



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Kitsap County Fire Protection District No. 10

(North Kitsap Fire and Rescue)

For the period January 1, 2018 through December 31, 2019

Published April 29, 2021

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

April 29, 2021

Board of Commissioners
North Kitsap Fire and Rescue
Kingston, Washington

Report on Financial Statements

Please find attached our report on North 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*

North Kitsap Fire and Rescue January 1, 2018 through December 31, 2019

Board of Commissioners
North Kitsap Fire and Rescue
Kingston, 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 North Kitsap Fire and Rescue, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated April 23, 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 8 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact of the District is unknown.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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.

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated April 23, 2021.

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

April 23, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

North Kitsap Fire and Rescue January 1, 2018 through December 31, 2019

Board of Commissioners
North Kitsap Fire and Rescue
Kingston, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of North Kitsap Fire and Rescue, for the years ended December 31, 2019 and 2018, 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 audits. We conducted our audits 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, North 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 North Kitsap Fire and Rescue, and its changes in cash and investments, for the years ended December 31, 2019 and 2018, 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 North Kitsap Fire and Rescue, as of December 31, 2019 and 2018, or the changes in financial position or cash flows thereof for the years 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 8 of the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are 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 April 23, 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 style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

April 23, 2021

FINANCIAL SECTION

North Kitsap Fire and Rescue January 1, 2018 through December 31, 2019

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2019

Fund Resources and Uses Arising from Cash Transactions – 2018

Notes to Financial Statements – 2019

Notes to Financial Statements – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2019

Schedule of Liabilities – 2018

Kitsap County Fire Protection District No 10
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		Total for All Funds (Memo Only)	001 General	101 EMS Fund	102 FireLife Safety
Beginning Cash and Investments					
30810	Reserved	178,020	-	-	-
30880	Unreserved	3,061,026	3,055,633	2,787	2,201
388 / 588	Net Adjustments	7,291	7,291	-	-
Revenues					
310	Taxes	7,156,606	7,151,626	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	2,404,861	2,404,861	-	-
340	Charges for Goods and Services	1,140,805	1,140,805	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	157,594	153,517	-	43
Total Revenues:		10,859,866	10,850,809	-	43
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	7,520,264	7,520,264	-	-
Total Expenditures:		7,520,264	7,520,264	-	-
Excess (Deficiency) Revenues over Expenditures:		3,339,602	3,330,545	-	43
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	1,070,291	1,067,847	-	100
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		1,070,291	1,067,847	-	100
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,504,288	1,504,288	-	-
591-593, 599	Debt Service	100,429	100,429	-	-
597	Transfers-Out	5,231	100	2,787	2,344
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		1,609,948	1,604,817	2,787	2,344
Increase (Decrease) in Cash and Investments:		2,799,945	2,793,575	(2,787)	(2,201)
Ending Cash and Investments					
5081000	Reserved	187,036	-	-	-
5088000	Unreserved	5,859,248	5,856,499	-	-
Total Ending Cash and Investments		6,046,284	5,856,499	-	-

Kitsap County Fire Protection District No 10
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		<u>103 Donations</u>	<u>201 Bond Fund</u>	<u>301 Capital Projects</u>
Beginning Cash and Investments				
30810	Reserved	-	45,601	132,419
30880	Unreserved	405	-	-
388 / 588	Net Adjustments	-	-	-
Revenues				
310	Taxes	-	4,980	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	-	-
340	Charges for Goods and Services	-	-	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	-	991	3,043
Total Revenues:		-	5,971	3,043
Expenditures				
510	General Government	-	-	-
520	Public Safety	-	-	-
Total Expenditures:		-	-	-
Excess (Deficiency) Revenues over Expenditures:		-	5,971	3,043
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	2,344	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 382, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		2,344	-	-
Other Decreases in Fund Resources				
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:		-	-	-
Increase (Decrease) in Cash and Investments:		2,344	5,971	3,043
Ending Cash and Investments				
5081000	Reserved	-	51,573	135,463
5088000	Unreserved	2,749	-	-
Total Ending Cash and Investments		2,749	51,573	135,463

Kitsap County Fire Protection District No 10
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	001 General	101 EMS Fund	102 Fire&Life Safety
Beginning Cash and Investments					
30810	Reserved	463,778	-	-	-
30880	Unreserved	2,758,503	2,753,149	2,787	2,162
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	6,335,738	5,997,882	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	176,973	176,765	-	-
340	Charges for Goods and Services	1,585,370	1,585,370	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	78,636	68,762	-	39
Total Revenues:		8,176,717	7,828,779	-	39
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	7,254,448	7,254,448	-	-
Total Expenditures:		7,254,448	7,254,448	-	-
Excess (Deficiency) Revenues over Expenditures:		922,269	574,331	-	39
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	147,353	83,008	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		147,353	83,008	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	283,250	283,250	-	-
591-593, 599	Debt Service	614,994	-	-	-
597	Transfers-Out	147,353	64,345	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	7,260	7,260	-	-
Total Other Decreases in Fund Resources:		1,052,857	354,855	-	-
Increase (Decrease) in Cash and Investments:		16,765	302,484	-	39
Ending Cash and Investments					
5081000	Reserved	178,019	-	-	-
5088000	Unreserved	3,061,026	3,055,633	2,787	2,201
Total Ending Cash and Investments		3,239,045	3,055,633	2,787	2,201

Kitsap County Fire Protection District No 10
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		<u>103 Donations</u>	<u>201 Bond Fund</u>	<u>301 Capital Projects</u>
Beginning Cash and Investments				
30810	Reserved	-	251,818	211,960
30880	Unreserved	405	-	-
388 / 588	Net Adjustments	-	-	-
Revenues				
310	Taxes	-	337,856	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	208	-
340	Charges for Goods and Services	-	-	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	-	6,367	3,468
Total Revenues:		-	344,431	3,468
Expenditures				
510	General Government	-	-	-
520	Public Safety	-	-	-
Total Expenditures:		-	-	-
Excess (Deficiency) Revenues over Expenditures:		-	344,431	3,468
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	64,345	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 382, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		-	64,345	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	-	-	-
591-593, 599	Debt Service	-	614,994	-
597	Transfers-Out	-	-	83,008
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
Total Other Decreases in Fund Resources:		-	614,994	83,008
Increase (Decrease) in Cash and Investments:		-	(206,218)	(79,540)
Ending Cash and Investments				
5081000	Reserved	-	45,600	132,419
5088000	Unreserved	405	-	-
Total Ending Cash and Investments		405	45,600	132,419

REPORTING

Note 1 - Summary of Significant Accounting Policies

North Kitsap Fire & Rescue was incorporated on May 17, 1947 and operates under the laws of the State of Washington applicable to a fire protection district. The District is a special purpose local government and provides fire protection, emergency medical services as well as accident and injury prevention services to the general public.

The district 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. (see note to 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, except for fiduciary funds, which are presented by fund types. 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 district. It accounts for all financial resources except those required or elected to be accounted for in another fund. All EMS Levy revenue is posted to this fund and all accounting of operating expenses is tracked through this fund. In addition, Maintenance and Operation (Special Levy) funds are collected into this fund.

Special Revenue Funds

These funds account for specific revenue sources (other than for major capital projects) 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 \$2,500 and an estimated useful life in excess of 10 years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation Leave may be accumulated – as reported on the Vacation Issuance Chart up to a maximum of two years' worth of accrual. Vacation hours are eligible for payout at an employees regular rate of pay upon separation or retirement.

Sick Leave may be accumulated up to a maximum of 1,456 hours for shift personnel and a maximum of 1,040 for day time personnel. Upon separation or retirement, employees are compensated for accrued sick leave in excess of 728 hours, not to exceed 1,456 hours for shift personnel and 520 hours not to exceed 1,040 hours for day shift employees. Payment for eligible hours is calculated at one-half times the employees regular hourly rate, multiplied by eligible hours. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 5 – Pension Plans.

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 the Board of Fire

Commissioners. When expenditures that meet restrictions are incurred, the district intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of the following:

GO Bond Fund – 201, all funds reserved for the purpose of payment of the debt service associated with voted debt.

Capital Projects Fund – 301, all funds reserved prioritized for capital purchases, then emergency needs.

Note 2 – Budget Compliance

H. Budgets

The district adopts annual appropriated budgets for the funds. These budgets are appropriated at the fund level (except the general fund, where budget is adopted at the department level as established by debt service). 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
General Fund:	\$ 8,572,782.00	\$ 9,125,081.00	\$ 552,299.00

Budgeted amounts are authorized to be transferred between object classes within departments; 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 district's legislative body.

Note 3 – Debt Service Requirements

Debt Service

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

The debt service requirements for general obligation bonds and lease purchases are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 77,799.22	\$ 22,629.88	\$ 100,429.10
2020	\$ 269,193.72	\$ 62,513.93	\$ 331,707.65
2021	\$ 360,576.64	\$ 47,514.80	\$ 408,091.44

2022	\$ 377,910.87	\$ 29,828.43	\$ 407,739.30
2023	\$ 396,083.19	\$ 11,286.35	\$ 407,369.54
TOTALS	\$ 1,481,563.64	\$ 173,773.39	\$ 1,655,337.03

Note 4 – Deposits and Investments

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

Type of Deposit or Investment

Bank Deposits	\$ 178,995.49
Kitsap County Investment Pool	\$ <u>5,866,161.88</u>
Total	\$ <u>6,045,157.37</u>

It is North Kitsap Fire & Rescue's policy to invest all temporary cash surpluses. The interest on these investments is deposited into the fund in which it was earned.

Investments in Kitsap County Investment Pool (KCIP)

North Kitsap Fire & Rescue is an involuntary participant in the 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. Kitsap County 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.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, North Kitsap Fire & Rescue would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. North Kitsap Fire & Rescue 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 Kitsap County or its agent in the government's name.

Note 5 – Pension Plans

A. State Sponsored Pension Plans

Substantially all of the districts 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 2, PERS 1, and PERS 2 and PERS 3 types of plans.

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 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

The district 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.

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	47,537	0.006630%	254,947
PERS 2/3	55,355	0.006778%	65,837
LEOFF 2	252,082.97	0.136725%	(3,167,499)
VFFRPF	210	0.11%	71,906.78

LEOFF Plan 2

The district 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.

Note 6 - Property Taxes

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed as they are received.

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

The district's regular levy for the year 2019 was \$1.221960 per \$1,000 on an assessed valuation of \$3,413,368,107 for a total regular levy of \$4,178,622.

The district's special Maintenance & Operations (M&O) levy for the year 2019 was \$0.478296 per \$1,000 on an assessed valuation of \$3,386,164,877 for a total M&O levy of \$1,622,575. All fund resources are collected in the regular levy (NKFR Expense Fund). This was a new M&O.

The district's Emergency Medical Services (EMS) levy for the year 2019 was \$0.388026 per \$1,000 on an assessed valuation of \$3,413,579,397 for a total EMS levy of \$1,327,718. All fund resources are transferred to the General Fund.

Note 7 – Risk Management

The district individually purchases our insurances for management, auto, medical/vision, and dental. We pay premiums to the Department of Labor and Industries for Workman's Compensation. We are classified as a reimbursable account for the Employment Security Department (ESD) for unemployment insurance. We also pay premiums to the ESD for WA Paid Family and Medical Leave.

Note 8 – Subsequent Events

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.

The district is actively monitoring the impacts and so far have seen a 14.5% drop in call volumes compared to March-May of 2019. We have applied for the CARES grant to help supplement this loss in revenue. The district is also tracking COVID expenditures and intends to seek reimbursement thru a public assistance grant.

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NORTH KITSAP FIRE was incorporated on May 17, 1947 and operates under the laws of the state of Washington applicable to a special purpose districts. The District is a special purpose local government that provides Fire Protection, Emergency Medical, and Accident and Injury Prevention services to the general public.

The District 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 account 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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used: The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Operation Expense Fund

This fund is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund. All EMS Levy revenue is posted to this fund and all accounting of operating expenses is tracked through this fund. Maintenance and Operation (Special Levy) funds are collected into this fund.

Debt Service Funds

These funds account for the accumulation of resources to pay principal, interest and related costs on general long-term debt.

Special Revenue Funds

These funds account for the proceeds of specific revenue source (other than for major capital projects) that are legally restricted to expenditures for specific purposes.

Capital Project 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 3. Deposits and Investments

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$2,500.00 and with an estimated useful life of in excess of 10 years. Capital assets and inventory are recorded as capital expenditures when purchased.

E Compensated Absences

Vacation leave may be accumulated up to a maximum of two years accrual. All vacation leave is eligible for payout upon separation or retirement. Sick Leave may be accumulated up to 1456 for shift personnel and 1040 for day time personnel. Upon separation or retirement shift employees do receive payment for unused sick leave. Payments are recognized as payments when paid.

F. Long-Term Debt

See Note 5

G. Reserve Fund Balance – 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 the Board of Fire Commissioners. When expenditures that meet restrictions are incurred, the district intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of: GO Bonds Fund 201 all funds reserved for the purpose of payment of the debt service associated with voted debt – Capital Projects Fund 301 all funds reserved prioritized for capital purchases then emergent needs.

NOTE 2 BUDGET COMPLIANCE**A. Budgets**

The district adopts annual appropriated budgets for their Funds. These budgets are appropriated at the fund level (except the General Fund, and debt service fund where budget is adopted at the department level as established by debt service). 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 follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund	\$7,265,475.00	\$7,617,578.00	\$352,103.00
GO Bond Fund	\$614,886.14	\$614,994.70	\$108.56

Budgeted amounts are authorized to be transferred between object classes within departments; 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 district's legislative body.

NOTE 3 – DEPOSITS & INVESTMENTS

It is the District's policy to invest temporary cash surpluses. The interest on these investments is attributed to each fund.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All Investments are insured registered or held by the county or its agent in the government's name.

Investments by type at December 31, 2018 are as follows:

Type of Investment Balance
Kitsap County Local Government Investment Pool

LGIP	Amount
General	2,767,101
Debt Services	43,129
Fire & Life Safety	2,091
Capital	132,419
Total	\$2,944,740

NOTE 4 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed as received.

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

North Kitsap Fire & Rescue's regular levy for the year 2018 was \$1.328336 per \$1,000 on an assessed valuation of \$3,064,859,297 for a total regular levy of \$4,074,314.

North Kitsap Fire & Rescue's Maintenance & Operations levy for the year 2018 was .197655 per \$1,000 on an assessed valuation of \$3,035,577,032 for a total M & O Levy of \$600,469. All this funds resources are collected in the regular levy (NKFR expense fund)

North Kitsap Fire & Rescue's EMS levy for the year 2018 was \$.421514 per \$1,000 on an assessed valuation of \$3,065,146,187 for a total EMS levy of \$1,293,340. All of this funds resources are transferred to the General Fund.

North Kitsap Fire & Rescue's G.O. Bond levy for the year 2018 was \$.151285 per \$1,000 on an assessed valuation of \$2,214,349,096 for a total regular levy of \$335,000.

NOTE 5– Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the district and summarizes the district's debt transactions for year ended December 31, 2018,

The debt service requirements for general obligation bonds and limited general obligation bonds and lease purchases are as follows:

	Principal	Interest	Total Debt
2018	\$592,960.96	\$22,033.74	\$614,994.70
2019	\$77,799.22	\$11,213.37	\$89,012.59
2020	\$75,740.51	\$13,272.08	\$89,012.59
2021	\$78,860.41	\$10,152.18	\$89,012.59
2022	\$82,108.82	\$6,903.77	\$89,012.59
2023	\$85,491.04	\$3,521.55	\$89,012.59
Totals	992,960.96	67,096.69	1,060,057.65

NOTE 6 - PENSION PLANS

A. State Sponsored Pension Plans

Substantially all of the North Kitsap Fire & Rescue full-time and qualifying part-time employees participate in the LEOFF 2 , PERS 1, PERS 2 AND PERS 3 type(s) of plan(s) administered by the Department of Retirement

Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement systems.

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:

Historical trend or other information regarding each plan is presented in the state Department of Retirement Systems annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia WA 98504-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

The district 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.

At June 30, 2018 (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	45,440	0.006798	303,600
PERS 2/3	53,222	0.006898	117,777
PSERS 2		0	0
LEOFF 1		0	0
LEOFF 2	247,645.05	0.142809	(2,899,334)
VFFRPF	180.00	0.09	(46,422)

LEOFF Plan 2

The district 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.

NOTE 7 – **RISK MANAGEMENT**

Our District individually purchases our insurances for Management, auto, health, dental, vision. We pay premiums to Labor and Industries for Workman's Compensation. We are a reimbursable account for Employment Security for unemployment insurance.

Kitsap County Fire Protection District No 10
Schedule of Liabilities
For the Year Ended December 31, 2019

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	LP_2019D (WASCOP19D)	6/1/2023	1,210,274	-	-	1,210,274
252.11	2018 Ambulance Lease Purchase	2/1/2023	400,000	-	77,799	322,201
259.12	Compensated Absences	12/31/2019	611,147	41,830	-	652,977
264.30	Pension Liabilities	12/31/2019	421,378	-	100,594	320,784
Total Revenue and Other (non G.O.) Debt/Liabilities:			2,642,799	41,830	178,393	2,506,236
Total Liabilities:			2,642,799	41,830	178,393	2,506,236

Kitsap County Fire Protection District No 10
Schedule of Liabilities
For the Year Ended December 31, 2018

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	LTGO 2008	12/1/2018	61,962	-	61,962	-
251.12	2005 UTGO Issue	12/1/2018	531,000	-	531,000	-
Total General Obligation Debt/Liabilities:			592,962	-	592,962	-
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Pension Liabilities	12/31/2018	580,863	-	159,485	421,378
259.12	Compensated Absences	12/31/2018	549,742	61,405	-	611,147
263.52	2018 Ambulance Lease Purchase	2/1/2023	-	400,000	-	400,000
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,130,605	461,405	159,485	1,432,525
Total Liabilities:			1,723,567	461,405	752,447	1,432,525

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. 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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