



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, 2020 through December 31, 2021

Published March 20, 2023

Report No. 1032217



Find out what's new at SAO
by scanning this code with
your smartphone's camera



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

March 20, 2023

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 activities and condition.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	4
Independent Auditor's Report on the Financial Statements.....	7
Financial Section.....	11
About the State Auditor's Office.....	30

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, 2020 through December 31, 2021

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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated March 10, 2023.

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.

REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

March 10, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

North Kitsap Fire and Rescue January 1, 2020 through December 31, 2021

Board of Commissioners
North Kitsap Fire and Rescue
Kingston, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of North Kitsap Fire and Rescue, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of state law and 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 accompanying 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, 2021 and 2020, on the basis of accounting described in Note 1.

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, 2021 and 2020, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to 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. As described in Note 1 of the financial statements, the financial statements are prepared by the District in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management 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 BARS Manual 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and

Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. 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 as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2023 on our consideration of the District's internal control over financial reporting and on the 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 the effectiveness of the District's 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, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

March 10, 2023

FINANCIAL SECTION

North Kitsap Fire and Rescue January 1, 2020 through December 31, 2021

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2021
Fund Resources and Uses Arising from Cash Transactions – 2020
Notes to the Financial Statements – 2021
Notes to the Financial Statements – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2021
Schedule of Liabilities – 2020

Kitsap County Fire Protection District No 10
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		Total for All Funds (Memo Only)	001 Expense Fund	103 Donation Fund	201 Bond Fund
Beginning Cash and Investments					
308	Beginning Cash and Investments	6,334,926	3,344,982	2,773	53,664
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	7,965,728	7,965,033	-	695
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	905,107	905,107	-	-
340	Charges for Goods and Services	1,555,722	1,555,722	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	32,032	21,909	9	148
Total Revenues:		10,458,589	10,447,771	9	843
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	9,647,892	9,647,892	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		9,647,892	9,647,892	-	-
Excess (Deficiency) Revenues over Expenditures:		810,697	799,879	9	843
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	360,418	360,418	-	-
591-593, 599	Debt Service	408,092	408,092	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		768,510	768,510	-	-
Increase (Decrease) in Cash and Investments:		42,187	31,369	9	843
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	57,289	-	2,782	54,507
50841	Committed	-	-	-	-
50851	Assigned	2,943,473	-	-	-
50891	Unassigned	3,376,351	3,376,351	-	-
Total Ending Cash and Investments		6,377,113	3,376,351	2,782	54,507

The accompanying notes are an integral part of this statement.

Kitsap County Fire Protection District No 10
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		<u>301 Capital Project Fund</u>
Beginning Cash and Investments		
308	Beginning Cash and Investments	2,933,507
388 / 588	Net Adjustments	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	9,966
Total Revenues:		<u>9,966</u>
Expenditures		
510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		9,966
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<u>-</u>
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<u>-</u>
Increase (Decrease) in Cash and Investments:		<u>9,966</u>
Ending Cash and Investments		
50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	2,943,473
50891	Unassigned	-
Total Ending Cash and Investments		<u>2,943,473</u>

The accompanying notes are an integral part of this statement.

Kitsap County Fire Protection District No 10
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		Total for All Funds (Memo Only)	001 General	103 Donation	201 Bond
Beginning Cash and Investments					
308	Beginning Cash and Investments	6,046,284	5,856,499	2,749	51,573
388 / 588	Net Adjustments	107,265	107,265	-	-
Revenues					
310	Taxes	7,809,162	7,807,547	-	1,615
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	1,062,707	1,062,707	-	-
340	Charges for Goods and Services	1,007,287	1,007,287	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	73,256	70,326	24	477
Total Revenues:		9,952,412	9,947,867	24	2,092
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	8,652,572	8,652,572	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		8,652,572	8,652,572	-	-
Excess (Deficiency) Revenues over Expenditures:		1,299,840	1,295,295	24	2,092
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	2,795,615	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		2,795,615	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	786,754	786,754	-	-
591-593, 599	Debt Service	331,708	331,708	-	-
597	Transfers-Out	2,795,615	2,795,615	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		3,914,077	3,914,077	-	-
Increase (Decrease) in Cash and Investments:		181,378	(2,618,782)	24	2,092
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	56,437	-	2,773	53,664
50841	Committed	-	-	-	-
50851	Assigned	2,933,507	-	-	-
50891	Unassigned	3,344,982	3,344,982	-	-
Total Ending Cash and Investments		6,334,926	3,344,982	2,773	53,664

The accompanying notes are an integral part of this statement.

Kitsap County Fire Protection District No 10
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		<u>301 Capital</u>
Beginning Cash and Investments		
308	Beginning Cash and Investments	135,463
388 / 588	Net Adjustments	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	2,429
Total Revenues:		<u>2,429</u>
Expenditures		
510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<u>-</u>
Excess (Deficiency) Revenues over Expenditures:		2,429
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	2,795,615
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<u>2,795,615</u>
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<u>-</u>
Increase (Decrease) in Cash and Investments:		<u>2,798,044</u>
Ending Cash and Investments		
50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	2,933,507
50891	Unassigned	-
Total Ending Cash and Investments		<u>2,933,507</u>

The accompanying notes are an integral part of this statement.

North Kitsap Fire and Rescue
Notes to the Financial Statements
For the year ended December 31, 2021

Note 1 - Summary of Significant Accounting Policies

North Kitsap Fire and 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 *Notes 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 presented using classifications that are different from the ending net position classifications 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:

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 and Maintenance and Operation (Special Levy) funds are collected into this fund. All accounting of operational expenses is tracked through this 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.

North Kitsap Fire and Rescue
Notes to the Financial Statements
For the year ended December 31, 2021

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 two years' worth of accrual. In addition, unused vacation hours are eligible for payout at an employee's regular hourly rate of pay upon separation from service or retirement.

Sick leave may be accumulated up to a maximum of 1,456 hours for shift personnel and 1,040 for daytime personnel. Upon separation or retirement, the following employees receive payment for unused sick leave. Payment for eligible hours is calculated at one-half times the employee's regular hourly rate multiplied by the eligible hours.

Non-Exempt administrative personnel is ineligible for unused sick leave compensation. Exempt administrative personnel who submit one year's notice of intent to separate and have at least ten years of service are eligible for payout at their current pay rate based on the years of service and corresponding percentage rate as shown in the *Contract Addendum Exempt Employees*.

Payments from vacation and sick leave are recognized as expenditures when paid. Therefore, the district's total cost of Compensated Absences is \$1,904,481.79.

F. Long-Term Debt

See Note 5 – Long-term Debt (Formerly Debt Service Requirements).

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by Resolution by the Governing Body. When expenditures that meet restrictions are incurred, the district intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of the Donation Fund (103) whereby donated funds are designated by the donor for a specific use other than day to day operations, GO Bond Fund (201) whereby all funds are reserved for the purpose of payment of the debt service associated with voted debt.

North Kitsap Fire and Rescue
Notes to the Financial Statements
For the year ended December 31, 2021

Note 2 - Budget Compliance

The district adopts annual appropriated budgets for the General Expense fund. These budgets are appropriated at the fund level (except the general (current expense) fund, where budget is adopted at the department 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 follows:

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
001 - Expense Fund	\$ 10,089,608	\$ 10,416,402	\$ (326,794)

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 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, canceling public events, limiting public and private gatherings, and restricting business operations, travel, and non-essential activities.

The district continues to actively monitor the impacts of the pandemic operationally and financially since the declaration over two years ago and is prepared to respond appropriately as needed. Fire stations that were closed to the public have re-opened, and staff working remotely have returned to the office. While call volumes remain low, we anticipate returning to "normal" operations soon.

The district submitted costs incurred as a result of the pandemic under FEMA's Public Assistance for COVID (4481-DR-WA). To date, we have received reimbursements totaling \$38,485.44. The district submitted a second batch for reimbursement, which has yet to be paid. The district continues to track expenses related to the pandemic and plans to submit them for reimbursement.

The length of time these measures will continue to be in place and the full extent of the financial impact on the district is still unknown at this time.

North Kitsap Fire and Rescue
Notes to the Financial Statements
For the year ended December 31, 2021

Note 4 – Deposits and Investments

Investments are reported at original cost. Deposits and investments by type at December 31, 2021 are as follows:

<u>Type of Deposit or Investment</u>	
Bank Deposits	\$ 276,864.25
Kitsap County Investment Pool	\$ 6,100,248.56
Total	\$6,377,112.81

It is the district's policy to invest in 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)

The district 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. The county reports its investment in the pool at amortized cost, which is (the same as the value of the pool per share. 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 the 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 – Long-Term Debt *(formerly Debt Service Requirements)*

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the district and summarizes the district's debt transactions for the year ended December 31, 2021.

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

Year	Principal	Interest	Total Debt Service
2021	\$ 360,577	\$ 47,515	\$ 408,091
2022	\$ 377,911	\$ 29,828	\$ 407,739
2023	\$ 396,083	\$ 11,286	\$ 407,370
<i>Totals</i>	\$ 1,134,571	\$ 88,630	\$ 1,223,200

North Kitsap Fire and Rescue
Notes to the Financial Statements
For the year ended December 31, 2021

Note 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all 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 PERS 1, PERS 2/3 and LEOFF 2.

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 Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Also, the DRS ACFR 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 ACFR available from the Office of Financial Management website at www.ofm.wa.gov.

At June 30, 2021 (the measurement date of the plans), the district's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$ 51,298	0.006886%	\$ 84,094.00
PERS 2/3	\$ 80,950	0.008546%	\$ (851,319.00)
LEOFF 2	\$ 343,707	0.172419%	\$ (10,014,809.00)
VFFRPF	\$ 240	0.12%	\$ 27,150.00

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.

North Kitsap Fire and Rescue
Notes to the Financial Statements
For the year ended December 31, 2021

Note 7 - Property Tax

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 2021 was \$1.095171 per \$1,000 on an assessed valuation of \$3,994,125,086 for a total regular levy of \$4,374,252.

The district's EMS levy for the year 2021 was \$0.490996 per \$1,000 on an assessed valuation of \$3,994,404,976 for a total EMS levy of \$1,961,239.

In 2021, the district levied also \$0.409324 per \$1,000 for a Special M&O levy on an assessed valuation of \$3,956,747,036 for a total additional levy of \$1,619,592.

Note 8 – Risk Management

The district individually purchases our insurances for management, auto, and medical/vision/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.

North Kitsap Fire and Rescue
Notes to the Financial Statements
For the year ended December 31, 2020

Note 1 - Summary of Significant Accounting Policies

North Kitsap Fire and 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.
- 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 presented using classifications that are similar to the ending balance classification 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 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 \$2,500 and an estimated useful life in excess of ten (10) years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation Leave

Vacation leave may be accumulated as reported on the Vacation Issuance Chart up to a maximum of two years' worth of accrual and is payable upon separation or retirement. Payments are recognized as expenditures when paid.

Sick Leave

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, shift employees are compensated for accrued sick leave in excess of 728 hours, not to exceed 1,456 hours, and 520 hours not to exceed 1,040 hours for day time personnel. Payment for eligible hours is calculated at one-half times the employee's regular hourly rate, multiplied by eligible hours.

Non-exempt employees are ineligible for cash out of any sick leave hours upon separation or retirement. Exempt employees who provide at least a one year notice of retirement to the district, receive all sick leave hours accrued up to 1,040 as determined by the sick leave cash out longevity scale. Payment for eligible hours is calculated at the employee's regular hourly rate, multiplied by eligible hours. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 5 - *Debt Service Requirements*.

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed 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 the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of the Donation Fund (103) whereby donated funds are designated for a specific use other than day to day operations and GO Bond Fund (201) whereby all funds are reserved for the purpose of payment of the debt service associated with voted debt.

Note 2 - Budget Compliance

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). 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	\$9,450,233	\$9,771,034	(\$320,801)

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 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The district continues to actively monitor the impacts of the pandemic. We have noted a 10% decrease in call volumes since May, 2020. Prior to May, 2020 call volumes had decreased 14% as reported in our 2019 Annual Report. We have received one round of CARES funding and are awaiting reimbursement from a public assistance grant for COVID related expenses. All expenses acquired following the submission of the grant will be submitted for reimbursement per the assistance guidelines. To date, we are operating under a county-wide incident action plan and have been since the start of the pandemic. Our fire stations remain closed to the public and our Board of Fire Commissioners continue to hold their meetings virtually using Microsoft Teams.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the district is unknown at this time.

Note 4 – Deposits and Investments

Investments are reported at original cost. Deposits and investments by type at December 31, 2020 were as follows:

Types of Deposit or Investment

Bank Deposits	\$ 135,379.51
<u>Kitsap County Investment Pool</u>	<u>\$ 6,199,546.49</u>
Total	\$ 6,334,926.00

It is the district'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)

The district 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. The 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, 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 county or its agent in the government's name.

Note 5 – Long-Term Debt

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the district and summarizes the district's debt transactions for year ended December 31, 2020.

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

Year	Principal	Interest	Total
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
2024	\$0.00	\$0.00	\$0.00
Total	\$1,403,764.42	\$151,143.51	\$1,554,907.93

Note 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all 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 PERS 1, PERS 2/3 and LEOFF 2.

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 Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Also, the DRS ACFR 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 ACFR available from the Office of Financial Management website at www.ofm.wa.gov.

At June 30, 2020 (the measurement date of the plans), the district's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

Plan	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	46,971.00	0.006481	228,814
PERS 2/3	62,414.00	0.006775	86,648
LEOFF 2	239,123.20	0.122239	(2,439,497)
VFFRPF	210.00	0.11	38,097

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 7 - Property Tax

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 2020 was \$1.095171 per \$1,000 on an assessed valuation of \$3,994,125,086 for a total regular levy of \$4,378,936.

The district's special Maintenance & Operations (M&O) levy for the year 2020 was \$0.409324 per \$1,000 on an assessed valuation of \$3,956,747,036 for a total M&O levy of \$1,622,028. All fund resources are collected in the regular levy (NKFR Expense Fund).

The district's Emergency Medical Services (EMS) levy for the year 2020 was \$0.490996 per \$1,000 on an assessed valuation of \$3,994,404,976 for a total EMS levy of \$1,964,161. All fund resources are transferred to the General Fund.

Note 8 – 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 by the Employment Security Department (ESD) for unemployment insurance and we pay premiums to the ESD for WA Paid Family and Medical Leave.

Kitsap County Fire Protection District No 10
Schedule of Liabilities
For the Year Ended December 31, 2021

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.96	LP_2019D (WASCOP19D)	6/1/2023	888,110	-	281,716	606,394
Total General Obligation Debt/Liabilities:			888,110	-	281,716	606,394
Revenue and Other (non G.O.) Debt/Liabilities						
263.52	2018 Ambulance Lease Purchase	2/1/2023	246,460	-	78,861	167,599
264.30	Pension Liabilities		315,463	-	231,369	84,094
259.12	Compensated Absences		1,083,847	820,635	-	1,904,482
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,645,770	820,635	310,230	2,156,175
Total Liabilities:			2,533,880	820,635	591,946	2,762,569

Kitsap County Fire Protection District No 10
Schedule of Liabilities
For the Year Ended December 31, 2020

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.96	LP_2019D (WASCOP19D)	6/1/2023	1,081,563	-	193,453	888,110
Total General Obligation Debt/Liabilities:			1,081,563	-	193,453	888,110
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		652,977	430,870	-	1,083,847
263.52	2018 Ambulance Lease Purchase	2/1/2023	322,201	-	75,741	246,460
264.30	Pension Liabilities		320,784	-	5,321	315,463
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,295,962	430,870	81,062	1,645,770
Total Liabilities:			2,377,525	430,870	274,515	2,533,880

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.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS Manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov