures	<u>92,815,017</u>	<u>40,727,612</u>	<u>-</u>
Excess(deficiency) of revenues over expenditures	<u>(1,552,341)</u>	<u>1,522,883</u>	<u>7,753,002</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Sale of capital assets	12,654	-	-
Transfers in	3,965,743	-	-
Transfers out	(1,741,619)	(390,367)	(3,053,294)
Total other financing sources & uses	<u>2,236,778</u>	<u>(390,367)</u>	<u>(3,053,294)</u>
Net change in fund balance	<u>684,437</u>	<u>1,132,516</u>	<u>4,699,709</u>
Fund balances-beginning	21,045,324	28,710,024	7,311,656
Prior period adjustments	4,878,472	632,598	(1,499)
Fund balances	<u>\$ 26,608,234</u>	<u>\$ 30,475,139</u>	<u>\$ 12,009,866</u>

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

# KITSAP COUNTY, WASHINGTON

## Statement of Revenue, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2017

	Special Revenue Funds	Debt Service Funds
	Mental Health Medicaid Fund	KCLTGO 2013 Refund
<b>REVENUES:</b>		
Property taxes	\$ -	\$ -
Retail sales & use taxes	-	
Other taxes	-	
Licenses and permits	-	
Intergovernmental	44,775,620	286,995
Charges for services	-	
Fines & forfeits	-	
Investment earnings	15,099	221,169
Miscellaneous	-	
Total revenues	<u>44,790,719</u>	<u>508,164</u>
<b>EXPENDITURES:</b>		
Current:		
General government	-	
Judicial Services	-	
Public safety	-	
Physical Environment	-	-
Transportation	-	
Health & Human Services	43,110,834	
Economic Environment	-	
Culture & recreation	-	
Debt service		
Principal	-	4,155,000
Interest and other charges	-	1,614,925
Capital outlay	-	
Total expenditures	<u>43,110,834</u>	<u>5,769,925</u>
Excess(deficiency) of revenues over expenditures	<u>1,679,885</u>	<u>(5,261,761)</u>
<b>OTHER FINANCING SOURCES (USES):</b>		
Sale of capital assets		
Transfers in	-	3,871,708
Transfers out	(1,367,607)	-
Total other financing sources & uses	<u>(1,367,607)</u>	<u>3,871,708</u>
Net change in fund balance	<u>312,278</u>	<u>(1,390,053)</u>
Fund balances-beginning	6,252,026	3,166,620
Prior period adjustments	(1,460)	(1,115)
Fund balances-ending	<u>\$ 6,562,843</u>	<u>\$ 1,775,452</u>

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

# KITSAP COUNTY, WASHINGTON

## Statement of Revenue, Expenditures, and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2017

	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>		
Property taxes	\$ 2,547,726	\$ 61,716,606
Retail sales & use taxes	9,712,576	37,704,888
Other taxes	3,824	12,765,295
Licenses and permits	5,860,716	6,166,984
Intergovernmental	26,708,235	97,199,841
Charges for services	5,198,715	15,201,289
Fines & forfeits	263,101	2,084,262
Investment earnings	666,257	2,843,588
Miscellaneous	5,490,392	7,333,845
	<u>56,451,542</u>	<u>243,016,599</u>
<b>EXPENDITURES:</b>		
Current:		
General government	2,543,974	29,565,086
Judicial Services	412,633	16,250,352
Public safety	1,876,762	44,474,069
Physical Environment	975,641	975,641
Transportation	91,631	29,592,158
Health & Human Services	25,520,068	68,630,902
Economic Environment	7,468,355	9,553,837
Culture & recreation	1,159,583	6,009,121
Debt service		
Principal	4,720,386	8,922,639
Interest and other charges	1,702,357	3,329,280
Capital outlay	4,513,204	16,104,898
Total expenditures	<u>50,984,595</u>	<u>233,407,982</u>
	<u>5,466,947</u>	<u>9,608,616</u>
<b>OTHER FINANCING SOURCES (USES):</b>		
Sale of capital assets	464,915	477,569
Transfers in	6,456,495	14,293,946
Transfers out	(7,973,240)	(14,526,127)
Total other financing sources & uses	<u>(1,051,830)</u>	<u>245,388</u>
Net change in fund balance	<u>4,415,117</u>	<u>9,854,004</u>
Fund balances-beginning	42,829,791	109,315,441
Prior period adjustments	1,645,010	7,152,007
Fund balances-ending	<u>\$ 48,889,916</u>	<u>\$ 126,321,450</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 GOVERNMENT WIDE STATEMENT OF ACTIVITIES  
 YEAR ENDED DECEMBER 31, 2017

Net change in fund balances-total governmental funds - page 43 \$ 9,526,475

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 outlay	16,104,898
Depreciation	(16,979,568)

Capital Asset Transactions:

Gain (loss) on the sale and disposition of governmental capital assets	(1,618,329)
Transfer of current assets to Kitsap 911	580,842

Pension transactions

Pension adjustments	3,446,356
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items

Bond principal	8,922,639
Capital lease principal	104,584
Recording of Net OPEB Obligation	(767,692)

Revenues in statement of activities that do not provide current financial resources are not reported as revenues in the funds.

(80,756)

Accounts Receivable - Housing Kitsap	295,537
Property taxes receivable	2,017,835
Special Assessments	1,622
Compensated absences	199,685
Employee Union Leave donation	11,463

Internal services Activities

Net Transfers	627,367
Depreciation already included above	2,738,709
Net profit	2,217,102

Change in net position of governmental activities - page 36	\$ 27,348,769
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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, 2017

2017

	Original Budget	Final Budget	Actual	Variance With Final Budget	Budget to GAAP Basis Differences	Actual GAAP Basis
<b>REVENUES:</b>						
Property taxes	\$ 34,375,195	\$ 34,375,195	\$ 34,271,940	\$ (103,255)	\$ 1,298	\$ 34,273,237
Retail sales & use taxes	26,897,248	26,897,248	27,664,783	767,535	-	27,664,783
Other taxes	5,320,399	5,320,399	5,119,324	(201,075)	1,692	5,121,015
Licenses and permits	133,121	133,121	151,048	17,927	-	151,048
Intergovernmental	9,983,838	10,058,897	9,803,164	(255,733)	7,832	9,810,997
Charges for services	9,115,767	9,158,980	9,103,172	(55,808)	-	9,103,172
Fines & forfeits	1,791,053	1,791,053	1,818,549	27,496	2,612	1,821,161
Investment Earnings	873,550	873,550	1,746,007	872,457	4,597	1,750,604
Miscellaneous	825,992	830,055	846,869	16,814	392,261	1,239,130
	<u>89,316,163</u>	<u>89,438,498</u>	<u>90,524,855</u>	<u>1,086,357</u>	<u>410,292</u>	<u>90,935,147</u>
<b>EXPENDITURES:</b>						
Current:						
Administrative Services	\$ 820,043	\$ 820,043	\$ 794,106	\$ 25,937	\$ -	794,106
Assessor	2,461,111	2,461,111	2,407,926	53,185	-	2,407,926
Auditor	1,988,863	1,988,863	1,987,879	984	-	1,987,879
Commissioners	1,630,586	1,650,904	1,604,081	46,823	-	1,604,081
General Administration	4,905,580	5,112,713	6,708,952	(1,596,239)	-	6,708,952
Human resources	1,470,216	1,470,216	1,385,778	84,438	6,758	1,392,536
Prosecuting attorney	9,403,601	9,423,601	9,236,010	187,591	-	9,236,010
Facilities Maintenance	1,846,389	1,846,389	1,792,475	53,914	-	1,792,475
Treasurer	1,132,234	1,134,849	1,097,147	37,702	-	1,097,147
Total general government	<u>25,658,623</u>	<u>\$ 25,908,689</u>	<u>27,014,354</u>	<u>(1,105,665)</u>	<u>6,758</u>	<u>27,021,112</u>
Judicial Services						
Clerk	\$ 3,512,994	\$ 3,617,994	\$ 3,418,100	\$ 199,895	\$ -	3,418,100
District court	2,875,869	2,937,851	2,883,593	54,258	-	2,883,593
Superior court	3,159,433	3,159,433	3,130,743	28,690	-	3,130,743
Juvenile	2,946,191	2,976,191	2,892,931	83,260	-	2,892,931
Public defense	2,833,707	3,574,346	3,512,353	61,993	-	3,512,353
Total Judicial services	<u>15,328,194</u>	<u>16,265,815</u>	<u>15,837,719</u>	<u>428,096</u>	<u>-</u>	<u>15,837,719</u>
Public safety						
Sheriff	\$ 37,174,959	\$ 37,450,591	\$ 36,410,072	\$ 1,040,519	\$ 16,075	36,426,147
Juvenile	5,444,423	5,233,700	4,745,031	488,669	-	4,745,031
Coroner	1,235,933	1,241,261	1,180,682	60,579	-	1,180,682
Human services	250,882	250,882	245,446	5,436	-	245,446
Total Public Safety	<u>44,106,197</u>	<u>44,176,434</u>	<u>42,581,231</u>	<u>1,595,203</u>	<u>16,075</u>	<u>42,597,307</u>
Economic Environment						
Community Development	\$ 2,121,438	\$ 2,123,137	\$ 2,085,481	\$ 37,656	\$ -	\$ 2,085,481
Total Economic Environment	<u>2,121,438</u>	<u>2,123,137</u>	<u>2,085,481</u>	<u>37,656</u>		<u>2,085,481</u>
Culture and Recreation						
Parks	\$ 4,499,425	\$ 4,508,548	4,256,021	\$ 252,527	\$ 153,500	4,409,521
Cooperative Extension	434,192	443,592	440,017	3,575	-	440,017
Total Culture and Recreation	<u>4,933,617</u>	<u>4,952,140</u>	<u>4,696,038</u>	<u>256,102</u>	<u>153,500</u>	<u>4,849,538</u>
Interest and other charges	9,600	9,600	9,541	59	1,276	10,817
Capital outlay	200,000	590,223	413,043	177,180	-	413,043
Total expenditures	<u>92,357,669</u>	<u>94,026,038</u>	<u>92,637,408</u>	<u>1,350,975</u>	<u>177,609</u>	<u>92,815,017</u>
Excess(deficiency) of revenues over expenditures	(3,041,506)	(4,587,540)	(2,112,552)	2,474,988	232,683	(1,879,869)
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	4,367,904	4,174,907	3,965,743	(209,164)	-	3,965,743
Transfers out	(1,326,398)	(1,895,979)	(1,725,700)	170,279	(15,919)	(1,741,619)
Proceeds from Sales of Assets	-	12,654	12,654	-	-	12,654
Total other financing sources & uses	<u>3,041,506</u>	<u>2,291,582</u>	<u>2,252,697</u>	<u>(38,885)</u>	<u>(15,919)</u>	<u>2,236,778</u>
Net change in fund balance	-	(2,295,958)	140,145	2,436,103	216,764	356,909
Fund balances-beginning	20,046,157	20,046,157	20,046,157	-	999,167	21,045,324
Prior period adjustments			4,878,917	4,878,917	(445)	4,878,472
Fund balances-ending	<u>20,046,157</u>	<u>17,750,199</u>	<u>25,065,219</u>	<u>7,315,020</u>	<u>1,215,486</u>	<u>26,280,705</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, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 24,543,347	\$ 24,543,347	\$ 24,895,643	\$ 352,296
Other taxes	50,000	50,000	49,429	(571)
Licenses and permits	160,000	160,000	155,220	(4,780)
Intergovernmental	15,530,920	15,530,920	15,617,995	87,075
Charges for services	584,000	584,000	899,402	315,402
Investment earnings	2,700	2,700	28,483	25,783
Miscellaneous	15,000	15,000	604,323	589,323
Total revenues	<u>40,885,967</u>	<u>40,885,967</u>	<u>42,250,496</u>	<u>1,364,529</u>
<b>EXPENDITURES:</b>				
Current:				
Transportation	30,147,611	30,041,611	29,500,527	541,084
Debt service				
Principal	47,260	47,260	47,253	7
Interest and other charges	1,600	1,600	1,181	419
Capital outlay	<u>19,621,000</u>	<u>19,621,000</u>	<u>11,178,650</u>	<u>8,442,350</u>
Total expenditures	<u>49,817,471</u>	<u>49,711,471</u>	<u>40,727,612</u>	<u>8,983,859</u>
Excess(deficiency) of revenues over expenditures	<u>(8,931,504)</u>	<u>(8,825,504)</u>	<u>1,522,883</u>	<u>10,348,387</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	3,500,000	-	(3,500,000)
Transfers out	-	(3,890,381)	(390,367)	3,500,014
Total other financing sources & uses	-	(390,381)	(390,367)	14
Net change in fund balance	<u>(8,931,504)</u>	<u>(9,215,885)</u>	<u>1,132,516</u>	<u>10,348,401</u>
Fund balances-beginning	28,710,024	28,710,024	28,710,024	-
Prior period adjustments	-	-	632,598	632,598
Fund balances-ending	<u>\$ 19,778,520</u>	<u>\$ 19,494,139</u>	<u>\$ 30,475,139</u>	<u>\$ 10,981,000</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, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Other taxes	\$ 5,795,044	\$ 5,795,044	\$ 7,591,026	1,795,982
Investment earnings	174,433	174,433	161,976	(12,457)
Miscellaneous	146,250	146,250	-	(146,250)
Total revenues	<u>6,115,727</u>	<u>6,115,727</u>	<u>7,753,002</u>	<u>1,637,275</u>
<b>EXPENDITURES:</b>				
Total expenditures	-	-	-	-
Excess(deficiency) of revenues over expenditures	<u>6,115,727</u>	<u>6,115,727</u>	<u>7,753,002</u>	<u>1,637,275</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	-
Transfers out	(3,899,095)	(3,899,095)	(3,053,294)	845,801
Total other financing sources & uses	<u>(3,899,095)</u>	<u>(3,899,095)</u>	<u>(3,053,294)</u>	<u>845,801</u>
Net change in fund balance	<u>2,216,632</u>	<u>2,216,632</u>	<u>4,699,709</u>	<u>2,483,077</u>
Fund balances-beginning	7,311,656	7,311,656	7,311,656	-
Prior period adjustments	-	-	(1,499)	(1,499)
Fund balances-ending	<u>\$ 9,528,288</u>	<u>\$ 9,528,288</u>	<u>\$ 12,009,866</u>	<u>\$ 2,481,578</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, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 44,500,000	\$ 49,500,000	\$ 44,775,620	\$ (4,724,380)
Investment earnings	10,000	10,000	15,099	5,099
Total revenues	44,510,000	49,510,000	44,790,719	(4,719,281)
<b>EXPENDITURES:</b>				
Current:				
Health & Human Services	42,518,800	47,630,090	43,110,834	4,519,256
Total expenditures	42,518,800	47,630,090	43,110,834	4,519,256
Excess(deficiency) of revenues over expenditures	1,991,200	1,879,910	1,679,885	(200,025)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	-
Transfers out	(1,991,200)	(1,879,910)	(1,367,607)	512,303
Total other financing sources & uses	(1,991,200)	(1,879,910)	(1,367,607)	512,303
Net change in fund balance	-	-	312,277	312,277
Fund balances-beginning	6,252,026	6,252,026	6,252,026	-
Prior period adjustments	-	-	(1,460)	(1,460)
Fund balances-ending	\$ 6,252,026	\$ 6,252,026	\$ 6,562,843	\$ 310,817

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

# KITSAP COUNTY, WASHINGTON

## Statement of Net Position Proprietary Funds December 31, 2017

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal Service Funds
<b>ASSETS</b>					
Current assets:					
Cash and Cash equivalents	\$ 8,549,979	\$ 2,807,091	\$ 1,781,647	\$ 13,138,717	\$ 38,325,023
Deposits with fiscal agents	-	-	-	-	-
Investments	22,617,501	24,542,672	3,058,972	50,219,145	-
Receivables(net)					1,769
Special assessments	20,092	-	-	20,092	-
Accounts	2,013,989	1,057,252	180,323	3,251,564	11,223
Due from other funds	112,648	4,680	44,174	161,502	608,774
Due from other governments	-	22,098	168,954	191,052	753,431
Prepayments	-	-	-	-	145,302
Inventories	232,765	-	-	232,765	1,922,439
Restricted assets:					
Cash and cash equivalents	284,449	-	-	284,449	-
Deposits with fiscal agents	-	-	-	-	-
Investments	4,239,167	-	-	4,239,167	-
Total current assets	<u>38,070,590</u>	<u>28,433,793</u>	<u>5,234,070</u>	<u>71,738,453</u>	<u>41,767,961</u>
Noncurrent assets					
Special Assessment Receivable	205,414			205,414	-
Capital assets					
Land	1,563,386	472,444	2,640,569	4,676,399	-
Buildings	62,922,291	802,991	239,211	63,964,493	-
Improvements & Other Buildings	106,701,777	1,175,134	28,561,643	136,438,554	2,725,773
Machinery & Equipments	24,951,630	96,282	241,087	25,288,999	37,686,537
Construction In Progress	26,568,927	101,994	3,342,594	30,013,515	94,491
Less accumulated depreciation	(97,314,020)	(1,455,107)	(8,062,592)	(106,831,719)	(21,300,042)
Total noncurrent assets	<u>125,599,406</u>	<u>1,193,738</u>	<u>26,962,512</u>	<u>153,755,656</u>	<u>19,206,759</u>
Total assets	<u>\$ 163,669,996</u>	<u>\$ 29,627,531</u>	<u>\$ 32,196,582</u>	<u>\$ 225,494,109</u>	<u>\$ 60,974,720</u>
<b>DEFERRED OUTFLOWS</b>					
Deferred Outflows Related to Pensions	499,379	166,460	249,689	915,528	582,609
Total assets and deferred outflows	<u>\$ 164,169,375</u>	<u>\$ 29,793,991</u>	<u>\$ 32,446,271</u>	<u>\$ 226,409,637</u>	<u>\$ 61,557,329</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accrued expenses	1,486,932	935,913	323,769	2,746,614	342,699
Due to other funds	321,574	123,736	323,339	768,649	44,345
Due to other governments	6,878	42,255	162,013	211,146	-
Other liabilities	170,530	56,515	95,219	322,264	9,465,908
Debt interest payable	203,700	-	-	203,700	-
Current portion of long term liabilities	2,975,339	51,020	16,416	3,042,775	45,649
Total current liabilities	<u>5,164,953</u>	<u>1,209,439</u>	<u>920,756</u>	<u>7,295,148</u>	<u>9,898,601</u>
Noncurrent Liabilities					
Net Pension Liability	2,982,814	994,271	1,491,407	5,468,492	3,479,950
Due in more than one year	62,808,355	737,496	147,748	63,693,599	410,837
Total noncurrent liabilities	<u>65,791,169</u>	<u>1,731,767</u>	<u>1,639,155</u>	<u>69,162,091</u>	<u>3,890,787</u>
Total liabilities	<u>\$ 70,956,122</u>	<u>\$ 2,941,206</u>	<u>\$ 2,559,911</u>	<u>\$ 76,457,239</u>	<u>\$ 13,789,388</u>
<b>DEFERRED INFLOWS</b>					
Deferred Inflows Related to Pensions	624,139	208,046	312,069	1,144,254	728,162
Total liabilities and deferred inflows	<u>\$ 71,580,261</u>	<u>\$ 3,149,252</u>	<u>\$ 2,871,980</u>	<u>\$ 77,601,493</u>	<u>\$ 14,517,550</u>
<b>NET POSITION</b>					
Net investment in capital assets	68,514,244	1,193,738	26,962,512	96,670,494	19,206,759
Restricted:					
Debt service	4,523,616	-	-	4,523,616	-
Unrestricted	19,551,254	25,451,001	2,611,779	47,614,034	27,833,020
Total net position	<u>\$ 92,589,114</u>	<u>\$ 26,644,739</u>	<u>\$ 29,574,291</u>	<u>\$ 148,808,146</u>	<u>\$ 47,039,779</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, 2017

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal Service Funds
<b>Operating revenues:</b>					
Charges for services	\$ 21,403,488	\$ 17,264,879	\$ 10,279,913	\$ 48,948,280	\$ 42,187,745
Miscellaneous	31,864	7,135	9,148	48,147	299,187
Total operating revenues	21,435,352	17,272,014	10,289,061	48,996,427	42,486,932
<b>Operating expenses:</b>					
Personal services	5,981,877	2,234,313	3,314,792	11,530,982	8,730,854
Contractual services	992,032	1,938,894	2,608,029	5,538,955	19,570,293
Utilities	1,625,114	11,591,978	98,523	13,315,615	23,058
Repair and maintenance	325,265	59,553	290,514	675,332	1,352,264
Other supplies and expenses	2,359,872	797,163	1,689,827	4,846,862	8,022,320
Insurance claims and expenses	29,165	17,770	88,848	135,783	1,036,733
Depreciation	7,204,046	70,511	1,400,800	8,675,357	2,738,709
Total operating expenses	18,517,371	16,710,182	9,491,333	44,718,886	41,474,231
Operating income	2,917,981	561,832	797,728	4,277,541	1,012,701
<b>Nonoperating revenue (expenses)</b>					
Interest and investment revenue	377,259	236,101	41,813	655,173	-
Miscellaneous revenue	3,181,608	623,826	299,237	4,104,671	53,481
Interest expense	(2,064,744)	-	-	(2,064,744)	-
Miscellaneous expense	-	-	-	-	-
Total nonoperating expenses	1,494,123	859,927	341,050	2,695,100	53,481
Income (loss) before contributions & transfers	4,412,104	1,421,759	1,138,778	6,972,641	1,066,182
Capital contributions	1,690,129	-	-	1,690,129	523,553
Transfers in	-	-	-	-	648,290
Transfers out	(159,524)	(8,886)	(226,772)	(395,182)	(20,923)
Change in net position	5,942,709	1,412,873	912,006	8,267,588	2,217,102
Total net position - beginning	86,687,089	24,764,827	28,663,351	140,115,267	44,822,677
Prior period adjustment	(40,684)	467,039	(1,066)	425,289	-
Prior period adjustment related to pensions	-	-	-	-	-
Total net position - ending	\$ 92,589,114	\$ 26,644,739	\$ 29,574,290	\$ 148,808,146	\$ 47,039,779

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, 2017

	Sanitary Sewer	Solid Waste	Surface Water Utility	Total	Governmental Activities Internal service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 21,903,401	\$ 17,825,580	\$ 10,285,977	\$ 50,014,958	\$ 42,616,374
Payments to suppliers	(5,002,473)	(14,310,768)	(5,032,579)	(24,345,820)	(31,169,625)
Payments to employees	(6,114,104)	(2,232,502)	(3,346,998)	(11,693,604)	(8,314,560)
Net cash provided by operating activities	\$ 10,786,824	\$ 1,282,310	\$ 1,906,400	\$ 13,975,534	\$ 3,132,189
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Operating grants received	\$ 3,270,731	\$ 94,114	\$ 1,726,712	\$ 5,091,557	\$ -
Transfers in	-	-	-	-	648,290
Transfers out	(159,524)	(8,886)	(226,772)	(395,182)	(20,923)
Net cash provided by noncapital activities	\$ 3,111,207	\$ 85,228	\$ 1,499,940	\$ 4,696,375	\$ 627,367
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Capital contributions	\$ 1,690,129	\$ -	\$ -	\$ 1,690,129	\$ -
Proceeds from sales of capital assets	160,000	1,221,918	-	1,381,918	53,481
Purchases of capital assets	(18,887,815)	(35,231)	(977,191)	(19,900,237)	(3,314,474)
Principal paid on capital debt	(2,607,065)	-	-	(2,607,065)	-
Interest paid on capital debt	(1,923,017)	-	-	(1,923,017)	-
Net cash from related financing activities	\$ (21,567,768)	\$ 1,186,687	\$ (977,191)	\$ (21,358,272)	\$ (3,260,993)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of invest	\$ 14,500,000	\$ 650,000	\$ 1,000,000	\$ 16,150,000	\$ -
Purchase of investment	(1,396,701)	(2,234,888)	(3,014,465)	(6,646,054)	-
Interest and dividends	352,492	234,888	43,510	630,890	-
Net cash provided by investing activities	13,455,791	(1,350,000)	(1,970,955)	10,134,836	-
Net increase (decrease) in cash and cas	5,786,054	1,204,225	458,194	7,448,473	498,563
Balances - beginning of the year	3,048,374	1,602,866	1,323,453	5,974,693	37,826,460
Balances - end of the year	\$ 8,834,428	\$ 2,807,091	\$ 1,781,647	\$ 13,423,166	\$ 38,325,023
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 2,917,981	\$ 561,832	797,728	\$ 4,277,541	1,012,701
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	7,204,046	70,511	1,400,800	8,675,357	2,738,709
Change in assets and liabilities:					
Receivables, net	127,218	551,056	9,342	687,616	630,512
Due from other funds	340,831	2,510	(12,426)	330,915	44,708
Due from other governments	-	-	-	-	(535,669)
Prepayments	-	-	-	-	(10,109)
Inventories	3,147	-	-	3,147	(134,228)
Deferred inflows	516,414	172,138	258,207	946,759	620,437
Accounts and other payables	15,720	19,815	(121,705)	(86,170)	(212,703)
Due to other funds	276,378	(49,490)	(309,982)	(83,094)	(168,806)
Due to other governments	(3,484)	4,164	162,013	162,693	9,843
Accrued expenses	37,214	120,101	12,836	170,151	(659,063)
Deferred outflows	305,243	101,748	152,621	559,612	222,013
Net pension liability	(934,800)	(296,069)	(444,104)	(1,674,973)	(437,664)
Employee benefits	(19,084)	23,994	1,070	5,980	11,508
Net cash provided by operating activities	\$ 10,786,824	\$ 1,282,310	\$ 1,906,400	\$ 13,975,534	\$ 3,132,189
<b>Noncash investing, capital and financing activities</b>					
Contribution of capital assets	588,151			588,151	523,553

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

# KITSAP COUNTY, WASHINGTON

## Statement of Fiduciary Net Position December 31, 2017

	Investment Trust Funds	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>			
Cash & Pooled Investments	\$ 540,081,370	\$ 2,928,075	\$ 27,154
Cash and Investments in Trust	-	-	-
Investments	-	-	36,245,656
Taxes Receivable	-	-	-
Other Current Receivables	-	-	-
Due From Other Funds	-	-	-
Due From Other Governments	-	-	-
<b>Total Assets</b>	<b>\$ 540,081,370</b>	<b>\$ 2,928,075</b>	<b>\$ 36,272,810</b>
<b>LIABILITIES</b>			
Warrants Payable	\$ -	\$ -	\$ -
Accounts Payable	-	-	-
Due to Other Governments	-	-	-
Interfund loans	-	-	-
Custodial Account	-	-	36,272,810
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 36,272,810</b>
<b>NET POSITION</b>			
Investments Held in Trust for Pool Participants	540,081,370	-	-
Investments Held in Trust for Other Purposes	-	2,928,075	-
<b>Total Net Position</b>	<b>\$ 540,081,370</b>	<b>\$ 2,928,075</b>	<b>\$ -</b>

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



# KITSAP COUNTY, WASHINGTON

## Statement of Changes in Fiduciary Net Position For the Year Ended December 31, 2017

	Investment Trust Funds	Private Purpose Trust Funds
<b>ADDITIONS:</b>		
Contributions:		
Additions By Participants	\$ 1,050,514,663	\$ 12,763,632
Trust Revenues	-	-
Total Contributions	<u>1,050,514,663</u>	<u>\$ 12,763,632</u>
Investment Income:		
Net Increase (Decrease) in Fair Value of Investments	(22,178)	-
Interest, Dividends and Other	4,634,094	290
Total Investment Income	<u>4,611,916</u>	<u>290</u>
Total Additions	<u>\$ 1,055,126,579</u>	<u>\$ 12,763,922</u>
<b>DEDUCTIONS:</b>		
Distributions to Participants	1,038,245,241	12,513,132
Trust Administrative Costs	-	315
Total Deductions	<u>\$ 1,038,245,241</u>	<u>\$ 12,513,447</u>
Change in Net Position Held for Individuals, Organizations and Other Governments	\$ 16,881,338	250,475
Net Position as of January 1, 2017 - restated	\$ 523,200,032	\$ 2,677,600
Net Position as of December 31, 2017	<u>\$ 540,081,370</u>	<u>\$ 2,928,075</u>

See accompanying notes to financial statements

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Kitsap County 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 was incorporated on January 16, 1857 and operates under the laws of the state of Washington applicable to a municipal corporation. The County is governed under the commissioner form of government. 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 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.

The accompanying financial statements present the government and entities for which the government is considered to be financially accountable. 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 Kitsap 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 (IDC) 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

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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to make payments sufficient to pay the purchase price of bonds tendered or deemed tendered for purchase to the extent that other moneys are not available. The corporation did not have any activity during the current year, therefore there is nothing to report.

## B. Basis of Presentation - 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 the nonfiduciary activities of the primary government and its component units. 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 specific function or segment. Internally dedicated resources are reported as general revenues rather than program revenues. Taxes and other items not properly included among program revenues are reported instead as general revenues.

As a general rule the effect of interfund activity has been eliminated for the government-wide financial statements. Interfund services provided and used are not eliminated in the process of consolidation.

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.

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.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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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 County reports the following major enterprise 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.

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 administers the County's self-funded employee welfare plan;

Self Insurance fund is responsible for the County's general liability, property, crime/dishonesty, workers compensation and unemployment insurance policies and programs;

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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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 are used to report assets held in a trustee or agency capacity for others:

*Investment Trust Funds* are used to account for external portion of the Kitsap County Investment Pool ("KCIP"), an external investment pool sponsored by the county. Cash and investments held for entities that are not part of the county are reported in these funds. The entities participating in the external investment pool 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.

*Agency Funds* are used to report cash and investments held by the county in a custodial capacity for other governmental entities. The assets are received, may be temporarily invested, and remitted to individuals, private organizations or other governments.

*Private Purpose Trust funds* are used to record amounts deposited with the County Clerk through Superior Court trust arrangements. In addition, these funds are used to record fees collected and held by the Jail on behalf of inmates.

## C. Measurement Focus, Basis of Accounting

### 1. Government-Wide and Governmental Funds

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the proprietary fund and fiduciary 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 available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The County considers property taxes as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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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 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.

## 2. Proprietary Funds

The proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 collection fees for solid waste and use charges for sewer and surface water.

Operating expenses for proprietary 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.

## D. Accounting and Reporting Changes

1. The county implemented the provisions of Governmental Accounting Standards Board (GASB) Statement 72, *Fair Value Measurement and Application* and Statement No. 77, *Tax Abatement Disclosures*, in 2017.

GASB Statement No. 72, Fair Value Measurement and Application. This statement provides guidance for valuing investments at fair value for financial reporting purposes. With the exception of certain bank deposits and investments held in the Local Government Investment Pool (LGIP), investments previously stated at amortized cost are now required to be stated at fair value.

In 2017, beginning investment balances for all investments held by the county were restated by (\$707,304) to adjust from amortized cost to fair value, of which the adjustment to county funds was (\$79,707). See Note 2, *Deposits and Investments* and Note 21, *Other Note Disclosures*, section B.5. for more information about deposits and investments.

GASB Statement No. 77, Tax Abatement Disclosures. This statement requires governments to disclose information about limitations on their ability to raise resources as a result of tax abatement agreements with individuals and entities. The disclosure applies to tax abatement arrangements entered into by the primary government and agreements entered into by state and other local governments

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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that impact the primary government's tax revenues. For more information about tax abatements, see Note 4, *Tax Abatements*.

2. Fiduciary funds – Investment Trust Funds, Private Purpose Trust Funds not previously reported.

The county maintains fiduciary funds for various separate legal entities. In prior years, the activity associated with Agency Funds was reported in the financial statements, but Investment Trust Funds activity was omitted.

The county reported Private Purpose Trust Funds in the Fiduciary Fund statements in prior years but did not include all bank account activity that qualified as Private Purpose Trust Funds activity.

In 2017, all Private Purpose Trust Fund activity and Investment Trust Fund activity has been reported in the financial statements. For more information, see Fiduciary Fund statements on pages 52 and 53.

## E. Budgetary Information

### 1. Scope of Budget

Annual appropriated budgets are adopted for all governmental funds of the County on the modified accrual basis of accounting. 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 reappropriated and honored during the subsequent year

Budgets were not adopted for the following funds in 2017 because no expenditures were anticipated:

123 Electronic Technology Excise Fund  
137 Real Property Fund  
148 GMA Transportation Impact Fee, Central Kitsap Fund

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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157 Bucklin Ridge Park Development Fund  
158 Clear Creek Ed/Awareness Fund  
161 Regional Septic Loan Program Fund  
165 Kitsap County Grants Fund  
169 Long Lake Management District #3 Fund  
170 Indianola Forest Fund  
173 Service Area 1 Road Impact Fee Fund  
174 Service Area 2 Road Impact Fee Fund  
175 Service Area 3 Road Impact Fee Fund  
176 Service Area 4 Road Impact Fee Fund  
177 Regional Service Area Roads Fund  
178 McCormick Village Traffic Impact Fee Fund  
180 McCormick Village Park Impact Fee Fund  
195 ARRA EECBG Fund

## 2. Amending the Budget

The Director of Administrative Services is authorized to transfer budgeted amounts within any fund/object class within departments at the request of the department head or elected official; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Board of County Commissioners.

When the Board of County Commissioners determines that it is in the best interest of the county to increase or decrease the appropriation for an individual fund, department, or object class, it may do so by resolution approved by one more than the majority after holding a public hearing.

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

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 reserves, 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 of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual* includes information about budget to actual basis differences which arose due to inclusion of non-qualifying special revenue funds. Thirteen special revenue



# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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funds did not meet the GASB 54 classification criteria and are included on the statement. See *Note 1.E.13, Fund Balance Classification*, for further details.

3. Excess of expenditures over appropriations

For the year ended December 31, 2017 expenditures did not exceed appropriations in any of the general fund departments.

4. Deficit Balance

At December 31, 2017, the following funds reported deficits in their fund balances, which is a violation of state statute:

Fund	Deficit
00106 Kitsap Preparedness	\$42,401
00144 Public Defense	\$122,350
00515 Elections Fund	\$47,940

The county took the following action to eliminate the deficits in the funds:

- The deficit fund balances in Kitsap Preparedness fund is temporary and is expected to be reversed in 2018.
- Public Defense Funding fund will be closed effective January 2018 and the county's public defense activity will be consolidated into an existing general fund business unit used to account for other county Public Defense activity.
- The Elections Fund is an internal service fund. The deficit balance in this fund indicates this operation has not been reimbursed for all costs of services to the county. Rates will be studied and adjusted as needed to eliminate this deficit.

F. Assets, Liabilities and Equity

1. Cash and Cash Equivalents

It is the County's policy to invest all temporary cash surpluses. At December 31, 2017, the treasurer was holding \$204.1 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.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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## 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 2, Deposits and Investments*).

## 3. Receivables

Taxes receivable consists of property taxes and related interest and penalties (see *Note 3, Property Taxes*). 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, 2017, 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 12, Interfund Balances and Transfers*.

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

## 5. Inventories and Prepaid Items

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.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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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 signed 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 County. Prepaid rent is being expensed annually over the life of the lease.

## 6. Restricted Assets and Liabilities

The restricted assets of the enterprise funds consist of cash and investment balances of \$4,523,616, restricted for debt service. Specific debt service reserve requirements are described in *Note 8, Long Term Debt*.

## 7. Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the county as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than one year. Infrastructure assets are assets with an initial individual cost of \$25,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the county during the current fiscal year is \$2,402,372. Of this amount, \$337,629 was included as part of the cost of capital assets under construction relating to sewer construction projects.

Property, plant and equipment of the county is depreciated using the straight-line method over the following estimated useful lives:

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2017

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Assets	Years
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, retirement or death.

## 9. 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 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 6, Pension Plans* for more information about pensions.

## 10. Other Accrued Liabilities

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

## 11. Long Term Debt

The County has 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. The promissory note was amended during 2017. See *Note 13, Receivables and Payables* for more information about the debt related to the golf course purchase. For more information about the County's long-term debt, see *Note 8, Long Term Debt*.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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## 12. Unearned Revenues

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

## 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 45).

- Nonspendable Fund Balance consists of amounts that cannot be spent because the related assets are not in spendable form or must be maintained intact. Resources such as advances and prepaid amounts in the general fund and the long-term portion of notes receivable in a debt service fund are classified as nonspendable.
- 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 consists of 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, 12/19/2011), the Board of County Commissioners identified committed fund balances. Action by the Board of County Commissioners is required to modify or rescind fund balance commitments.
- 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 2017.
- 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.

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.

## Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

### 14. Composition of General Fund's Fund Balance

In 2017, thirteen funds did not meet the meet the special revenue fund definition and their fund balances are 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, 2017:

	Unassigned Fund Balance	Total Fund Balance
General Fund ( <i>prior to inclusion of non-qualifying special revenue funds</i> )	\$24,591,600	\$25,065,217
<b>Non-qualifying Special Revenue Funds</b>		
108 - Human Resources Board	81,389	81,389
119 - Special Purpose Path	74,203	74,203
134 - 1% for Art Program	16,437	16,437
137 - Real Property Fund	36,441	36,441
140 - Drug Forfeiture Enforcement	29,637	29,637
151 - Wetland Mitigation Bank	2,435	2,435
157 - Bucklin Ridge Park	1,217	1,217
158 - Clear Creek Education/Awareness	2	2
165 - Kitsap County Grants	54	54
170 - Indianola Forest	270,644	270,644
172 - KC Forest Stewardship	142,584	142,584
178 - McCormick Village Traffic Impact	394,901	394,901
180 - McCormick Village Park Impact	165,544	165,544
General Fund ( <i>after inclusion of non-qualifying special revenue funds</i> )	\$25,807,088	\$26,280,705

### 15. Governmental Fund Balances Detail

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, 2017, nonspendable fund balance was \$7.08 million, restricted fund balance totaled \$56.64 million, committed fund balance was \$36.85 million and unassigned fund balance was \$25.64 million. The county had no assigned fund balance in 2017.

Detail of governmental fund balances as of December 31, 2017, is presented in the table below:

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2017

Description	Major Governmental Funds			Nonmajor Governmental Funds
	General Fund	Special Revenue Funds	Debt Service Funds	
<b>Nonspendable:</b>				
Petty cash, change funds				
Advances	\$280,000	-	-	-
Prepaid Items	193,617	-	-	-
Note Receivable				\$6,609,999
<b>Total Nonspendable Fund Balance</b>	<b>\$473,617</b>	<b>-</b>	<b>-</b>	<b>\$6,609,999</b>
<b>Restricted for:</b>				
Boating Safety Program	-	-	-	\$169,212
Community Projects	-	-	-	3,409
County Stadium	-	-	-	606,959
Court Services	-	-	-	213,186
Disability Services	-	-	-	1,106,575
Document Preservation	-	-	-	334,368
Drug Dependency Treatment	-	-	-	1,327,037
Drug Enforcement	-	-	-	897,279
Elections Services	-	-	-	207,696
Electronic Technology	-	-	-	357,537
Environmental Protection	-	-	-	2,728,099
Housing Programs	-	-	-	3,078,076
Jail Services	-	-	-	3,226,556
Jobs Training	-	-	-	104,634
Law Library	-	-	-	142,091
Mental Health Services	-	6,562,843	-	12,799,887
Noxious Weed Control	-	-	-	240,447
Parks & Conservation	-	-	-	2,256,816
Real Estate Excise Tax	-	12,009,866	-	-
Special Investigations	-	-	-	55,218
Treasurer Services	-	-	-	1,500,854
Youth Services	-	-	-	54,669
Various Grants	-	-	-	8,658
Veterans Relief & Human Services	-	-	-	1,113,243
Capital Projects	-	-	-	3,215,854
Debt Service	-	-	1,775,452	325,485
<b>Total Restricted Fund Balance</b>	<b>-</b>	<b>\$18,572,710</b>	<b>\$1,775,452</b>	<b>\$36,296,461</b>

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2017

Description	Major Governmental Funds			Nonmajor Governmental Funds
	General Fund	Special Revenue Funds	Debt Service Funds	
<b>Committed for:</b>				
Commuter Reduction	-	-	-	158,768
County Fair Operations	-	-	-	168,171
County Parks	-	-	-	436,051
Crime Prevention	-	-	-	434,532
Public Access Television	-	-	-	198,920
Economic Development	-	-	-	17,613
Road Construction & Maintenance	-	\$30,475,139	-	-
<b>Total Committed Fund Balance</b>	<b>-</b>	<b>\$30,475,139</b>	<b>-</b>	<b>\$6,370,824</b>
<b>Unassigned:</b>				
Unassigned Fund Balance	\$25,807,088	-	-	(\$164,751)
<b>Total Unassigned Fund Balance</b>	<b>\$25,807,088</b>	<b>-</b>	<b>-</b>	<b>(\$164,751)</b>
<b>Total Fund Balance</b>	<b>\$26,280,705</b>	<b>\$49,047,849</b>	<b>\$1,775,452</b>	<b>\$48,889,921</b>

## 16. Minimum Fund Balance Policy

The county has a policy of maintaining two months' (16.6%) of revenues in undesignated fund balance for the general fund.



# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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## **NOTE 2. DEPOSITS AND INVESTMENTS**

### A. Deposits

As of December 31, 2017, the county's total deposits were \$11,800,999 carrying amount and \$11,951,351 bank balance, none of which was exposed to custodial credit risk as uninsured and uncollateralized:

Deposit type	Deposits		
	Carrying Amount 12/31/2017	Bank Balance 12/31/2017	Uninsured and Uncollateralized 12/31/2017
Demand deposits	\$11,800,999	\$11,951,351	-
<b>Total Deposits</b>	<b>\$11,800,999</b>	<b>\$11,951,351</b>	<b>-</b>

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the county would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party.

Kitsap County Investment Policy (KCIP) applies to all available cash assets of the county and funds under the management of the County Treasurer. The county adheres to RCW 36.29.020 which requires the County Treasurer to hold all public funds in a qualified banking institution.

The County's deposits 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).

### B. Investments

Investments are subject to the following risks.

Interest Rate Risk. Interest rate risk is the risk that the county may face should interest rate variances affect the fair value of investments. 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.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

Investment type	Fair Value 12/31/2017 (1)	Investment maturities (in Years)			
		Less than 1	1 to 2	2 to 3	3 to 4
US Treasury securities	\$39,855,394	\$19,966,714	\$19,888,680	-	-
Federal Agency Obligations	467,727,614	266,213,020	109,908,367	\$24,157,387	\$67,448,841
Municipal securities	16,815,332	14,730,518	1,829,874	254,940	-
<b>Total Debt Securities</b>	<b>\$524,398,340</b>	<b>\$300,910,252</b>	<b>\$131,626,921</b>	<b>\$24,412,327</b>	<b>\$67,448,841</b>
<b>Other Securities</b>					
WA State LGIP (2)	\$245,489,499				
Bank Deposits (2)	20,294,276				
<b>Total Investments</b>	<b>\$790,182,115</b>				

- (1) Fair Value includes accrued interest.  
(2) Measured at amortized cost

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. 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, Wells Fargo Bank.

**Credit Risk.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

It is the county's policy to limit its investment types to those 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.

At December 31, 2017, county's investments had the following credit quality distribution for securities with credit exposure:

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

Investment type	Fair Value 12/31/2017 (1)	Credit Ratings			
		AAA/Aaa (2)	AA/Aa (2)	A (2)	Unrated
US Treasury securities	\$39,855,394	\$39,855,394	-	-	-
Federal Agency Obligations	467,727,614	467,727,614	-	-	-
Municipal securities	16,815,332	-	\$15,779,578	\$1,035,754	-
WA State LGIP (3)	245,489,499	-	-	-	\$245,489,499
Bank Deposits (3)	20,294,276	-	-	-	20,294,276
<b>Total</b>	<b>\$790,182,115</b>	<b>\$507,583,008</b>	<b>\$15,779,578</b>	<b>\$1,035,754</b>	<b>\$265,783,775</b>

- (1) Fair Value includes accrued interest.
- (2) Rating agencies: Moody's AAA, AA, A; S&P Aaa, A
- (3) Measured at amortized cost

**Custodial Credit Risk.** Custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The county's investment policy requires that all securities are purchased delivery vs. payment and held in a custodial or trust account in the County Treasurer's name. Currently that custodian is Wells Fargo Bank.

**Concentration of Credit Risk.** Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The county's investment policy restricts securities other than US Treasury and Federal agency and the Washington State Local Government Investment Pool to a maximum of 25% of total investments of a single security type or on deposit with a single financial institution. As of December 31, 2017, the county held securities or bank deposits in compliance with policy that exceeded 5% of the total investments from the following issuers:

Local Government Investment Pool	31.07%
Federal Farm Credit Bank	30.72%
Federal Home Loan Bank	14.45%
Federal Home Loan Mortgage Company	7.81%
Federal National Mortgage Association	6.22%
US Treasury	5.04%

### Investments in Local Government Investment Pool (LGIP)

The county is a participant in the Washington State Local Government Investment Pool which was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP Advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool

## Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, WA 98504-0200, online at <http://www.tre.wa.gov>.

### **Investments in Kitsap County Investment Pool (KCIP)**

The county is a participant in the Kitsap County Investment Pool (KCIP), an external investment pool. The county reports its investment in the Pool at the fair value amount, which is the same as the value of the Pool per share. Fair value is determined using quoted market prices from the county's safekeeping agent, Wells Fargo, and with Bloomberg, an online financial services system.

The KCIP was established in 1987 pursuant to RCW 36.29, which authorizes the County Treasurer to invest the funds of participants. The Pool operates in accordance with Kitsap County Investment Policy which was established by the Kitsap County Finance Committee (KCFC). The KCFC consists of the County Treasurer, County Auditor and Chair of the Board of County Commissioners.

The KCIP is not registered with the Securities and Exchange Committee (SEC) as an investment company. KCFC performs oversight of the Pool's performance. There are no legally binding guarantees for the KCIP. Authorized investments for the KCIP are the same as investments held outside the Pool and are defined in the Kitsap County Treasurer's Office Investment Policy.

Kitsap County Investment Policy applies to all available cash assets of the county and to funds under the management of the County Treasurer as defined under RCW 36.29.020. The Policy's primary objective is the preservation of capital, followed by liquidity and return.

The responsibility for managing the pool resides with the County Treasurer. KCIP consists of funds invested on behalf of the county and other special purpose districts within the county, such as schools, fire, and library districts.

The county only invests in the types of securities authorized for investment by RCW 36.29.020, which include, but are not limited to, Treasury and Agency securities, municipal bonds of Washington state or local bonds of Washington state with one of the three highest ratings of a national rating agency at the time of investment, certificates of deposit with qualified public depositories within statutory limits as promulgated by the Public Deposit Protection Commission at the time of investment, and the Washington State Local Government Investment Pool.

The value of the KCIP is reviewed by the County Treasurer monthly and the County Finance Committee quarterly.

## Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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Earnings distributions, including any realized transactions in the Pool are distributed monthly, calculated on the average daily balance of the participant's account. The Kitsap County Treasurer, by law, is the treasurer of most governments within the county, including schools, fire and library districts. These districts do not have a legal option to have their investments handled by other than the County Treasurer.

The county external investment pool does not have a credit rating and had a weighted average maturity of 0.82 years as of December 31, 2017.

### **Investments Measured at Fair Value**

The county measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1. Quoted prices in active markets for identical assets or liabilities;
- Level 2. These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3. Unobservable inputs for an asset or liability.

Investments measured at amortized cost. 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.

At December 31, 2017, the county held the following investments measured at fair value:

**Kitsap County, Washington**  
Notes to Financial Statements  
December 31, 2017

	<u>Fair Value Measurements Using</u>			
	<u>Fair Value 12/31/2017 (1)</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Investments by Fair Value Level</b>				
US Treasury securities	39,855,394	39,855,394	-	-
Federal Agency Obligations	467,727,614	-	467,727,614	-
Municipal securities	16,815,332	-	16,815,332	-
Total Investments measured at fair value	<u>524,398,340</u>	<u>39,855,394</u>	<u>484,542,947</u>	<u>-</u>
<b>Investments measured at amortized cost</b>				
WA State LGIP	245,489,499			
Bank Deposits	<u>20,294,276</u>			
Total investments measured at amortized cost	<u>265,783,775</u>			
<b>Total Investments in Statement of Net Position</b>	<u><u>790,182,115</u></u>			

(1) Fair Value includes accrued interest.

**C. Condensed Statements**

A condensed statement of net position and statement of changes in net position for the internal (county) and external portions of the county's investment pool are presented below:

**Condensed Statement of Net Position  
December 31, 2017**

	<u>Internal County Funds</u>	<u>External All Other Funds</u>
<b>Assets:</b>		
Cash, cash equivalents, investments and pooled investments	\$281,465,865	\$520,517,249
Total assets	<u>281,465,865</u>	<u>520,517,249</u>
<b>Liabilities:</b>		
Pool liabilities	-	-
Total liabilities	<u>-</u>	<u>-</u>
<b>Net position held in trust for pool participants</b>	<u><b>\$281,465,865</b></u>	<u><b>\$520,517,249</b></u>

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2017

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## Condensed Statement of Changes in Net Position For the Year Ended December 31, 2017

	<b>Internal County Funds</b>	<b>External All Other Funds</b>
Changes in net position resulting from operations	\$1,959,347	\$4,543,377
Earnings distributions to participants	(1,959,347)	(4,543,377)
Changes in net position resulting from depositor transactions	26,267,624	80,576,064
Net position available	26,267,624	80,576,064
Net position, beginning of year	255,198,241	439,941,185
<b>Net position, end of year</b>	<b>\$281,465,865</b>	<b>\$520,517,249</b>

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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## **NOTE 3. PROPERTY TAX**

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

<b>Property Tax Calendar</b>	
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 tax 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 2017 was \$1.0427 per \$1,000 of assessed valuation of \$31,270,221,792 for a total regular levy of \$32,655,579.

The County's Conservation Futures levy for the year 2017 was \$0.0435 per \$1,000 of assessed valuation of \$31,270,221,792 for a total Conservation Futures levy of \$1,362,741.

The County's road levy for the year 2017 was \$1.3350 per \$1,000 of assessed valuation of \$18,614,448,938 for total road levy of \$24,905,230.

The diverted County road levy, Sheriff, for 2017 was \$0.1555 per \$1,000 of assessed valuation of \$18,614,448,938 for a total diverted road levy, Sheriff, of \$2,901,025.

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, 2017

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### **NOTE 4. TAX ABATEMENTS**

The county had no direct tax abate agreements as of December 31, 2017.

The State of Washington has tax abatement agreements that allow for property tax exemptions for the following:

- Property belonging to any federally recognized Indian tribe, located in Kitsap County, provided that the property is used exclusively for essential government services. The purpose of the property tax exemption is for economic development, to improve the economic health of tribal communities, RCW 84.36.010(2).
- Buildings, personal property, and land up to five acres in area upon which a church of any nonprofit recognized religious denomination is built or will be built. The exemption includes parsonages, convents and other buildings and improvements required for the maintenance of the property, such as street access, parking, lights, etc. In order to qualify for the exemption, the area must be used exclusively for church purposes, RCW 84.36.020(2).

The property tax exemption amounts may shift the tax burden to other taxpayers or may represent lost revenue to the county.

The State of Washington is not able to provide the amount of abatements provided under these property tax exemptions in 2017.

**Kitsap County, Washington**  
Notes to Financial Statements  
December 31, 2017

**NOTE 5. CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2017 was as follows:

<b>Governmental activities</b>	<b>Beginning Balance 01/01/2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/2017</b>
Capital assets, not being depreciated:				
Land	\$69,756,380	5,308,626	311,291	\$74,753,715
Land, infrastructure	69,838,666	-	-	69,838,666
Construction in progress	34,918,462	14,454,164	25,483,746	23,888,880
<u>Total capital assets not being depreciated</u>	<u>\$174,513,507</u>	<u>\$19,762,790</u>	<u>\$25,795,037</u>	<u>\$168,481,261</u>
Capital assets, being depreciated:				
Buildings	\$120,994,235	\$177,988	\$4,092,689	\$117,079,535
Improvements other than buildings	34,417,061	371,418	39,322	34,749,157
Machinery and equipment	49,065,757	4,227,560	2,527,489	50,765,828
Infrastructure	433,179,056	24,929,782	41,954	458,066,885
<u>Total capital assets being depreciated</u>	<u>\$637,656,110</u>	<u>\$29,706,748</u>	<u>\$6,701,454</u>	<u>\$660,661,405</u>
Less accumulated depreciation for:				
Buildings	\$45,783,456	\$2,642,100	\$2,104,317	\$46,321,239
Improvements other than buildings	18,399,582	1,484,489	27,188	19,856,883
Machinery and equipment	28,201,314	3,144,672	2,303,265	29,042,721
Infrastructure	326,869,279	9,708,307	41,954	336,535,632
<u>Total accumulated depreciation</u>	<u>\$419,253,632</u>	<u>\$16,979,568</u>	<u>\$4,476,724</u>	<u>\$431,756,476</u>
<u>Total capital assets, being depreciated, net</u>	<u>\$218,402,479</u>	<u>\$12,727,180</u>	<u>\$2,224,730</u>	<u>\$228,904,929</u>
<b>Governmental activities capital assets, net</b>	<b>\$392,915,986</b>	<b>\$32,489,971</b>	<b>\$28,019,766</b>	<b>\$397,386,190</b>

**Kitsap County, Washington**  
Notes to Financial Statements  
December 31, 2017

<b>Business-type activities</b>	<b>Beginning Balance 01/01/2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/2017</b>
Capital assets, not being depreciated:				
Land	\$3,530,131	\$1,960,515	\$814,247	\$4,676,398
Construction in progress	67,564,468	15,779,026	53,329,977	30,013,516
<u>Total capital assets not being depreciated</u>	<u>\$71,094,599</u>	<u>\$17,739,541</u>	<u>\$54,144,225</u>	<u>\$34,689,915</u>
Capital assets, being depreciated:				
Buildings	\$56,764,747	\$7,205,496	5,751	\$63,964,493
Improvements other than buildings	104,555,489	32,979,655	1,096,589	136,438,554
Machinery and equipment	9,648,550	15,863,101	222,653	25,288,999
<u>Total capital assets being depreciated</u>	<u>\$170,968,786</u>	<u>\$56,048,252</u>	<u>1,324,993</u>	<u>\$225,692,046</u>
Less accumulated depreciation for:				
Buildings	\$39,736,257	\$2,366,225	4,088	\$42,098,394
Improvements other than buildings	50,435,247	5,047,239	847,595	54,634,891
Machinery and equipment	8,907,000	1,414,088	222,653	10,998,435
<u>Total accumulated depreciation</u>	<u>\$99,078,504</u>	<u>\$8,827,552</u>	<u>1,074,336</u>	<u>\$106,831,720</u>
<u>Total capital assets, being depreciated, net</u>	<u>\$71,890,282</u>	<u>\$47,220,700</u>	<u>250,657</u>	<u>\$118,860,326</u>
<b>Business-type activities capital assets, net</b>	<b>\$142,984,881</b>	<b>\$64,960,241</b>	<b>\$54,394,882</b>	<b>\$153,550,241</b>

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

<b>Function</b>	<b>Governmental</b>	<b>Business-Type</b>
General government	\$1,783,722	
Judicial services	16,625	
Public safety	2,269,441	
Transportation	11,656,234	
Health & human services	47,884	
Economic environment	3,237	
Culture and recreation	1,202,425	
Utilities		\$8,827,552
<b>Total depreciation expense</b>	<b>\$16,979,568</b>	<b>\$8,827,552</b>

Construction commitments

The County had no active construction projects as of December 31, 2017.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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## **NOTE 6. 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 2017:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	(\$49,713,567)
Pension assets	\$5,870,074
Deferred outflows of resources	\$8,322,978
Deferred inflows of resources	(\$10,402,312)
Pension expense/expenditures	\$4,269,870

### **State Sponsored Pension Plans**

Substantially all the County's 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](http://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 service months. Members are eligible for retirement from active status at any age with at least 30

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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 2017 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January – June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
<b>Total</b>	<b>11.18%</b>	<b>6.00%</b>
July – December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.70%</b>	<b>6.00%</b>

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

**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.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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-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 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>
July - December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>12.70%</b>	<b>7.38%</b>

\* For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July – December 2017.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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The County's actual PERS plan contributions were \$3,092,384 to PERS Plan 1 and \$4,142,885 to PERS Plan 2/3 for the year ended December 31, 2017.

## 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
- 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

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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. In addition to the regular change in contribution rates on July 1, 2017, PSERS contribution rates changed again September 1, 2017 due to HB 1709, which allows PERS members meeting specific criteria to transfer service credit into PSERS, as long as they and their employer pay the difference between PERS and PSERS contribution rates.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for 2017 were as follows:

<b>PSERS Plan 2</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January – June 2017:		
PSERS Plan 2	6.59%	6.59%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
<b>Total</b>	<b>11.54%</b>	<b>6.59%</b>
July – August 2017:		
PSERS Plan 2	6.73%	6.73%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
<b>Total</b>	<b>11.94%</b>	<b>6.73%</b>
September - December 2017:		
PSERS Plan 2	6.74%	6.74%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
<b>Total</b>	<b>11.95%</b>	<b>6.74%</b>

The County's actual plan contributions were \$409,592 to PSERS Plan 2 and \$300,029 to PERS Plan 1 for the year ended December 31, 2017.



## Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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### **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 2017. 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 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 2017 were as follows:

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
January – June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.23%</b>	<b>8.41%</b>
July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.43%</b>	<b>8.75%</b>

The County's actual contributions to the plan were \$559,985 for the year ended December 31, 2017.

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, 2017, the state contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the County as its proportionate share of this amount is \$353,828.

## Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% 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 member is

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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

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

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

## 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. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

## 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, 2017, 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.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
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%
	<b>100%</b>	

### Sensitivity of the Net Pension Liability/(Asset)

The table below presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the County's proportionate share of the net pension liability 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.

Plan	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$32,921,701	\$27,025,070	\$21,917,324
PERS 2/3	\$60,240,484	\$22,360,113	(\$8,677,233)
PSERS 2	\$2,204,967	\$328,384	(\$1,142,968)
LEOFF 1	(\$800,096)	(\$1,078,637)	(\$1,317,841)
LEOFF 2	\$1,036,860	(\$4,791,437)	(\$9,540,090)

### 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, 2017, the County reported a total pension liability of \$49,713,567 and a total pension asset of (\$5,870,074) for its proportionate share of the net pension liabilities (assets) as follows:

Plan	Liability (or Asset)
PERS 1	\$27,025,070
PERS 2/3	\$22,360,113
PSERS 2	\$328,384
LEOFF 1	(\$1,078,637)
LEOFF 2	(\$4,791,437)

## Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

The amount of the asset reported above for LEOFF Plans 1 and 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:

	<b>LEOFF 1 Asset</b>
Employer's proportionate share	(\$1,078,637)
State's proportionate share of the net pension asset associated with the employer	(\$7,295,875)
<b>Total</b>	<b>(\$8,374,513)</b>

	<b>LEOFF 2 Asset</b>
Employer's proportionate share	(\$4,791,437)
State's proportionate share of the net pension asset associated with the employer	(\$3,108,116)
<b>Total</b>	<b>(\$7,899,553)</b>

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

<b>Plan</b>	<b>Proportionate Share 6/30/16</b>	<b>Proportionate Share 6/30/17</b>	<b>Change in Proportion</b>
PERS 1	0.585%	0.570%	(0.016%)
PERS 2/3	0.657%	0.644%	(0.014%)
PSERS 2	1.827%	1.676%	(0.151%)
LEOFF 1	0.071%	0.071%	(0.000%)
LEOFF 2	0.418%	0.345%	(0.073%)

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 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, 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.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

In fiscal year 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

## Pension Expense

For the year ended December 31, 2017, the County's recognized pension expense as follows:

	Pension Expense
PERS 1	\$816,156
PERS 2/3	\$3,066,280
PSERS 2	\$456,847
LEOFF 1	(\$167,837)
LEOFF 2	\$98,424
<b>Total</b>	<b>\$4,269,870</b>

## Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the County's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	(\$1,008,500)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	\$1,758,928	-
<b>Total</b>	<b>\$1,758,928</b>	<b>(\$1,008,500)</b>

## Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$2,265,607	(\$735,385)
Net difference between projected and actual investment earnings on pension plan investments	-	(\$5,960,668)
Changes of assumptions	\$237,507	-
Changes in proportion and differences between contributions and proportionate share of contributions	\$224,333	(\$497,253)
Contributions subsequent to the measurement date	\$2,275,039	-
<b>Total</b>	<b>\$5,002,485</b>	<b>(\$7,193,307)</b>

<b>PSERS 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$194,218	(\$23,330)
Net difference between projected and actual investment earnings on pension plan investments	-	(\$230,320)
Changes of assumptions	\$2,782	-
Changes in proportion and differences between contributions and proportionate share of contributions	\$16,310	(\$27,940)
Contributions subsequent to the measurement date	\$216,012	-
<b>Total</b>	<b>\$429,323</b>	<b>(\$281,590)</b>

<b>LEOFF 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	(\$100,230)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	-	-
<b>Total</b>	<b>-</b>	<b>(\$100,230)</b>

## Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$210,593	(\$181,699)
Net difference between projected and actual investment earnings on pension plan investments	-	(\$1,075,711)
Changes of assumptions	\$5,770	-
Changes in proportion and differences between contributions and proportionate share of contributions	\$629,912	(\$561,274)
Contributions subsequent to the measurement date	\$285,967	-
<b>Total</b>	<b>\$1,132,241</b>	<b>(\$1,818,684)</b>

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, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3	PSERS 2	LEOFF 1	LEOFF 2
2018	(\$681,681)	(\$2,346,215)	(\$47,878)	(\$62,903)	(\$560,285)
2019	\$215,217	\$653,638	\$42,611	\$16,965	\$45,814
2020	(\$49,971)	(\$578,753)	\$12,660	(\$6,774)	(\$139,935)
2021	(\$492,065)	(\$2,476,327)	(\$46,855)	(\$47,518)	(\$547,166)
2022	-	\$122,520	(\$882)	-	\$40,922
Thereafter	-	\$159,276	(\$27,936)	-	\$188,241
<b>Total</b>	<b>(\$1,008,500)</b>	<b>(\$4,465,861)</b>	<b>(\$68,280)</b>	<b>(\$100,230)</b>	<b>(\$972,410)</b>



# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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## **NOTE 7. 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 third-party administrator to process medical and time loss 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 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.

The county maintains the following insurance coverages:

General liability. The policy has a \$20 million limit for liability protection and a \$500,000 self-insured retention (deductible) 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, 2017, the County's estimated total undiscounted outstanding liability for general liability is \$3,609,041.

Property insurance. The policy provides coverage of up to \$250 million per occurrence and has a \$50,000 per occurrence deductible. The policy includes earthquake coverage, which has a deductible of 2% of the total damage per occurrence, with a \$100,000 minimum and \$1 million maximum deductible.

The County's property insurance policy also includes \$5 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 \$2,500 deductible and \$1 million in coverage. This policy provides coverage for employee theft, forgery, inside theft or robbery, outside premises, computer fraud, and counterfeit.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

## Public Official Bonds.

The Public Official Bonds include a Blanket Position Bond and Individual Bonds. The Blanket Position Bond provides certain elected officials with bond coverage as required by the State statute. Individual Bonds are provided for the County Treasurer and the County Clerk due to the specific amount of the bond as required and specified by 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 charged to departments and are based on each department's loss experience and number and class of employees. As of December 31, 2017, the County's estimated total undiscounted outstanding liability for the workers' compensation program is \$5,087,990.

## Claims Liability

The county maintains a reserve balance in the Risk Management fund to provide for claims payments for workers compensation and general liability claims. The liability balance is evaluated annually and adjusted as needed.

Approximately every three years, the county engages an actuary to perform a review of its self-insurance activities. The most recent review was completed in 2017 for the year ended December 31, 2016.

The actuarial report provides estimated amounts for claims incurred and estimated ultimate loss for future years, and margins for adverse deviation, which are used to calculate claims liability and in the tables below.

Claims liability is calculated by adjusting the prior year's ending liability by the change in estimated ultimate loss for each of the programs. The county uses a 90% - 95% margin for adverse deviation.

Claims payments consists of payments on claims for each of the programs, as well as other claims expenses, such as legal, professional and occupational costs that are directly related to claims.

The table below summarizes changes in claims liability for the years ended December 31, 2016 and December 31, 2017. The amounts for the year ended December 31, 2016 have been restated to include other claims expenses; the ending liability for 2016 has not changed:

Workers Compensation	Year Ended	
	12/31/2016	12/31/2017
Claims liability, beginning of year	\$2,824,705	\$2,824,705
Claims incurred	\$1,482,120	\$1,245,870
Change in prior year estimates	(\$443,375)	\$1,787,119
Claims payments	(\$1,038,745)	(\$769,704)
Claims liability, end of year	\$2,824,705	\$5,087,990

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2017

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General Liability	Year Ended	
	12/31/2016	12/31/2017
Claims liability, beginning of year	\$6,889,646	\$6,889,646
Claims incurred	\$991,420	\$728,673
Change in prior year estimates	(\$261,222)	(\$3,599,408)
Claims payments	(\$730,198)	(\$409,870)
Claims liability, end of year	\$6,889,646	\$3,609,041

## B. Self-Funded Employee Welfare Benefit Plan

The 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 (Kaiser Permanente) 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 which is managed by the Human Resources department.

To limit its financial liability for large claims, the county purchased a stop loss insurance policy. The policy reimburses the county for medical claims greater than \$225,000 per covered person.

The County's self-funded employee welfare benefit plan covers eligible employees and their dependents for medical costs. The County also provides dental, life, AD&D and LTD insurance coverage for its employees by purchasing separate insurance policies.

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 monthly to departments on an employee by employee basis.

Depending upon the plan and level of coverage selected by an employee, there may be employee contributions towards premiums. These contributions are collected through payroll deductions and are used by the Employer Benefits Fund 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.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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## **NOTE 8. 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.

In proprietary funds, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable is reported net of the applicable bond premium or discount.

Governmental funds recognize bond premiums, discounts, and 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, 2017, the debt limits for the County were as follows:

	Without a Vote	With a Vote	
		2.5%	5.0%
Legal Limit	\$469,053,327	\$781,755,545	\$1,563,511,090
Applicable Outstanding Debt	\$74,367,047	\$74,367,047	\$74,367,047
<b>Margin Available</b>	<b>\$394,686,280</b>	<b>\$707,388,498</b>	<b>\$1,489,144,043</b>

### A. General Obligation Bonds

The county 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:

## Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
2010 – refunding; Coroner Facility & CKCC, BAN (property acquisitions)	12/1/18 – 12/1/30	3.0 – 4.0	\$9,220,000	\$190,000 – \$530,000
2011 - refunding	12/1/18 – 12/1/27	3.125 – 4.0	\$20,370,000	\$500,000 – \$1,550,000
2013 - refunding	12/1/18 – 12/1/34	3.0 – 4.0	\$48,280,000	\$530,000 – \$5,205,000
2015 - refunding	6/1/18 – 6/1/31	2.375 – 5.0	\$21,635,000	\$560,000 – \$2,020,000

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2018	\$6,250,000	\$2,794,208
2019	8,945,000	2,581,208
2020	6,190,000	2,236,308
2021	6,245,000	1,972,733
2022	6,535,000	1,706,233
2023 – 2027	27,705,000	4,724,823
2028 – 2032	9,200,000	867,350
2033 – 2034	1,205,000	65,047
<b>Total</b>	<b>\$72,275,000</b>	<b>\$16,947,910</b>

### B. Loans

Public Works Trust Fund and Department of Ecology loans currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
2001 – Roads PWTF loan #PW-01-691-037 – Anderson Hill	7/1/18 – 7/1/21	0.5	\$897,812	\$47,253
2001 – Sewer PWTF loan #PW-01-691-036 – Kingston	7/1/18 – 7/1/21	0.5	\$2,605,000	\$150,816
2012 – Sewer PWTF loan #PC-12-951-040 – Techite Forcemain	6/1/18 – 6/1/31	0.25	\$5,205,000	\$256,600
2005 – Sewer DOE loan #L0400026 – Kingston PLT	5/1/18 – 5/1/25	1.5	\$14,188,000	\$303,064 - \$599,355

The annual debt service requirements to maturity for loans are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$47,253	945	955,216	74,885
2019	47,253	709	963,489	65,216
2020	47,253	473	971,888	55,421
2021	47,254	236	980,414	45,500
2022	-	-	838,252	35,450
2023 – 2027	-	-	2,775,855	56,315
2028 – 2031	-	-	1,026,398	6,415
<b>Total</b>	<b>\$189,013</b>	<b>\$2,363</b>	<b>\$8,511,512</b>	<b>\$339,202</b>

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

## C. Notes Payable

The County has a note payable of \$1.79 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.

During 2017, the note payable and related note receivable were amended. The term of the notes was extended by five years to 2036 and the annual payment was reduced from \$200,000 to \$100,000. See *Note 16, Service Concession Arrangement* for more information.

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2018	\$89,135	\$10,865
2019	89,677	10,323
2020	90,221	9,779
2021	90,769	9,231
2022	91,320	8,680
2023 – 2027	464,985	35,015
2028 – 2032	479,273	20,727
2033 – 2036	394,001	5,999
<b>Total</b>	<b>\$1,789,381</b>	<b>\$110,619</b>

## D. Revenue bonds

Revenue bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
Sewer refunding 2010A	12/1/18	4.0	\$5,775,000	\$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	12/1/18 – 12/1/27	2.75 – 5.00	\$17,360,000	\$1,000,000 - \$1,920,000

Debt service requirements for the revenue bonds are as follows:

Year Ending December 31	Business-Type Activities	
	Principal	Interest
2018	1,805,000	2,370,029
2019	1,760,000	2,297,829
2020	1,830,000	2,227,429
2021	1,920,000	2,135,929
2022	1,520,000	2,039,929
2023 – 2027	8,450,000	9,343,293
2028 – 2032	11,910,000	7,599,254
2033 – 2037	14,885,000	4,609,939
2038 – 2040	11,435,000	983,835
<b>Total</b>	<b>\$55,515,000</b>	<b>\$33,607,466</b>

## Kitsap County, Washington

Notes to Financial Statements

December 31, 2017

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### E. 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 \$660,906 in 2017 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 18, Pollution Remediation Obligation* for additional information.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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## **NOTE 9. LEASES**

### Operating Leases

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

### Capital Leases

1. Balloting system. In April 2013, the County entered into a lease agreement for financing a ballot counting system for Auditor Elections division. The system was purchased from Hart InterCivic for \$467,168 and the purchase was financed through SunTrust Equipment Finance and Lease Corporation. Of the amount financed, \$361,037 is for software, licensing and support; non-capitalized equipment at a cost of \$29,987; and capital equipment at a cost of \$76,144.

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. The county paid \$100,028 to SunTrust Equipment Finance and Lease Corporate in 2017.

2. Dish washing machine. In November 2015, the County entered into a lease agreement for financing a dish washing machine for the Jail. The machine was purchased from and financed by WCP Solutions. The cost of the machine is \$22,099.

The installment loan has a three year term and the County began making monthly installment payments of \$713 in 2016. The installment loan bears interest at a rate of 10% per annum. The County paid \$8,557 to WCP Solutions in 2017.

3. Mail folder inserter machine. In September 2017, the county entered into a lease agreement for a folder machine for Auditor Licensing division. The machine was purchased from Preferred Business Solutions and financed by EverBank Commercial Finance. The cost of the machine is \$8,269.

The installment loan has a 39-month term and the county began making monthly lease payments of \$328.10 lease payments in October 2017. The installment loan bears interest at a rate of 29.4% per annum. The county paid \$984 to EverBank Commercial Finance in 2017.

These lease agreements qualify as capital leases for accounting purposes, therefore, have been recorded at the present value of future minimum lease payments as of the lease inception dates.

At December 31, 2017, the assets (capital and non-capital) acquired by capital leases are as follows:



## Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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<b>Asset</b>	<b>Governmental Activities</b>
<b>Capital equipment</b>	
Balloting system - capital	\$76,144
Dish washing machine	22,099
Mail folder inserter machine	8,269
<b>Total capital equipment</b>	<b>\$106,511</b>
Less: accumulated depreciation, December 31, 2017	(63,873)
<b>Capital equipment, net of accum. depreciation</b>	<b>\$42,639</b>
<b>Non-capital equipment</b>	
Balloting system – non-capital	\$29,987
<b>Total capital and non-capital equipment</b>	<b>\$72,626</b>

The future minimum lease obligation and the net present value of the minimum lease payments as of December 31, 2017 are as follows:

<b>Year Ending December 31</b>	<b>Governmental Activities</b>
2018	\$111,809
2019	3,937
2020	3,937
<b>Total minimum lease payments</b>	<b>\$119,683</b>
Less: Interest portion of payments	(6,031)
<b>Present value of minimum lease payments</b>	<b>\$113,653</b>

**Kitsap County, Washington**  
Notes to Financial Statements  
December 31, 2017

**NOTE 10. CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Bonds payable:					
General obligation bonds	\$ 80,275,000	\$ -	\$ 8,000,000	\$ 72,275,000	\$ 6,250,000
Total bonds payable	80,275,000	-	8,000,000	72,275,000	6,250,000
Capital leases	210,051	8,185	104,584	113,653	107,750
Comp Absences - Gov	5,306,500	199,685	-	5,506,185	595,101
Comp Absences - Int Svc	444,978	11,507	-	456,485	45,649
Notes payable	1,877,979	-	88,597	1,789,381	89,135
Net OPEB obligation	7,699,859	767,692	-	8,467,551	-
Net Pension Liability - Gov	54,193,658	-	13,428,533	40,765,125	-
Net Pension Liability - Int Svc	3,917,614	-	437,664	3,479,950	-
Other liabilities	236,266	-	47,253	189,013	47,253
Governmental activities Long-term liabilities	\$ 154,161,905	\$ 987,069	\$ 22,106,632	\$ 133,042,342	\$ 7,134,888
<u>Business-type activities</u>					
Bonds payable:					
Revenue bonds	57,175,000	-	1,660,000	55,515,000	1,805,000
Unamortized premium/ discount	1,539,356	-	174,608	1,364,748	174,608
Total bonds payable	58,714,356	-	1,834,608	56,879,748	1,979,608
Compensated absences	678,228	5,979	-	684,207	69,693
Net Pension Liability	7,143,465	-	1,674,972	5,468,492	-
Other liabilities	9,458,577	-	947,065	8,511,512	955,216
Pollution remediation liability	542,207	118,699	-	660,906	38,259
Business-type activities Long-term liabilities	\$ 76,536,833	\$ 124,678	\$ 4,456,645	\$ 72,204,866	\$ 3,042,775
<b>Total</b>	<b>\$ 230,698,738</b>	<b>\$ 1,111,748</b>	<b>\$ 26,563,277</b>	<b>\$ 205,247,209</b>	<b>\$ 10,177,663</b>

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. 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.

## Kitsap County, Washington

Notes to Financial Statements

December 31, 2017

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### **NOTE 11. 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.

**Kitsap County, Washington**  
Notes to Financial Statements  
December 31, 2017

**NOTE 12. INTER-FUND BALANCES AND TRANSFERS**

A. 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	TOTAL
General Fund	\$280,000	\$280,000
<b>Total</b>	<b>\$280,000</b>	<b>\$280,000</b>

B. 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.

DUE TO OTHER FUNDS/DUE FROM OTHER FUNDS										
Due To Other Funds	Due From Other Funds									
	General	Roads	Mental Health Medicaid	Non- Major	Solid Waste	Sewer Utility	Surface Storm- water	Internal Service	Agency	TOTAL
General	-	\$1,736	-	\$78,859	-	-	\$133,131	\$4,795	\$895	\$219,416
Roads	\$6,253	-	-	1,354	\$4,166	\$243,664	96,819	24,591	-	376,847
Non-Major	16,876	380,964	315,362	201,680	33,622	-	-	1,054	500	950,057
Solid Waste	448	-	-	1,067	-	1,837	1,328	-	-	4,680
Sewer Utility	-	-	-	-	71,657	-	40,990	-	-	112,648
Surface Stormwater	-	9,324	-	-	9,811	25,039	-	-	-	44,174
Internal Service	225,376	234,348	-	28,562	4,480	51,033	51,070	13,905	-	608,774
<b>Total</b>	<b>\$248,954</b>	<b>\$626,371</b>	<b>\$315,362</b>	<b>\$311,522</b>	<b>\$123,736</b>	<b>\$321,574</b>	<b>\$323,338</b>	<b>\$44,345</b>	<b>\$1,395</b>	<b>\$2,316,597</b>

C. 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.

**Kitsap County, Washington**  
Notes to Financial Statements  
December 31, 2017

<b>TRANSFERS</b>					
<b>Transfers Out</b>	<b>Transfers In</b>				
	<b>General</b>	<b>Non-Major</b>	<b>LTGO 2013</b>	<b>Internal Service</b>	<b>TOTAL</b>
General	-	\$416,939	\$783,700	\$540,980	\$1,741,619
Roads	-	346,597	-	43,770	390,367
REET	-	965,377	2,087,916	-	3,053,294
Mental Health Medicaid	39,910	1,327,697	-	-	1,367,607
Non-Major	3,925,833	3,031,271	1,000,090	16,045	7,973,240
Solid Waste	-	-	-	8,886	8,886
Sewer Utility	-	137,792	-	21,732	159,524
Surface Stormwater	-	213,530	-	13,242	226,772
Internal Service	-	17,288	-	3,635	20,923
<b>Total</b>	<b>\$3,965,743</b>	<b>\$6,456,492</b>	<b>\$3,871,707</b>	<b>\$648,290</b>	<b>\$14,942,231</b>

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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## **NOTE 13. RECEIVABLES AND PAYABLES**

### A. Federal grants and assistance awards

Federal grants and assistance awards made based on 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 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.

### B. Public Facility District receivable

The county has a \$6.4 million long-term receivable due from the Public Facility District (PFD), a component unit. The county sold general obligation 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's books as well.

### C. Housing Kitsap receivable

The County has a \$15.6 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 Limited Term General Obligation Refunding bonds to settle loans relating to 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.

## Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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In 2017, the County received payments of \$496,638, of which \$295,538 was applied to principal and \$201,100 was applied to interest. The receivable balance at December 31, 2017 was \$15.6 million.

The County amended its agreement with Housing Kitsap during 2017 as follows:

1. Sale of Norm Dicks Government Center (NDGC) units:
  - a. The County released its security interest in certain NDGC units that HK intends to sell.
  - b. The proceeds may be used for the relocation of Housing Kitsap offices, including purchase and improvement of office space, moving expenses and the purchase of equipment only.
  - c. Use of the proceeds for operating expenses is not permitted.
2. Use of proceeds from the sale of collateral properties Olhava, Mitchell, and/or Almira:
  - a. If the properties are sold to an unrelated party, Housing Kitsap may use one-half of the proceeds solely for development directly benefitting housing in Kitsap County and the other half must be paid to the county against the loan.
  - b. If the properties are sold to a related party (as defined in Internal Revenue Code §267 and 707), or to an entity in which HK has an ownership interest, and the proceeds are used to develop housing, all the proceeds may be used in the development.
  - c. Use of the proceeds for operating expenses is not permitted.
3. Deferral of loan payments:
  - a. Housing Kitsap may defer its loan payments up to \$300,000 per year for 2018, 2019 and 2020 (for a total deferral of up to \$900,000);
  - b. Milestones are not deferred during this period;
  - c. HK will make loan payments sufficient to offset any shortfalls in the 2019 balloon payment.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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## **NOTE 14. DEFERRED COMPENSATION**

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the County (without being restricted to the provisions of the benefits under the plan). 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, 2017, are as follows:

<b>Investment Company</b>	<b>Carrying Value</b>
Nationwide	\$18,044,967
Voya	8,634,282
ICMA	1,857,313
MassMutual	8,876,166
<b>Total</b>	<b>\$37,412,728</b>



**Kitsap County, Washington**  
Notes to Financial Statements  
December 31, 2017

**NOTE 15. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

Under GASB 65, *Items Previously Reported as Assets and Liabilities*, the following items are reported as deferred outflows and inflows of resources:

Fund	Item	Governmental		Business Type		Government Wide	
		Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
General Fund	Taxes Receivable (1)	-	\$1,270,041	-	-	-	\$1,270,041
General Fund	Grant Revenue Received in Advance (2)	-	\$14,007	-	-	-	\$14,007
County Roads	Taxes Receivable	-	\$697,219	-	-	-	\$697,219
Noxious Weed Control	Taxes Receivable	-	\$8,542	-	-	-	\$8,542
Veteran's Relief	Taxes Receivable	-	\$9,452	-	-	-	\$9,452
Conservation Futures	Taxes Receivable	-	\$36,239	-	-	-	\$36,239
CDBG	Notes Receivable (3)	-	\$300,000	-	-	-	\$300,000
HOME	Notes Receivable (3)	-	\$3,514,982	-	-	-	\$3,514,982
2013 LTGO Refunding Bonds	Notes Receivable (4)	-	\$15,574,307	-	-	-	\$15,574,307
Parks Capital Improvement	SCA (5)	-	\$1,789,381	-	-	-	\$1,789,381
Various	Pensions (6)	\$7,407,450	\$9,258,058	\$915,528	\$1,144,254	\$8,322,978	\$10,402,312
<b>Total</b>		<b>\$7,407,450</b>	<b>\$32,472,228</b>	<b>\$915,528</b>	<b>\$1,144,254</b>	<b>\$8,322,978</b>	<b>\$33,616,482</b>

- (1) The county records property taxes receivable when the taxes are levied. Deferred inflows associated with property taxes receivable are \$2.0 million as of December 31, 2017.
- (2) The county received state grant revenue in advance. The grant was awarded by the Washington State Department of Social & Health Services, for support for Commercially Sexually Exploited Children (CSEC) taskforce activities.
- (3) Kitsap County Block Grant program loaned funds received from the US Department of Housing and Urban Development to various entities within the county. The purpose of the loans was to build affordable housing and low-income housing units for the residents of Kitsap County in need of housing assistance. Deferred inflows associated with Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME) loans as of December 31, 2017 are \$3.8 million.
- (4) Housing Kitsap (formerly known as Kitsap County Consolidated Housing Authority) agreed to repay debt previously assumed by the county. The amount of debt Housing Kitsap agreed to repay was \$17.08 million. Deferred inflows associated with the note receivable are \$15.57 million on December 31, 2017. For further details about this transaction see *Note 13, Receivables and Payables*.
- (5) The County purchased the Rolling Hills Golf Course in 2011, and entered into a service concession arrangement (SCA) with the seller to operate the golf course. Deferred inflows

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

associated with the SCA are \$1.79 million as of December 31, 2017. More information about the service concession arrangement is available in *Note 16, Service Concession Arrangement*.

- (6) See *Note 6, Pension Plans* for more information about deferred outflows and deferred inflows related to pensions.

Following is a recap of deferred inflows for governmental funds, by fund and fund category:

Deferred Inflows by Type	Major Funds			Non-major Funds	Total
	General Fund	County Roads	KC LTGO 2013		
Property Taxes	\$1,268,005	\$697,219	-	\$54,233	\$2,019,457
Grant revenue received in advance	14,007	-	-	-	14,007
Notes receivable	2,036	-	\$15,574,307	3,814,982	\$19,391,325
Service Concession Arrangement	-	-	-	1,789,381	\$1,789,381
Total	\$1,284,048	\$697,219	\$15,574,307	\$5,658,597	\$23,214,170

## Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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### **NOTE 16. 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 were annual payments of \$200,000 for a period of 20 years. The note bears interest at 6.5%.

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 \$1,873,882 at year-end.

On December 31, 2017, the outstanding balance of the note payable was \$1,789,381.

The County entered into lease agreement with The Rolling Hills Golf Course, LLC (RHGC) in 2011. Under the agreement RHGC operates and collects user fees and other revenue from the Rolling Hills Golf Course, Pro Shop and Restaurant facility. The initial term of the lease was 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 made annual installment payments of \$200,000 to the County. The present value of these installment payments at the time the parties entered into the agreement was estimated to be \$2,200,000.

In 2017 the lease agreement was amended to decrease the annual payment amount from \$200,000 to \$100,000 and extend the term of the note by five years to a period of 25 years.

Deferred inflows related to the golf course are \$1,789,381 as of December 31, 2017.

In addition to the annual installment payments, RHGC will make lease reserve payments to fund a reserve balance that the county will hold and can use should RHGC default on any annual lease payments. 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, 2017

## **NOTE 17. OTHER POST-EMPLOYMENT BENEFITS**

### Plan Description

As required by the Revised Code of Washington (RCW) Chapter 41.26, the County provides lifetime medical care for members of the Law Enforcement Officers and 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, 2017, there were 36 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 \$8,467,551 is included as a noncurrent liability on the Statement of Net Position. The actuarial valuation was performed on December 31, 2017.

Other Post Employment Benefits Obligation	Year Ended 12/31/2017
Determination of annual required contribution:	
Normal cost at year end	-
Amortization of UAAL*	\$1,496,054
Annual required contribution (ARC)	\$1,496,054
Determination of net OPEB obligation:	
Annual required contribution	\$1,496,054
Interest on prior year net OPEB obligation	307,994
Adjustment to ARC	(692,534)
Annual OPEB cost	\$1,111,514
Contributions	343,823
Increase in net OPEB obligations	\$767,691
Net OPEB obligation – beginning of year	\$7,699,859
Increase in net OPEB obligations	767,691
Net OPEB obligation – end of year	\$8,467,551

*\*\*Unfunded Actuarial Accrued Liability*

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

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2017

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Year ended	Annual cost	Contribution	Percentage of annual OPEB cost contributed	Net OPEB obligations
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
2016	\$1,629,205	\$321,147	20%	\$7,699,859
2017	\$1,496,054	\$343,823	22%	\$8,467,551

## Funding Status

As of December 31, 2017, the most recent alternative method measurement date, the plan was 0% funded. The accrued liability for benefits was \$16,633,705 and the actuarial value of assets was \$0 resulting in a UAAL of \$16,663,705. 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 55.3 was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2014, actuarial valuation report issued by the Office of the State Actuary, OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine AAL was the 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 purposes 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 the actuarial value of the plan assets is increasing or decreasing relative to the actuarial accrued liability for the benefits over time.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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## **NOTE 18. 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 \$1,888,304 in September 2017, for the years 2018 – 2034. The Solid Waste Fund recognized a liability of \$660,906 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.

# Kitsap County, Washington

Notes to Financial Statements

December 31, 2017

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## **NOTE 19. RELATED ORGANIZATIONS**

Kitsap County officials is responsible for appointing members of the board of Kitsap Regional Library District ("KRLD"), a related organization. There is no evidence that the Board of County Commissioners can influence the programs and activities of KRLD or that they create a significant financial benefit or burden to the County. For these reasons KRLD does not warrant inclusion in the county's financial statements.

There were no material financial transactions between the County and Kitsap Regional Library District during 2017.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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## **NOTE 20. JOINT VENTURES**

### A. Olympic Consortium

Kitsap, Jefferson and Clallam Counties entered into an agreement to establish the Olympic Consortium (“Consortium”). The Consortium is governed by a nine-member Board composed of three appointees from each of the three Counties.

The Consortium established a Workforce Development Council (“WDC”). The Consortium and WDC jointly manage the area’s One-Stop system for the delivery of unified Workforce development services for adults and youth in the three-county area.

The Consortium and WDC are fully funded by federal and state grants.

As the designated grant recipient and administrative entity for the WDC and Consortium, Kitsap County receives and disburses grant funds; acquires, disposes of and manages property; executes grants, sub-grants and contracts; employs administrative staff; and develops procedures for program planning, fiscal management, evaluating program performance and other administrative functions, on behalf of and consistent with the goals and policies developed by the WDC and Board.

Funds granted to the Consortium are allocated and expended among the three counties according to federal and state formula, approved plans, grants and all pertinent laws and regulations.

In 2017 the Consortium received and expended \$3.40 million on employment development activities within the three-county area.

Consortium financial activity is reported within Kitsap County’s CAFR, non-major governmental funds #191 JTPA Administration and #192 Employment Training. Financial statements for the Consortium can be obtained from the Kitsap County Auditor, Financial Services Division, 614 Division Street, MS-31, Port Orchard, WA 98366.

### B. Salish Behavioral Health Organization

Kitsap, Jefferson and Clallam Counties, and Jamestown S’Klallam Tribe entered into an interlocal agreement to establish a Behavioral Health Organization (“BHO”). The BHO is named the Salish Behavioral Health Organization (“SBHO”). The purpose of the BHO is to plan, establish and operate a comprehensive behavioral health system within the three-county area.

The BHO is governed by a five-member Board composed of one elected commissioner from each of the three counties, one elected tribal official representing the various tribes in the three counties, and one non-voting representative from the Salish Behavioral Health Organization Advisory Board.

The Board has designated Kitsap County as the grant recipient and administrative entity of the BHO. The county is responsible for receiving and disbursing grant funds, all functions necessary for operation of the program including executing grants, sub grants, contracts and other agreements as authorized by the Board; employing administrative staff; organizing and hiring qualified persons; developing procedures for program planning, operating, assessment and fiscal



## Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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management; and any other administrative functions needed in furtherance of goals and policies developed by the Board.

SBHO contracts with the State of Washington Department of Social and Health Services ("DSHS") to provide behavioral health services (services for mental health and substance use disorders) in the three-county area. The revenue provided by DSHS is used to pay for public behavioral health services for the Medicaid and non-Medicaid populations. The BHO allocates funds to participating counties and tribes in accordance with federal, state and tribal formulas, approved plans, grants and all pertinent laws and rules.

Certain county contributions to mental health programs, such as millage, mental health sales tax and current expense contributions will be retained by each county and dispensed by the Board of County Commissioners. The BHO will allocate funds currently received by counties to providers within those counties. New funds received by the BHO are allocated to the three counties and participating tribes by the Board.

In 2017 the BHO Consortium expended \$53.69 million on behavioral health activities within the three-county area.

Consortium financial activity is reported within Kitsap County's CAFR, major and non-major governmental funds #187 Mental Health Medicaid and #188 Mental Health Non-Medicaid. Financial statements for the SBHO can be obtained from the Kitsap County Auditor, Financial Services Division, 614 Division Street, MS-31, Port Orchard, WA 98366.

# Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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## **NOTE 21. OTHER NOTE DISCLOSURES**

### A. Other Note Disclosures

#### 1. Trust Land Transfer

In April 2017, Washington State Department of Natural Resources transferred three parcels of state land, 47 acres, to the county via Trust Land Transfer (“Olympic View Property”).

The land is valued at 1.19 million and is included in the county’s capital asset inventory in 2017.

#### 2. Port Gamble Forest Block land purchase

In December 2017, the county purchased 1,503 acres of land in the Port Gamble area for recreation and conservation purposes (“Port Gamble Forest Block”). Approximately 177 acres will be used as a ride park and the remaining 1,326-acre forest block has been set aside for conservation purposes.

The cost of the land was \$4.01 million and the purchase was financed by a state grant from the Recreation & Conservation Office (\$500,000); private donations (\$3.2 million); and county funds (\$332,368). The county’s contribution to the purchase includes a short term note in the amount of \$64,297, payable on or before June 30, 2018.

#### 3. Kitsap Mental Health Services building

The county issued bonds to build a mental health facility in 1993. Kitsap Mental Health Services (KMHS) entered into an agreement with the county to lease the building for a period of 20 years and the lease payments made by KMHS were used to service the debt associated with the building. The cost to construct the building was \$4,081,847.

The debt associated with the building was fully paid in 2012 and as agreed, the county transferred the building to KMHS in March 2014. The building remained on the county’s inventory of capital assets until January 1, 2017, when it was retired and removed from the county’s records.

The asset was depreciated \$249,446 from April 2014 through December 2016. No depreciation expense should have been recorded during this period because the asset should have been retired when it was transferred to KMHS in March 2014.

The building and related accumulated depreciation were retired from the county’s capital asset inventory in 2017. No adjustment was made for excess depreciation expense or accumulated depreciation because the amount is immaterial.

### B. Prior Period Adjustments

1. In November 2016, the Road Construction fund received a \$405,662 state grant reimbursement for the Bucklin Hill Road project. At the time the reimbursement was received, there was some uncertainty as to whether it could be used for local match on

## Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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the project and whether the County would have to refund the money to the state. The Road Construction department contacted the state for guidance.

During the first quarter 2017 when the CAFR was in final preparation, Road Construction had not received a response from the state and the decision was made to remove the revenue from 2016 to 2017 in anticipation of repaying the funds to the state. At that time, the expectation was that the funds would be returned.

In November 2017, the Road Construction department received a response from the state. They were told that the funds could be used for local match and that the county could keep the money. The Road Construction fund recognized the revenue in 2017 and recorded a prior period adjustment to reverse the revenue from 2017 to the prior year.

2. In 2014, the Road Construction fund was the recipient of an indirect federal grant from the Department of Defense/Department of the Navy in the amount of \$2,972,130, for the West Kingston Bridge project. The fund incurred project expenditures beginning in 2014 through 2016, but failed to report the expenditures on the county's Schedule of Expenditures of Federal Awards (SEFA) as required.

In 2018, the fund received grant reimbursement in the amount of \$1,596,442 for expenditures incurred in 2016 and 2017. Of the total received, \$229,693 was reimbursement for 2016 expenditures. The grant revenue was accrued to 2017.

The Road Construction fund recorded a prior period adjustment in the amount of \$229,693 to correct 2017 grant revenue and adjust (increase) the fund's beginning fund balance for reimbursement of the 2016 expenditures.

The fund incurred project expenditures in 2017 that exhausted the remainder of the grant award. Grant expenditures for this grant in the amount of \$2,972,130, the full amount of the grant award, has been reported on the county's 2017 Schedule of Expenditures of Federal Awards.

3. Jail and Juvenile Sales Tax fund and Kitsap County Limited Term General Obligation 2011 Refunding Bond fund (KC LTGO 2011 Refunding) recorded offsetting prior period adjustments in the amount of \$100,684.

During 2016, Jail and Juvenile Sales Tax fund made a debt service transfer to KC LTGO 2011 Refunding that should not have been made. The prior period adjustments reverse the effect of the transfer between the two funds.

4. Solid Waste Capital Improvement fund purchased the Poulsbo Recycle Center in December 2001 for \$852,089. When the asset was added to the county's inventory, the entire cost of the item was allocated to a depreciable asset (other improvements) and none of the cost was allocated to non-depreciable land.

The asset was depreciated over 20 years beginning in 2001.

## Kitsap County, Washington

Notes to Financial Statements  
December 31, 2017

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In December 2017, when the asset was sold it was determined that \$650,282 of the total cost of the asset should have been allocated to non-depreciable land and \$201,807 to depreciable other improvements. From 2001 through 2016 the asset was depreciated \$642,617 but should have been depreciated \$152,196, resulting in an overstatement in accumulated depreciation in the amount of \$490,421.

Solid Waste Capital Improvement fund recorded a prior period adjustment to remove from its fund balance the effect of the excess depreciation expense for the Poulsbo Recycle Center from 2001 to 2016, \$490,421.

5. The county is a participant in the Kitsap County Investment Pool ("KCIP"), an external investment pool. The county does not meet the criteria to report its pool investments at amortized cost, under GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* and must report its investments at fair value, as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*.

To comply with GASB Statement No. 31, all investment balances are stated at fair value in 2017 and all county funds with positions in the pool recorded prior period adjustments to adjust beginning fund balances for the 2016 fair value adjustments, as follows: General Fund \$445; County Roads Fund \$2,757, Real Estate Excise Tax Fun \$1,499; Mental Health Medicaid Fund \$1,460; Kitsap County Limited Term General Obligation Bond 2013 Fund \$1,115; various Nonmajor Funds \$7,299; Solid Waste Fund \$23,382; Sewer Utility Fund \$40,684; and Surface/Stormwater Fund \$1,066.

See Note 2, *Deposits and Investments* for more information about the KCIP.

6. GASB Statement No. 33, *Accounting and Reporting for Nonexchange Transactions*, requires that the county accrue sales tax revenue received in January and February following the reporting year because these revenues were derived in November and December of the reporting year and should be reported in the year in which the sale occurred. The county has not previously recorded a sales tax accrual.

For reporting year 2017, the county recorded a sales tax accrual of revenues received in January and February 2018. Additionally, the county recorded prior period adjustments to increase the beginning fund balances for the effect of current year sales tax revenues received in January and February 2017, as these amounts were derived in, and should have been reported in, the prior year. Prior period adjustments were recorded in the four funds that report sales tax revenue: General Fund \$4,878,917, Mental Health Sales Tax Fund \$783,637, Kitsap County Stadium Fund \$83,253, and Jail and Juvenile Sales Tax Fund \$785,419.

REQUIRED SUPPLEMENTARY INFORMATION

**KITSAP COUNTY, WASHINGTON**

Schedule of Funding Progress

Law Enforcement Officers and Firefighters (LEOFF1)

As of December 31, 2017

Accuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (b-a)	Covered Payroll (c)	UAAL as a Percentage of covered Payroll [(b-a)/c]
2/11/2008	-	\$ 13,400,355	\$ 13,400,355	0%	-	N/A
2/10/2010	-	12,339,603	12,339,603	0%	-	N/A
1/20/2011	-	11,721,211	11,721,211	0%	-	N/A
2/14/2012	-	10,919,266	10,919,266	0%	-	N/A
12/31/2013	-	17,775,124	17,775,124	0%	-	N/A
12/31/2014	-	15,621,539	15,621,539	0%	-	N/A
12/31/2015	-	14,286,979	14,286,979	0%	-	N/A
12/31/2016	-	18,114,132	18,114,132	0%	-	N/A
12/31/2017	-	16,663,705	16,663,705	0%	-	N/A

REQUIRED SUPPLEMENTARY INFORMATION

**KITSAP COUNTY, WASHINGTON**

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30, 2017

Last 10 Fiscal Years (1)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Employer's proportion of the net pension liability (asset)	0.568032%	0.585327%	0.569539%
Employer's proportionate share of the net pension liability (asset)	\$ 29,713,356	\$ 31,434,817	27,025,070
<b>TOTAL</b>	<u>\$ 29,713,356</u>	<u>\$ 31,434,817</u>	<u>\$ 27,025,070</u>
Covered payroll (2)	\$ 59,040,780	\$ 62,695,480	\$ 64,305,204
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	50.33%	50.14%	42.03%
Plan fiduciary net position as a percentage of the total pension liability (asset)	59.10%	57.03%	61.24%

**Notes to Schedule:**

(1) Pension schedules in the required supplementary information section are intended to show information for ten years; additional years' information will be presented as it becomes available.

(2) Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, paragraph 5).

REQUIRED SUPPLEMENTARY INFORMATION

**KITSAP COUNTY, WASHINGTON**

Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

As of June 30, 2017

Last 10 Fiscal Years (1)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Employer's proportion of the net pension liability (asset)	0.647736%	0.657055%	0.643545%
Employer's proportionate share of the net pension liability (asset)	\$ 23,143,976	\$ 33,082,200	\$ 22,360,113
<b>TOTAL</b>	<u>\$ 23,143,976</u>	<u>\$ 33,082,200</u>	<u>\$ 22,360,113</u>
Covered payroll (2)	\$ 57,619,857	\$ 61,485,576	\$ 63,093,134
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	40.17%	53.80%	35.44%
Plan fiduciary net position as a percentage of the total pension liability (asset)	89.20%	85.82%	90.97%

**Notes to Schedule:**

(1) Pension schedules in the required supplementary information section are intended to show information for ten years; additional years' information will be presented as it becomes available.

(2) Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, paragraph 5).

REQUIRED SUPPLEMENTARY INFORMATION

**KITSAP COUNTY, WASHINGTON**

Schedule of Proportionate Share of the Net Pension Liability

PSERS

As of June 30, 2017

Last 10 Fiscal Years (1)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Employer's proportion of the net pension liability (asset)	1.598298%	1.827255%	1.676029%
Employer's proportionate share of the net pension liability (asset)	\$ 291,721	\$ 776,547	\$ 328,384
<b>TOTAL</b>	<u>\$ 291,721</u>	<u>\$ 776,547</u>	<u>\$ 328,384</u>
Covered payroll (2)	\$ 4,373,157	\$ 5,935,170	\$ 5,934,107
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	6.67%	13.08%	5.53%
Plan fiduciary net position as a percentage of the total pension liability (asset)	95.08%	90.41%	96.26%

**Notes to Schedule:**

(1) Pension schedules in the required supplementary information section are intended to show information for ten years; additional years' information will be presented as it becomes available.

(2) Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, paragraph 5).



REQUIRED SUPPLEMENTARY INFORMATION

**KITSAP COUNTY, WASHINGTON**

Schedule of Proportionate Share of the Net Pension Liability

LEOFF 1

As of June 30, 2017

Last 10 Fiscal Years (1)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Employer's proportion of the net pension liability (asset)	0.072079%	0.071415%	0.071093%
Employer's proportionate share of the net pension liability (asset)	\$ (868,711)	\$ (735,779)	\$ (1,078,637)
State's proportionate share of the net pension liability (asset) associated with the employer	<u>\$ (5,875,940)</u>	<u>\$ (4,976,789)</u>	<u>\$ (7,295,875)</u>
<b>TOTAL</b>	<u><u>\$ (6,744,651)</u></u>	<u><u>\$ (5,712,568)</u></u>	<u><u>\$ (8,374,513)</u></u>
Covered payroll (2)	\$ -	\$ -	\$ -
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability (asset)	127.36%	123.74%	135.96%

**Notes to Schedule:**

- (1) Pension schedules in the required supplementary information section are intended to show information for ten years; additional years' information will be presented as it becomes available.
- (2) Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, paragraph 5). There were no employer contributions to the LEOFF 1 plan in 2016.

REQUIRED SUPPLEMENTARY INFORMATION

**KITSAP COUNTY, WASHINGTON**

Schedule of Proportionate Share of the Net Pension Liability

LEOFF 2

As of June 30, 2017

Last 10 Fiscal Years (1)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Employer's proportion of the net pension liability (asset)	0.313939%	0.417995%	0.345285%
Employer's proportionate share of the net pension liability (asset)	\$ (3,226,665)	\$ (2,431,184)	\$ (4,791,437)
State's proportionate share of the net pension liability (asset) associated with the employer	<u>\$ (2,133,473)</u>	<u>\$ (1,584,955)</u>	<u>\$ (3,108,116)</u>
<b>TOTAL</b>	<u><u>\$ (5,360,138)</u></u>	<u><u>\$ (4,016,140)</u></u>	<u><u>\$ (7,899,553)</u></u>
Covered payroll (2)	\$ 9,111,737	\$ 12,662,712	\$ 10,801,139
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	35.41%	19.20%	44.36%
Plan fiduciary net position as a percentage of the total pension liability (asset)	111.67%	106.04%	113.36%

**Notes to Schedule:**

(1) Pension schedules in the required supplementary information section are intended to show information for ten years; additional years' information will be presented as it becomes available.

(2) Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, paragraph 5).

REQUIRED SUPPLEMENTARY INFORMATION

**KITSAP COUNTY, WASHINGTON**

Schedule of Employer Contributions  
 PERS 1 (includes UAAL)  
 As of December 31, 2017  
 Last 10 Fiscal Years (1)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Statutorily or contractually required contributions	\$ 3,055,274	\$ 3,373,735	\$ 3,392,413
Contributions in relation to the statutorily or contractually required contributions (3)	<u>\$ (3,055,274)</u>	<u>\$ (3,373,735)</u>	<u>\$ (3,392,413)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll (2)	\$ 68,318,226	\$ 69,207,503	\$ 67,788,112
Contributions as a percentage of covered payroll	4.47%	4.87%	5.00%

**Notes to Schedule:**

- (1) Pension schedules in the required supplementary information section are intended to show information for ten years; additional years' information will be presented as it becomes available.
- (2) Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, paragraph 5).
- (3) Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 and PSERS 2 contributions that fund the PERS 1 UAAL. Contributions do not include employer-paid member contributions (GASB 82 paragraph 8).

REQUIRED SUPPLEMENTARY INFORMATION

**KITSAP COUNTY, WASHINGTON**

Schedule of Employer Contributions

PERS 2/3

As of December 31, 2017

Last 10 Fiscal Years (1)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Statutorily or contractually required contributions	\$ 3,438,475	\$ 3,882,745	\$ 4,142,885
Contributions in relation to the statutorily or contractually required contributions (3)	<u>\$ (3,438,475)</u>	<u>\$ (3,882,745)</u>	<u>\$ (4,142,885)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll (2)	\$ 61,392,090	\$ 62,341,583	\$ 60,547,870
Contributions as a percentage of covered payroll	5.60%	6.23%	6.84%

**Notes to Schedule:**

- (1) Pension schedules in the required supplementary information section are intended to show information for ten years; additional years' information will be presented as it becomes available.
- (2) Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, paragraph 5).
- (3) Contributions are actual employer contributions to the plan.

REQUIRED SUPPLEMENTARY INFORMATION

**KITSAP COUNTY, WASHINGTON**

Schedule of Employer Contributions

PSERS 2

As of December 31, 2017

Last 10 Fiscal Years (1)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Statutorily or contractually required contributions	\$ 364,844	\$ 374,944	\$ 409,592
Contributions in relation to the statutorily or contractually required contributions (3)	<u>\$ (364,844)</u>	<u>\$ (374,944)</u>	<u>\$ (409,592)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll (2)	\$ 5,640,112	\$ 5,689,600	\$ 6,147,351
Contributions as a percentage of covered payroll	6.47%	6.59%	6.66%

**Notes to Schedule:**

- (1) Pension schedules in the required supplementary information section are intended to show information for ten years; additional years' information will be presented as it becomes available.
- (2) Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, paragraph 5).
- (3) Contributions are actual employer contributions to the plan.

REQUIRED SUPPLEMENTARY INFORMATION

**KITSAP COUNTY, WASHINGTON**

Schedule of Employer Contributions

LEOFF 2

As of December 31, 2017

Last 10 Fiscal Years (1)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Statutorily or contractually required contributions	\$ 597,598	\$ 534,961	\$ 559,985
Contributions in relation to the statutorily or contractually required contributions (3)	<u>\$ (597,598)</u>	<u>\$ (534,961)</u>	<u>\$ (559,985)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll (2)	\$ 11,833,541	\$ 10,593,273	\$ 10,879,823
Contributions as a percentage of covered payroll	5.05%	5.05%	5.15%

**Notes to Schedule:**

- (1) Pension schedules in the required supplementary information section are intended to show information for ten years; additional years' information will be presented as it becomes available.
- (2) Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, paragraph 5).
- (3) Contributions are actual employer contributions to the plan.

**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
<b>Child Nutrition Cluster</b>								
Food And Nutrition Service, Department Of Agriculture (via Superintendent of Public Instruction)	National School Lunch Program	10.555	18-402-9717	28,782	-	28,782	-	
	<b>Total Child Nutrition Cluster:</b>			<b>28,782</b>	<b>-</b>	<b>28,782</b>	<b>-</b>	
Food And Nutrition Service, Department Of Agriculture (via WA State Department of Social & Health Services)	Senior Farmers Market Nutrition Program	10.576	1669-69183	617	-	617	-	
Food And Nutrition Service, Department Of Agriculture (via WA State Department of Social & Health Services)	Senior Farmers Market Nutrition Program	10.576	1769-93479	26,560	-	26,560	-	6
	<b>Total CFDA 10.576:</b>			<b>27,177</b>	<b>-</b>	<b>27,177</b>	<b>-</b>	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via Recreation & Conservation Office)	Pacific Coast Salmon Recovery Pacific Salmon Treaty Program	11.438	15-1408P	15,000	-	15,000	-	
Department Of The Navy, Office Of The Chief Of Naval Research, Department Of Defense (via Department of the Navy)	Basic and Applied Scientific Research	12.300	N44255-14-2- 0002	2,972,130	-	2,972,130	-	7
<b>CDBG - Entitlement Grants Cluster</b>								
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B14UC530005	-	209,796	209,796	207,672	

The accompanying notes are an integral part of this schedule.

**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Total	Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards				
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B15UC530005	-	32,429		32,429	32,429	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B16UC530005	-	95,185		95,185	93,419	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B17UC530005	-	519,463		519,463	321,831	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Community Development Block Grants/Entitlement Grants	14.218	B17UC530005	-	86,715		86,715	-	3
<b>Total CDBG - Entitlement Grants Cluster:</b>				-	<b>943,588</b>		<b>943,588</b>	<b>655,352</b>	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M13DC530205	-	27,202		27,202	27,202	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M14DC530205	-	150,465		150,465	150,465	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M15DC530205	-	8,024		8,024	-	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M16DC530205	-	42,790		42,790	-	
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M17DC530205	-	5,873		5,873	-	

The accompanying notes are an integral part of this schedule.



**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Total	Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards				
Office Of Community Planning And Development, Department Of Housing And Urban Development	Home Investment Partnerships Program	14.239	M16DC530205	-	7,966	7,966	-	3	
			<b>Total CFDA 14.239:</b>	-	<b>242,320</b>	<b>242,320</b>	<b>177,667</b>		
U.s. Geological Survey, Department Of The Interior	U.S. Geological Survey Research and Data Collection	15.808	G16AC00252	-	134,048	134,048	-		
Bureau Of Justice Statistics, Department Of Justice (via Washington State Patrol)	National Criminal History Improvement Program (NCHIP)	16.554	K12322	10,345	-	10,345	-		
Office For Victims Of Crime, Department Of Justice (via Department of Commerce)	Crime Victim Assistance	16.575	S18-31102-516	33,402	-	33,402	-		
Office For Victims Of Crime, Department Of Justice (via Department of Commerce)	Crime Victim Assistance	16.575	S18-31102-516	13,710	-	13,710	-		
			<b>Total CFDA 16.575:</b>	<b>47,113</b>	-	<b>47,113</b>	-		
Violence Against Women Office, Department Of Justice (via Department of Commerce)	Violence Against Women Formula Grants	16.588	F16-31103-075	327	-	327	-		
Violence Against Women Office, Department Of Justice (via Department of Commerce)	Violence Against Women Formula Grants	16.588	F16-31103-076	7,992	-	7,992	-		
			<b>Total CFDA 16.588:</b>	<b>8,319</b>	-	<b>8,319</b>	-		
Office Of Community Oriented Policing Services, Department Of Justice	Public Safety Partnership and Community Policing Grants	16.710	2012-UL-WX- 0035	-	33	33	-		

The accompanying notes are an integral part of this schedule.

**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-1084	-	37,671	37,671	-	
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-DJ-BX-0118	-	27,250	27,250	-	
Bureau Of Justice Assistance, Department Of Justice (via Department of Commerce)	Edward Byrne Memorial Justice Assistance Grant Program	16.738	F16-31440-010	61,634	-	61,634	-	
			<b>Total CFDA 16.738:</b>	<b>61,634</b>	<b>64,921</b>	<b>126,555</b>	<b>-</b>	
Employment Training Administration, Department Of Labor (via WA State Department of Social & Health Services)	Senior Community Service Employment Program	17.235	1669-69183	88,763	-	88,763	-	
Employment Training Administration, Department Of Labor (via WA State Department of Social & Health Services)	Senior Community Service Employment Program	17.235	1769-93479	84,035	-	84,035	-	
			<b>Total CFDA 17.235:</b>	<b>172,799</b>	<b>-</b>	<b>172,799</b>	<b>-</b>	
<b>WIA/WIOA Cluster</b>								
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Adult Program	17.258	6101-7305	1,393	-	1,393	-	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Adult Program	17.258	6101-7306	45,318	-	45,318	-	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Adult Program	17.258	6101-1307	121,010	-	121,010	-	

The accompanying notes are an integral part of this schedule.

**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Adult Program	17.258	6101-7307	51,557	-	51,557	-	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Adult Program	17.258	6101-7626	25,000	-	25,000	-	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Adult Program	17.258	6101-1107	509,847	-	509,847	421,878	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Adult Program	17.258	6101-7107	85,127	-	85,127	65,472	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Adult Program	17.258	6101-1108	27,342	-	27,342	24,298	
			<b>Total CFDA 17.258:</b>	<b>866,595</b>	-	<b>866,595</b>	<b>511,649</b>	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Youth Activities	17.259	6101-7625-04	56,985	-	56,985	56,985	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Youth Activities	17.259	6101-7005	12,542	-	12,542	12,542	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Youth Activities	17.259	6101-7006	493,213	-	493,213	392,133	

The accompanying notes are an integral part of this schedule.

**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Youth Activities	17.259	6101-7007	235,475	-	235,475	187,894	
			<b>Total CFDA 17.259:</b>	<b>798,215</b>	-	<b>798,215</b>	<b>649,553</b>	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Dislocated Worker Formula Grants	17.278	6101-7505-14	68,518	-	68,518	68,518	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Dislocated Worker Formula Grants	17.278	6101-7505-11	30,092	-	30,092	30,092	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Dislocated Worker Formula Grants	17.278	6101-7207	41,073	-	41,073	9,908	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Dislocated Worker Formula Grants	17.278	6101-1207	476,652	-	476,652	384,774	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Dislocated Worker Formula Grants	17.278	6101-7206	61,474	-	61,474	59,076	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA Dislocated Worker Formula Grants	17.278	6101-1208	2,376	-	2,376	274	
			<b>Total CFDA 17.278:</b>	<b>680,185</b>	-	<b>680,185</b>	<b>552,641</b>	
			<b>Total WIA/WIOA Cluster:</b>	<b>2,344,994</b>	-	<b>2,344,994</b>	<b>1,713,842</b>	
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA National Dislocated Worker Grants / WIA National Emergency Grants	17.277	6101-7575-02	141,007	-	141,007	107,527	

The accompanying notes are an integral part of this schedule.

**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Employment Training Administration, Department Of Labor (via Employment Security Department)	WIOA National Dislocated Worker Grants / WIA National Emergency Grants	17.277	6101-7564-04	10,688	-	10,688	-	
<b>Highway Planning and Construction Cluster</b>			<b>Total CFDA 17.277:</b>	<b>151,694</b>	<b>-</b>	<b>151,694</b>	<b>107,527</b>	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	LA 8511	56,445	-	56,445	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	LA 8557	921,761	-	921,761	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	LA 7969	7,724	-	7,724	-	
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Department of Transportation)	Highway Planning and Construction	20.205	LA 9030	1,322,214	-	1,322,214	-	
	<b>Total Highway Planning and Construction Cluster:</b>			<b>2,308,144</b>	<b>-</b>	<b>2,308,144</b>	<b>-</b>	
<b>Highway Safety Cluster</b>								
National Highway Traffic Safety Administration (nhtsa), Department Of Transportation (via National Highway Traffic Safety Administration/WA Traffic Safety Commission)	State and Community Highway Safety	20.600	FFY2017 HVE	2,295	-	2,295	-	

The accompanying notes are an integral part of this schedule.

**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Total	Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards				
National Highway Traffic Safety Administration (nhisa), Department Of Transportation (via National Highway Traffic Safety Administration/WA Traffic Safety Commission)	State and Community Highway Safety	20.600	FFY2017 HVE	1,412	-	-	1,412	-	
National Highway Traffic Safety Administration (nhisa), Department Of Transportation (via National Highway Traffic Safety Administration/WA Traffic Safety Commission)	State and Community Highway Safety	20.600	FFY2017 HVE	1,119	-	-	1,119	-	
National Highway Traffic Safety Administration (nhisa), Department Of Transportation (via National Highway Traffic Safety Administration/WA Traffic Safety Commission)	State and Community Highway Safety	20.600	FFY2017 HVE	3,471	-	-	3,471	-	
National Highway Traffic Safety Administration (nhisa), Department Of Transportation (via National Highway Traffic Safety Administration/WA Traffic Safety Commission)	State and Community Highway Safety	20.600	FFY2017 HVE	4,360	-	-	4,360	-	
National Highway Traffic Safety Administration (nhisa), Department Of Transportation (via Washington Association of Sheriffs and Police Chiefs)	State and Community Highway Safety	20.600	N/A	984	-	-	984	-	4

The accompanying notes are an integral part of this schedule.

**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
National Highway Traffic Safety Administration (nhisa), Department Of Transportation (via Washington Association of Sheriffs and Police Chiefs)	State and Community Highway Safety	20.600	N/A	500	-	500	-	4
<b>Total CFDA 20.600:</b>				<b>14,140</b>	<b>-</b>	<b>14,140</b>	<b>-</b>	
National Highway Traffic Safety Administration (nhisa), Department Of Transportation (via National Highway Traffic Safety Administration/WA Traffic Safety Commission)	National Priority Safety Programs	20.616	2018-HVE-2326	2,186	-	2,186	-	
<b>Total Highway Safety Cluster:</b>				<b>16,327</b>	<b>-</b>	<b>16,327</b>	<b>-</b>	
Region 10, Environmental Protection Agency	Puget Sound Watershed Management Assistance	66.120	PO-00J08501-0	-	20,861	20,861	-	
Region 10, Environmental Protection Agency (via Puget Sound Partnership)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	2017-25	56,877	-	56,877	-	
Region 10, Environmental Protection Agency (via WA Dept of Fish & Wildlife)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	16-06235	45,232	-	45,232	-	
Region 10, Environmental Protection Agency (via WA Dept of Fish & Wildlife)	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	PC-01J22301	46,357	-	46,357	-	
<b>Total CFDA 66.123:</b>				<b>148,466</b>	<b>-</b>	<b>148,466</b>	<b>-</b>	

The accompanying notes are an integral part of this schedule.

**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Total	Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards				
Office Of Water, Environmental Protection Agency (via WA State Dept of Ecology)	National Estuary Program	66.456	14-1375P	31,543	-	-	31,543	-	
Office Of Water, Environmental Protection Agency (via Puget Sound Partnership)	National Estuary Program	66.456	2018-14	13,907	-	-	13,907	-	
			<b>Total CFDA 66.456:</b>	<b>45,449</b>	-	-	<b>45,449</b>	-	
<b>Clean Water State Revolving Fund Cluster</b>									
Office Of Water, Environmental Protection Agency (via WA State Department of Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	WQC-2016- KiCoPW-00037	3,015,795	-	-	3,015,795	-	
Office Of Water, Environmental Protection Agency (via WA State Department of Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	WQC-2016- KiCoPW-00038	171,441	-	-	171,441	-	
Office Of Water, Environmental Protection Agency (via WA State Department of Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	L1400019	7,717	-	-	7,717	-	
Office Of Water, Environmental Protection Agency (via WA State Department of Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	L14S0019	7,717	-	-	7,717	-	
			<b>Total Clean Water State Revolving Fund Cluster:</b>	<b>3,202,670</b>	-	-	<b>3,202,670</b>	-	
Office Of Special Education And Rehabilitative Services, Department Of Education (via WA State Department of Social & Health Services)	Rehabilitation Services Vocational Rehabilitation Grants to States	84.126	1663-75397	60,690	-	-	60,690	60,690	

The accompanying notes are an integral part of this schedule.



**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Administration For Community Living, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	1769-80688	2,023	-	2,023	-	
Administration For Community Living, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	93.043	1769-80688	12,954	-	12,954	12,954	
<b>Aging Cluster</b> Administration For Community Living, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	1769-80688	303,770	-	303,770	23,788	
Administration For Community Living, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	1769-80688	168,308	-	168,308	156,244	
Administration For Community Living, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	1769-80688	223,517	-	223,517	211,496	
			<b>Total CFDA 93.045:</b>	<b>391,825</b>	<b>-</b>	<b>391,825</b>	<b>367,740</b>	
Administration For Community Living, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Nutrition Services Incentive Program	93.053	1769-80688	48,426	-	48,426	48,426	
			<b>Total Aging Cluster:</b>	<b>744,021</b>	<b>-</b>	<b>744,021</b>	<b>439,954</b>	

The accompanying notes are an integral part of this schedule.

**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Administration For Community Living, Department Of Health And Human Services (via WA State Department of Social & Health Services)	National Family Caregiver Support, Title III, Part E	93.052	1769-80688	88,784	-	88,784	1,127	
Administration For Community Living, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Medicare Enrollment Assistance Program	93.071	1469-28555	3,976	-	3,976	-	
Administration For Community Living, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Medicare Enrollment Assistance Program	93.071	1769-20833	142	-	142	-	
				<b>Total CFDA 93.071:</b>	<b>-</b>	<b>4,118</b>	<b>-</b>	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Projects for Assistance in Transition from Homelessness (PATH)	93.150	1669-75296	29,174	-	29,174	29,174	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1563-42482	29,441	-	29,441	-	

The accompanying notes are an integral part of this schedule.

**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1763-94258	19,641	-	19,641	-	
<b>Total CFDA 93.243:</b>				<b>49,082</b>	<b>-</b>	<b>49,082</b>	<b>-</b>	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Kitsap Public Health District)	PPHF 2018: Office of Smoking and Health-National State-Based Tobacco Control Programs-Financed in part by 2018 Prevention and Public Health funds (PPHF)	93.305	KPHD 1711	1,555	-	1,555	-	
U.S. Department of Health and Human Services (via WA State Dept of Social & Health Services)	Affordable Care Act Aging and Disability Resource Center	93.517	1369-78491	2,416	-	2,416	-	
<b>TANF Cluster</b>								
Administration For Children And Families, Department Of Health And Human Services (via Department of Commerce)	Temporary Assistance for Needy Families	93.558	S17-32710-008	488,873	-	488,873	471,186	
Administration For Children And Families, Department Of Health And Human Services (via Department of Commerce)	Temporary Assistance for Needy Families	93.558	S18-32710-008	387,515	-	387,515	374,319	
<b>Total TANF Cluster:</b>				<b>876,388</b>	<b>-</b>	<b>876,388</b>	<b>845,505</b>	

The accompanying notes are an integral part of this schedule.

**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Total	Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards				
Administration For Children And Families, Department Of Health And Human Services (via Department of Community, Trade & Economic Development)	Child Support Enforcement	93.563	2110-80671	241,715	-	-	241,715	-	
Administration For Children And Families, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Child Support Enforcement	93.563	2110-80671	935,364	-	-	935,364	-	
Administration For Children And Families, Department Of Health And Human Services (via Department of Commerce)	Child Support Enforcement	93.563	2110-80671 & 1663-67378	14,695	-	-	14,695	-	
<b>Total CFDA 93.563:</b>				<b>1,191,774</b>	<b>-</b>	<b>-</b>	<b>1,191,774</b>	<b>-</b>	
Centers For Disease Control And Prevention, Department Of Health And Human Services (via Kitsap Public Health District)	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758	KPHD 1711	2,822	-	-	2,822	-	
<b>Medicaid Cluster</b>									
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Medical Assistance Program	93.778	1669-69183	435,129	-	-	435,129	-	
Centers For Medicare And Medicaid Services, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Medical Assistance Program	93.778	1769-93479	454,771	-	-	454,771	-	
<b>Total Medicaid Cluster:</b>				<b>889,900</b>	<b>-</b>	<b>-</b>	<b>889,900</b>	<b>-</b>	

The accompanying notes are an integral part of this schedule.

**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Opioid STR	93.788	1769-97720	19,700	-	19,700	19,700	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Block Grants for Community Mental Health Services	93.958	1669-57890	136,329	-	136,329	136,329	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Block Grants for Community Mental Health Services	93.958	1769-94483	152,588	-	152,588	152,588	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Block Grants for Community Mental Health Services	93.958	1669-72696	241,706	-	241,706	241,706	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Block Grants for Community Mental Health Services	93.958	1769-96822	132,484	-	132,484	132,484	
<b>Total CFDA 93.958:</b>				<b>663,106</b>	<b>-</b>	<b>663,106</b>	<b>663,106</b>	

The accompanying notes are an integral part of this schedule.

**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1669-58052	2,173,341	-	2,173,341	2,146,034	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1563-42482	68,797	-	68,797	-	
Substance Abuse And Mental Health Services Administration, Department Of Health And Human Services (via WA State Department of Social & Health Services)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1763-94258	66,161	-	66,161	-	
				<b>Total CFDA 93.959:</b>	<b>-</b>	<b>2,308,300</b>	<b>2,146,034</b>	
Executive Office Of The President (via Office of National Drug Control Policy/Educational Services District 105)	High Intensity Drug Trafficking Areas Program	95.001	9001500080	48,629	-	48,629	12,000	
Executive Office Of The President (via Office of National Drug Control Policy/Educational Services District 105)	High Intensity Drug Trafficking Areas Program	95.001	9001600056	1,140	-	1,140	-	
Executive Office Of The President (via Office of National Drug Control Policy/Educational Services District 105)	High Intensity Drug Trafficking Areas Program	95.001	9001600048	40,000	-	40,000	-	
				<b>Total CFDA 95.001:</b>	<b>-</b>	<b>89,769</b>	<b>12,000</b>	

The accompanying notes are an integral part of this schedule.

**Kitsap County**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
United States Coast Guard (uscg), Department Of Homeland Security (via Washington State Parks)	Boating Safety Financial Assistance	97.012	3317FAS170153	20,190	-	20,190	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Department)	Emergency Management Performance Grants	97.042	E17-104	76,289	-	76,289	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Department)	Emergency Management Performance Grants	97.042	E18-104	72,722	-	72,722	-	
<b>Total CFDA 97.042:</b>				<b>149,011</b>	<b>-</b>	<b>149,011</b>	<b>-</b>	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Department)	Homeland Security Grant Program	97.067	E16-050	273,682	-	273,682	104,524	
Federal Emergency Management Agency (fema), Department Of Homeland Security (via WA State Military Department)	Homeland Security Grant Program	97.067	E17-063	59,032	-	59,032	18,448	
<b>Total CFDA 97.067:</b>				<b>332,714</b>	<b>-</b>	<b>332,714</b>	<b>122,971</b>	
<b>Total Federal Awards Expended:</b>				<b>19,099,536</b>	<b>1,405,771</b>	<b>20,505,306</b>	<b>7,007,605</b>	

The accompanying notes are an integral part of this schedule.

Kitsap County  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as Kitsap County's financial statements. The County uses the modified accrual basis of accounting.

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the County's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Program Income

Program income is receipted using the deductive method. The County requires the grantee to use the income as an offset against expenditures before requesting additional grant funding. Program income is listed separately for the CDBG and HOME grant programs on Schedule 16.

Note 4 – Award Identification Number Unavailable (N/A)

The County was unable to obtain an identification number.

Note 5 – Indirect Cost Rate

The amount expended includes \$68,882 claimed as an indirect cost recovery using an approved indirect cost rate of 9.29 percent.

Note 6 – Noncash Awards – 2017 Senior Farmers Market Nutrition Program checks (SFMNP)

The County participates in the Senior Farmers Market Nutrition Program as authorized by the Legislature in accordance with 7 CFR 249 SFMNP Regulations, WAC 246-780 Farmers Market Nutrition Program.

The amount of Farmers Market checks reported on the schedule is the value of checks issued by the State and shipped to Kitsap County's Aging program to be disbursed to the subcontractor, Bremerton Services Association, during the current year.

Checks have a cash value of \$4 each and are issued in books valued at \$40 (10 checks in each book). The value of the checks and books is established by the Washington State SFMNP Plan, Check Model.

Program participants must meet eligibility requirements and checks for the 2017 program must be redeemed at participating Farmers Market stalls or authorized farm stores between June 1, 2017 and October 31, 2017.



Note 7 – Prior year grant expenditures reported in the current year

The county received an indirect Federal grant from the Department of Defense/Department of the Navy in 2014, grant #N44255-14-2-0002, CFDA #12.300 Basic and Applied Scientific Research, in the amount of \$2,972,130. The grant funds are being used for Carpenter Creek Estuary Restoration at NE W Kingston Road Bridge.

Grant expenditures were incurred but not reported in 2014, 2015 and 2016; these expenditures are being reported in the current year:

<u>Year</u>	<u>Amount</u>
2014	\$3,925
2015	\$355,330
2016	\$229,693
Total	<u>\$588,948</u>

Expenditures in the amount of \$2,383,182, the remainder of available grant funds, were incurred and are being reported in 2017.

Total expenditures reported for this grant in 2017 are \$2,972,130.



**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER  
UNIFORM GUIDANCE**

**Kitsap County  
January 1, 2017 through December 31, 2017**

This schedule presents the corrective action planned by the County for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

<b>Finding ref number:</b> 2017-001	<b>Finding caption:</b> The County’s internal controls over financial statement preparation were inadequate to ensure accurate and complete reporting.
<b>Name, address, and telephone of County contact person:</b> David G. Schureman, CPA, Internal Auditor Kitsap County Auditor 614 Division Street MS-31 Port Orchard, WA 98367 (360) 337-7132	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>Kitsap County appreciates the thorough review provided by the Office of the Washington State Auditor of our 2017 Financial Statements. In response, Kitsap County will implement the following corrective action:</i> <ul style="list-style-type: none"> <li>• <i>Kitsap County will provide training to all employees who administer federal grant programs.</i></li> <li>• <i>Kitsap County will provide more time to review financial statements to ensure a higher level of accuracy.</i></li> <li>• <i>Kitsap County will accrue all taxes, including sales tax, going forward in compliance with governmental standards.</i></li> </ul>	
<b>Anticipated date to complete the corrective action:</b> October 31, 2018.	

<b>Finding ref number:</b> 2017-002	<b>Finding caption:</b> The County lacked adequate internal controls to ensure compliance with subrecipient monitoring and equipment management requirements.
<b>Name, address, and telephone of County contact person:</b> David G. Schureman, CPA, Internal Auditor Kitsap County Auditor 614 Division Street MS-31 Port Orchard, WA 98367 (360) 337-7132	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>Kitsap County appreciates the thorough review provided by the Office of the Washington State Auditor of our 2017 Financial Statements. In response, Kitsap County will implement the following corrective action:</i> <ul style="list-style-type: none"> <li>• <i>The Department of Emergency Management (DEM) will complete a physical inventory to manage equipment by August 31, 2018.</i></li> <li>• <i>DEM will build a system to organize the records of their sub-recipient monitoring and have a comprehensive system in place by early 2019.</i></li> </ul>	
<b>Anticipated date to complete the corrective action:</b> <ul style="list-style-type: none"> <li>• Subrecipient monitoring comprehensive plan by early 2019.</li> <li>• Physical inventory of equipment by August 31, 2018.</li> </ul>	

<b>Finding ref number:</b> 2017-003	<b>Finding caption:</b> The County lacked adequate internal controls to ensure compliance with federal cash management requirements.
<b>Name, address, and telephone of County contact person:</b> David G. Schureman, CPA, Internal Auditor Kitsap County Auditor 614 Division Street MS-31 Port Orchard, WA 98367 (360) 337-7132	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>Kitsap County appreciates the thorough review provided by the Office of the Washington State Auditor of our 2017 Financial Statements. In response, Kitsap County will implement the following corrective action:</i>	

<ul style="list-style-type: none"> <li><i>Kitsap County Department of Human Services will implement procedures to ensure that original invoices are received timely in compliance with cash management regulations.</i></li> </ul>
<p><b>Anticipated date to complete the corrective action:</b> Procedures have been implemented.</p>

<p><b>Finding ref number:</b> 2017-004</p>	<p><b>Finding caption:</b> The County lacked adequate internal controls to ensure compliance with federal procurement and suspension and debarment requirements.</p>
<p><b>Name, address, and telephone of County contact person:</b> David G. Schureman, CPA, Internal Auditor Kitsap County Auditor 614 Division Street MS-31 Port Orchard, WA 98367 (360) 337-7132</p>	
<p><b>Corrective action the auditee plans to take in response to the finding:</b> <i>Kitsap County appreciates the thorough review provided by the Office of the Washington State Auditor of our 2017 Financial Statements. In response, Kitsap County will implement the following corrective action:</i></p> <ul style="list-style-type: none"> <li><i>Kitsap County will provide employees adequate training and guidance to ensure compliance with federal program requirements.</i></li> <li><i>All eContracts will be routed and reviewed by the County Auditor.</i></li> </ul>	
<p><b>Anticipated date to complete the corrective action:</b> Training is expected to be completed by October 31, 2018. eContracts review by the County Auditor has been implemented.</p>	

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>