



Office of the Washington State Auditor  
Pat McCarthy

## **Financial Statements Audit Report**

# **Kitsap County Fire Protection District No. 7**

**(South Kitsap Fire and Rescue)**

**For the period January 1, 2019 through December 31, 2019**

*Published February 25, 2021*

Report No. 1027813



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

February 25, 2021

Board of Commissioners  
South Kitsap Fire and Rescue  
Port Orchard, Washington

**Report on Financial Statements**

Please find attached our report on South Kitsap Fire and Rescue's financial statements.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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## INDEPENDENT AUDITOR'S REPORT

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*

### **South Kitsap Fire and Rescue January 1, 2019 through December 31, 2019**

Board of Commissioners  
South Kitsap Fire and Rescue  
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 South Kitsap Fire and Rescue, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated February 19, 2021.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As discussed in Note 5 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District.

As discussed in Note 6 to the financial statements, in 2019, the District adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 District'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District'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*.

## 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

District'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 District'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

February 19, 2021

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### **South Kitsap Fire and Rescue January 1, 2019 through December 31, 2019**

Board of Commissioners  
South Kitsap Fire and Rescue  
Port Orchard, Washington

## **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of South Kitsap Fire and Rescue, for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 11.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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 District'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 District'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.

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, South Kitsap Fire and Rescue has prepared these financial statements to meet the financial reporting requirements of state law using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of South Kitsap Fire and Rescue, and its changes in cash and investments, for the year ended December 31, 2019, on the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.



## **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of South Kitsap Fire and Rescue, as of December 31, 2019, or the changes in financial position or cash flows thereof for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

## **Matters of Emphasis**

As discussed in Note 5 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District. Our opinion is not modified with respect to this matter.

As discussed in Note 6 to the financial statements, in 2019, the District adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 February 19, 2021 on our consideration of the District'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 District's internal control over financial reporting and compliance.

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

February 19, 2021

## **FINANCIAL SECTION**

### **South Kitsap Fire and Rescue January 1, 2019 through December 31, 2019**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2019  
Notes to Financial Statements – 2019

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2019

**Kitsap County Fire Protection District No. 7**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General Fund</b>	<b>101 EMS Fund</b>	<b>201 Debt Service Fund</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	9,214,861	4,478,113	7,119	76,248
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	17,096,265	16,020,192	-	1,076,073
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	5,884,219	5,883,573	-	646
340	Charges for Goods and Services	2,447,579	2,447,579	-	-
350	Fines and Penalties	2,210	2,210	-	-
360	Miscellaneous Revenues	262,663	131,073	1,960	7,431
Total Revenues:		25,692,936	24,484,627	1,960	1,084,150
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	18,813,624	18,808,902	488	254
Total Expenditures:		18,813,624	18,808,902	488	254
Excess (Deficiency) Revenues over Expenditures:		6,879,312	5,675,725	1,472	1,083,896
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	2,691,494	481	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	87,109	87,109	-	-
381, 382, 395, 398	Other Resources	2,471	2,471	-	-
Total Other Increases in Fund Resources:		2,781,074	90,061	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	1,195,590	1,195,590	-	-
591-593, 599	Debt Service	1,080,131	24,531	-	1,055,600
597	Transfers-Out	2,691,494	2,691,013	481	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	86,715	86,715	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		5,053,930	3,997,849	481	1,055,600
<b>Increase (Decrease) in Cash and Investments:</b>		<b>4,606,456</b>	<b>1,767,937</b>	<b>991</b>	<b>28,296</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	104,545	-	-	104,545
5088000	Unreserved	13,716,774	6,246,051	8,110	-
<b>Total Ending Cash and Investments</b>		<b>13,821,319</b>	<b>6,246,051</b>	<b>8,110</b>	<b>104,545</b>

**Kitsap County Fire Protection District No. 7**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<b>301 Capital Projects Fund</b>
<b>Beginning Cash and Investments</b>		
30810	Reserved	-
30880	Unreserved	4,653,381
388 / 588	Net Adjustments	-
<b>Revenues</b>		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	122,199
Total Revenues:		122,199
<b>Expenditures</b>		
510	General Government	-
520	Public Safety	3,980
Total Expenditures:		3,980
Excess (Deficiency) Revenues over Expenditures:		118,219
<b>Other Increases in Fund Resources</b>		
391-393, 596	Debt Proceeds	-
397	Transfers-In	2,691,013
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 382, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		2,691,013
<b>Other Decreases in Fund Resources</b>		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581, 582	Other Uses	-
Total Other Decreases in Fund Resources:		-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>2,809,232</b>
<b>Ending Cash and Investments</b>		
5081000	Reserved	-
5088000	Unreserved	7,462,613
<b>Total Ending Cash and Investments</b>		<b>7,462,613</b>

## **Kitsap County Fire Protection District No. 7**

### **DBA: South Kitsap Fire and Rescue**

#### **Notes to the Financial Statements For the Year Ended December 31, 2019**

#### **Note 1 – Summary of Significant Accounting Policies**

Kitsap County Fire Protection District No. 7 (dba: South Kitsap Fire and Rescue) was incorporated on September 10, 1946 and operates under the laws of the state of Washington applicable to a fire district. South Kitsap Fire and Rescue is a special purpose local government and provides fire protection and emergency medical services to the general public.

South Kitsap Fire and Rescue reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

#### **A. Fund Accounting**

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

#### **GOVERNMENTAL FUND TYPES:**

##### **General Fund**

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

##### **Special Revenue Funds**

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

### Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

### Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

## B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

## C. Cash and Investments

See Note 4 - Deposits and Investments.

## D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$4,999 and an estimated useful life in excess of one (1) year. Capital assets and inventory are recorded as capital expenditures when purchased.

## E. Compensated Absences

The total amount of accrued vacation leave is limited to three hundred sixty-three (363) hours for the Fire Chief, Deputy Chief, and Assistant Chiefs and is payable upon separation or retirement. There shall be no compensation paid for unused vacation leave beyond three hundred sixty-three (363) hours. The total amount of accrued vacation leave is limited to three hundred sixty (360) hours for the Human Resources Director and is payable upon separation or retirement. There shall be no compensation paid for unused vacation leave beyond three hundred sixty (360) hours.

Non-uniform/non-suppression employees will use leave in the year earned, except for a maximum carryover of 372 hours and is payable upon separation or retirement. Battalion Chiefs and Suppression employees will use leave in the year earned, except for a maximum carryover of 504 hours and is payable upon separation or retirement. In the event request for leave has been denied, the employee may apply to the District for a six (6) month extension.

At normal retirement, medical retirement, or death, the Fire Chief, Deputy Chief, Assistant Chiefs, and Human Resource Director shall receive one half (1/2) hour of pay for each hour of accumulated sick leave up to a maximum of one thousand forty (1,040) hours. Should the Fire Chief, Deputy Chief, Assistant Chiefs, or Human Resource Director separate from the District prior to his/her retirement at the end of his/her work career, medical retirement, or death, he/she shall not be eligible for this benefit.

Non-uniform/non-suppression personnel may accumulate a maximum of 1,040 hours of sick leave. Employees who at the end of each contract year exceed maximum sick leave carryover shall receive vacation hours at the rate of 0.125 for all hours above the maximum. These vacation hours may be sold back at the regular rate of pay. Those employees who reach normal service retirement, medical

retirement, expire, or are subject to a reduction in force through lay off shall receive one half (1/2) of their accumulated sick leave bank (520 maximum hours paid).

Battalion Chiefs and Suppression shift employees may accumulate and carry forward a maximum of 1,316 hours of sick leave and day shift employees may accumulate and carry forward a maximum of 1,040 hours of sick leave. Employees who at the end of each contract year exceed maximum sick leave carryover shall receive vacation hours at the rate of 0.125 for all hours above the maximum. These vacation hours may be sold back at the regular rate of pay. Employees who reach normal service retirement, medical retirement, expire, or are subject to a reduction in force through layoff shall receive one half (1/2) of their accumulated sick leave bank. Employees who expire as a result of line of duty death shall receive 100% of their accumulated sick leave.

The payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 3 - Debt Service Requirements.

G. Reserved Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by resolution of the legislative body. When expenditures that meet restrictions are incurred, South Kitsap Fire and Rescue intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of \$104,544.55 reserved for debt obligation towards the general obligation bond levy that passed November 3, 2015.

**Note 2 – Budget Compliance**

South Kitsap Fire and Rescue adopts annual appropriated budgets for General (90862) funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
Total 001 General Fund	24,574,686.41	22,806,748.35	1,767,938.06

Budgeted amounts are authorized to be transferred between departments within the fund at the direction of the Fire Chief; 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 South Kitsap Fire and Rescue's legislative body.



There is one significant event that happened in 2019 that accounts for the above variance. South Kitsap Fire and Rescue received a total of \$5,039,808.66 from Ground Emergency Medical Transportation (GEMT) money. The amount was \$4,256,808.66 above the \$780,000.00 that was initially budgeted for 2019. An amendment was made to the budget to include \$2,338,955 of the GEMT monies received with \$1,746,513 transferred to the District's Liability/Contingency fund (90865) and \$562,442 added to budget to cover cost of District's portion of GEMT owed to the Washington State Health Care Authority. Another amendment was made later in the year to include another \$573,150 of GEMT monies received to pay for additional items that had been approved to include \$236,150 land purchase and \$126,000 for vehicle replacement. Near the end of the year another lump sum of GEMT monies came in at \$1,003,609.72 which was not budgeted.

### **Note 3 – Debt Service Requirements**

#### **Debt Service**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of South Kitsap Fire and Rescue and summarizes the District's debt transactions for year ended December 31, 2019.

The debt service requirements for general obligation bonds and Washington State LOCAL Program loan 1168-3-1 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 998,679.64	\$ 81,151.41	\$ 1,079,831.05
2020	<u>\$ 1,040,000.00</u>	<u>\$ 41,600.00</u>	<u>\$ 1,081,600.00</u>
TOTALS	<u>\$ 2,038,679.64</u>	<u>\$ 122,751.41</u>	<u>\$ 2,161,431.05</u>

### **Note 4 – Deposits and Investments**

Investments are reported at original cost. Deposits and investments by type at December 31, 2019 are as follows:

<b>Investment Type</b>	<b>District's own deposits and investments held by Kitsap County</b>	<b>Deposits and investments held as a custodian for other governments, individuals or private organizations</b>	<b>Total</b>
<b>Bank Deposits (Cash on Hand)*</b>	\$ 720,813.71	-	\$ 720,813.71
<b>Kitsap County Investment Pool</b>	13,409,336.21	-	13,409,336.21
<b>Total</b>	<b>\$ 14,130,149.92</b>	<b>-</b>	<b>\$14,130,149.92</b>
<b>*Reported net of \$178,177.22 in outstanding warrants and \$1,299.04 deposits in transit as of December 3, 2019.</b>			

It is South Kitsap Fire and Rescue's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

A. Investments in Kitsap County Investment Pool

The District is an involuntary participant in the Kitsap County Investment Pool (KCIP), an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather, oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. The District reports its investment in the pool at amortized cost, which is the same as the value of the pool per share. The KCIP does not impose liquidity fees or redemption gates on participant withdrawals.

B. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The District's deposits and certificates of deposit are mostly 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).

All investments are insured, registered, or held by the District or its agent in the government's name.

**Note 5 - Other Disclosures**

In 2019 South Kitsap Fire and Rescue received a total of \$3,444,880.63 from Ground Emergency Medical Transportation (GEMT) as one time occurrence payments.

SFY2017	\$ 102,316.26
CY2017 Community Health Plan of WA	\$ 455,743.66
CY2017 Coordinated Care of WA	\$ 349,005.03
CY2017 United Health Care Community Plan	\$ 358,503.81
CY2017 Amerigroup WA	\$ 376,646.19
CY2017 Molina Healthcare of WA	\$ 799,055.96
SFY2018	\$ 1,003,609.72
<b>TOTAL</b>	<b>\$ 3,444,880.63</b>

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

As an essential function within the state, South Kitsap Fire and Rescue continued emergency operations as established with an increased emphasis on the use of personal protective equipment. Cost impacts to the District based on increase usage of PPE is estimated at approximately \$100,000, of which \$58,242 has been received from the federal government under the CARES Act. Additional reimbursement will be sought under a Public Assistance Grant through Washington State EMD to offset those expenses. To date, no member of the District has contracted the virus although we have documented several patients with symptoms or who have tested positive after being transported by our employees.

In compliance with the governor's orders and CDC recommendations, our administrative staff was placed on administrative leave commencing March 27, 2020. In April, these members began limited work hours from home, telecommuting, or coming into the office on a regulated schedule that allowed for only one member at a time to be in the office space. On May 4<sup>th</sup>, all members returned to regular office hours without any public access under strict social distancing rules, medical monitoring, and increased sanitation procedures. The district is currently developing shields and other precautions with the intent to open the office to public interaction in June.

The length of time these measures will be in place, and the full extent of the financial impact on the District is unknown at this time. The District continues to assess the financial impacts of the stay-at-home order. To date, we have seen a slight decrease in tax revenues with the first half-year installments. It is unclear at this time, but the District continues to evaluate the impact of the order on medical transports and the resulting decrease in revenue from billing.

#### **Note 6 – OPEB Plans**

Per RCW 41.26, South Kitsap Fire and Rescue has a commitment to pay for post-employment benefits for employees that belong to Law Enforcement Officers Fire Fighters Plan 1 (LEOFF1). These benefits include medical/vision premiums, and direct out-of-pocket costs that are labeled patient's responsibility after medical insurance have paid their liability. As of December 31, 2019, the plan has five LEOFF1 members, all retirees. As of December 31, 2019 the District's total OPEB liability was \$3,138,636, as calculated using the alternative measurement method. For the year ended December 31, 2019, South Kitsap Fire and Rescue paid \$48,111.27 in benefits.

#### **Note 7 – Pension Plans**

##### **A. State Sponsored Pension Plans**

Substantially all South Kitsap Fire and Rescue's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans LEOFF 1, LEOFF 2, PERS 1, PERS 2, and PERS 3.

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

The Department of Retirement Systems, 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 98504-8380

Also, the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

South Kitsap Fire and Rescue also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at [www.ofm.wa.gov](http://www.ofm.wa.gov).

At June 30, 2019 (the measurement date of the plans), the District's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$ 8,031.37	0.001120%	\$ 43,068
PERS 1 UAAL	\$ 44,269.48	0.006174%	\$ 237,412
PERS 2/3	\$ 65,152.00	0.007977%	\$ 77,484
LEOFF 1		0.010800%	(\$ 213,474)
LEOFF 2	\$ 539,488.28	0.292609%	(\$6,778,852)
VFFRPF	\$ 450.00	0.23%	(\$ 154,086)

#### LEOFF Plan 1

South Kitsap Fire and Rescue also participates in LEOFF Plan 1. The LEOFF Plan 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. Starting on July 1, 2000, employers and employees contribute zero percent.

#### LEOFF Plan 2

South Kitsap Fire and Rescue also participates in the LEOFF Plan 2. 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.

### B. Defined Contribution Pension Plans

The District has established a Deferred Compensation Program for eligible employees in lieu of paying Social Security Benefits. District employees may make elective contributions to a 457(b) plan administered by Decision Point Financial / Spectrum Pension or the Washington State Department of Retirement Systems (DRS). Employees may contribute excess of this amount, provided all such excess contributions are within IRS program rules and do not negatively impact or financially obligate the District in any fashion.

For each dollar paid by the Fire Chief, Deputy Chief, and Assistant Chiefs to their Deferred Compensation Plan, the District shall contribute \$.50 cents not to exceed a combined annual contribution of \$15,000.00. For each dollar paid by the Human Resource Director, the District shall contribute one dollar (\$1.00) to an amount not to exceed 6.0% of the Human Resource Director's base wage. For each dollar paid by members of Local 3817, the District shall contribute one (\$1.00) to an amount not to exceed 5.0% of Battalion Chief base wage. For each dollar paid by members of Local 2876 (Suppression), the District shall contribute one (\$1.00) to an amount not to exceed 5.5% of a Step 4 firefighter's base wage. For each dollar paid by members of Local 2876 (Non-Uniformed / Non-

Suppression), the District shall contribute \$.50 cents not to exceed a combined annual contribution of \$12,000.00.

The District's total contribution for defined contribution plans during 2019 was \$301,969.99.

### **Note 8 - Property Tax**

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at the end of each month.

Property tax revenues are recognized when cash is received by South Kitsap Fire and Rescue. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

South Kitsap Fire and Rescue's regular levy for the year 2019 was \$1.401316 per \$1,000 on an assessed valuation of \$8,910,553,235 for a total regular levy of \$12,493,925.

South Kitsap Fire and Rescue's G.O. Bond levy for the year 2019 was \$0.122049 per \$1,000 on an assessed valuation of \$8,821,938,717 for a total G.O. Bond levy of \$1,076,712.

South Kitsap Fire and Rescue's Annexed Property for the year 2019 was \$0.002716 per \$1,000 on an assessed valuation of \$8,919,316,729 for a total regular levy of \$24,245.

South Kitsap Fire and Rescue's emergency medical services (EMS) levy for the year 2019 was \$0.397605 per \$1,000 on an assessed valuation of \$8,922,037,485 for a total EMS levy of \$3,553,741.

### **Note 9 – Risk Management**

South Kitsap Fire and Rescue is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2019, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund the Pool and share in the self-insured retention. The self-insured retention is:

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is joint liability among the participating members.

The contract requires members to remain in the Pool for a minimum of one year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool and are administered in house.

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool’s members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

**Kitsap County Fire Protection District No. 7**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2019**

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>General Obligation Debt/Liabilities</b>						
251.12	Voted GO Bond	12/1/2020	2,015,000	-	975,000	1,040,000
263.96	LOCAL Program 1168-3-1	6/1/2019	23,680	-	23,680	-
<b>Total General Obligation Debt/Liabilities:</b>			<b>2,038,680</b>	<b>-</b>	<b>998,680</b>	<b>1,040,000</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences	12/31/2019	1,542,190	1,367,133	1,273,081	1,636,242
264.30	Net Pension Liability		485,220	-	127,256	357,964
264.40	LEOFF 1 Liabilities		-	3,138,636	-	3,138,636
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>2,027,410</b>	<b>4,505,769</b>	<b>1,400,337</b>	<b>5,132,842</b>
<b>Total Liabilities:</b>			<b>4,066,090</b>	<b>4,505,769</b>	<b>2,399,017</b>	<b>6,172,842</b>

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, [www.sao.wa.gov](http://www.sao.wa.gov). Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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