



Office of the Washington State Auditor  
Pat McCarthy

## **Financial Statements Audit Report**

# **San Juan County Fire Protection District No. 2**

**(Orcas Island Fire & Rescue)**

**For the period January 1, 2022 through December 31, 2023**

*Published September 18, 2025*

Report No. 1037942



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

September 18, 2025

Board of Commissioners  
Orcas Island Fire & Rescue  
Eastsound, Washington

**Report on Financial Statements**

Please find attached our report on Orcas Island Fire & 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](mailto:webmaster@sao.wa.gov).*

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## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **Orcas Island Fire & Rescue January 1, 2022 through December 31, 2023**

#### **2023-001 The District did not have adequate internal controls ensuring accurate reporting of its financial statements.**

##### ***Background***

State and federal agencies, the Board of Commissioners and the public rely on information included in the financial statements and reports to make decisions. Management is responsible for designing and following internal controls that provide reasonable assurance the District's financial reporting is reliable and the financial statements and notes to the financial statements are accurate.

The District prepares its financial statements in accordance with the cash-basis accounting method prescribed in the State Auditor's Office's *Budgeting, Accounting, and Reporting System* (BARS) Manual.

Our audit found deficiencies in internal controls over accounting and financial reporting that affected the District's ability to produce reliable financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate material weaknesses as a finding.

##### ***Description of Condition***

We found the following deficiencies in internal controls that, when taken together, represent a material weakness. Specifically, the District did not have internal controls in place to:

- Perform and retain timely bank reconciliations in fiscal year 2023 to identify and correct errors affecting the accounting records and financial statements
- Establish an independent review process over journal entries and retain adequate supporting documentation for entries completed
- Establish a review process over its financial reporting to ensure the information was accurate, complete and in compliance with the BARS Manual

### *Cause of Condition*

The District had significant turnover in both the Chief and Secretary roles during the audit period. This resulted in employees not performing internal control processes, such as bank reconciliations, promptly or as consistently as other employees had previously. The District did not dedicate sufficient resources to ensure proper controls were in place.

### *Effect of Condition*

Inaccurate accounting records and financial reports limit access to financial information that District officials, the public, state and federal agencies, and other interested parties use. Additionally, these conditions delay the audit process and result in increased audit costs.

We were unable to identify all the errors in the financial statements. However, we found the District lacked support or explanations for differences we identified between the financial statements and bank statements. We noted the 2023 financial statements reported less activity than the activity we confirmed with the County Treasurer. Specifically:

- Revenues/non-revenues were likely understated by about \$339,675
- Expenditures/non-expenditures were likely overstated by about \$321,323

The District chose not to perform additional work to determine the cause of the discrepancies in the accounting records to prepare accurate financial statements.

We also noted several other small discrepancies in the notes to the financial statements.

### *Recommendation*

We recommend the District:

- Reconcile its financial records to bank statements promptly, and ensure someone independent reviews the reconciliation for accuracy
- Establish an independent review of all journal entries performed and retain supporting documentation to ensure they are reasonable and accurate
- Strengthen internal controls over financial statement preparation and review to ensure the financial statements are accurate, complete and in compliance with BARS Manual requirements

## ***District's Response***

*The audit finding and description of deficiencies in internal controls comes as no surprise to the current Board of Fire Commissioners. Three Commissioners were elected in November 2023 with concerns about deficiencies with finances, public records, and legal matters, and two of were appointed during the summer of 2024.*

*The District employees have worked tirelessly to reconcile the 2022 and 2023. The District office and all records were open for inspection and all requests for information were answered promptly. Our employees searched for the cause of accounting discrepancies without success, but they should not be faulted for lack of effort.*

*Our employees shared the same high standards and desire for perfection that is exhibited in your report. Notwithstanding their best efforts, the lack of contemporaneous records by prior employees of the District frustrated the reconciliation process for the year 2023. We cannot re-create work that was not done in the first place.*

*It appears that in 2023 maintaining internal controls was not a priority of the prior commissioners or administration. Turnover of key employees was a factor and the extent of turnover was far greater than you reported and is shown in detail below:*

*In 2023:*

- Financial Officer and Human Resources Manager Resigned*
- Fire Chief Resigned*
- Assistant Chief Vacated Temporarily*
- Financial Officer and Human Resources Manager Resigned*

*In 2024:*

- Board Secretary Resigned*
- Assistant Fire Chief Resigned*
- Financial Officer and Human Resources Manager Resigned*
- Fire Chief Resigned*

*By the summer of 2024 a stable hiring process for the many vacant positions was underway. A Public Records Officer was hired along with a new Fire Chief, and later a Finance Manager and Administrative Director, an Office Manager and an Administrative Assistant. As the new leadership took over they looked for guidance in the form of instructions and workbooks and other internal controls and found that none had been left by those working in 2022 and 2023.*

*With this level of turnover, especially in Financial Officer and Fire Chief positions, in 2024, the Board discussed whether we should hire a Big Five Accounting Firm to review and update our financial records. We received an estimate of services and a price. After reviewing the estimate and comparing the expense of the upcoming State Audit, we elected to rely upon the services of the State Auditor.*

*To assist the State Auditor and provide the necessary reports we hired a retired local Certified Public Accountant as a full-time employee for about six months to update reconciliations and bring the reports and internal controls up-to-date and work with the State Auditor to promptly answer questions in connection with information that could be uncovered for the years 2022 and 2023..*

*We have proactively taken steps even before this finding was made. Earlier this year the Board of Commissioners adopted budget policies with internal controls, and credit card management policies, debt management and related reporting procedures.*

*We agree with the recommendations and thank you for your guidance. The current Board of Commissioners and administrative leadership understands the importance of timely financial reconciliation as a matter of internal control also to dedicating the personnel resources to this need for the next financial period, and as necessary in the future.*

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

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

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

*Government Auditing Standards*, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

## 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*

#### **Orcas Island Fire & Rescue January 1, 2022 through December 31, 2023**

Board of Commissioners  
Orcas Island Fire & Rescue  
Eastsound, 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 Orcas Island Fire & Rescue, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated September 5, 2025.

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.

However, we identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2023-001, that we consider to be a material weakness.

## **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*. However, we noted certain matters that we have reported to the management of the District in a separate special investigation report dated April 22, 2024.

## **DISTRICT'S RESPONSE TO FINDINGS**

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

September 5, 2025

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **Orcas Island Fire & Rescue January 1, 2022 through December 31, 2023**

Board of Commissioners  
Orcas Island Fire & Rescue  
Eastsound, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Unmodified and Adverse Opinions**

We have audited the financial statements of Orcas Island Fire & Rescue, as of and for the years ended December 31, 2023 and 2022, 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 Orcas Island Fire & Rescue, and its changes in cash and investments, for the years ended December 31, 2023 and 2022, 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 Orcas Island Fire & Rescue, as of December 31, 2023 and 2022, 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. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other

records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2025 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 fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

September 5, 2025

## **FINANCIAL SECTION**

### **Orcas Island Fire & Rescue January 1, 2022 through December 31, 2023**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2023

Fund Resources and Uses Arising from Cash Transactions – 2022

Notes to Financial Statements – 2023

Notes to Financial Statements – 2022

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

Schedule of Liabilities – 2023

Schedule of Liabilities – 2022

**San Juan County Fire Protection District No. 2**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2023**

**Beginning Cash and Investments**

308	Beginning Cash and Investments	1,384,806
388 / 588	Net Adjustments	-

**Revenues**

310	Taxes	2,386,962
320	Licenses and Permits	-
330	Intergovernmental Revenues	29,512
340	Charges for Goods and Services	222,042
350	Fines and Penalties	-
360	Miscellaneous Revenues	37,903
Total Revenues:		2,676,419

**Expenditures**

510	General Government	-
520	Public Safety	2,767,169
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		2,767,169
Excess (Deficiency) Revenues over Expenditures:		(90,750)

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	150,412
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		150,412

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	180,683
591-593, 599	Debt Service	4,008
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		184,691

**Increase (Decrease) in Cash and Investments:** **(125,029)**

**Ending Cash and Investments**

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	-
50891	Unassigned	1,259,778
Total Ending Cash and Investments		1,259,778

*The accompanying notes are an integral part of this statement.*



**San Juan County Fire Protection District No. 2**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2022**

**Beginning Cash and Investments**

308	Beginning Cash and Investments	1,656,782
388 / 588	Net Adjustments	-

**Revenues**

310	Taxes	2,320,488
320	Licenses and Permits	9,378
330	Intergovernmental Revenues	74,221
340	Charges for Goods and Services	196,817
350	Fines and Penalties	-
360	Miscellaneous Revenues	76,501
Total Revenues:		<u>2,677,405</u>

**Expenditures**

510	General Government	-
520	Public Safety	2,764,714
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<u>2,764,714</u>
Excess (Deficiency) Revenues over Expenditures:		<u>(87,309)</u>

**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	130,814
591-593, 599	Debt Service	53,851
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<u>184,665</u>

**Increase (Decrease) in Cash and Investments:** **(271,974)**

**Ending Cash and Investments**

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	-
50891	Unassigned	1,384,806
Total Ending Cash and Investments		<u>1,384,806</u>

*The accompanying notes are an integral part of this statement.*

**San Juan County Fire Protection District No. 2**  
**Notes to the Financial Statements**  
**January 1, 2023 through December 31, 2023**

**Note 1 - Summary of Significant Accounting Policies**

The San Juan County Fire Protection District No. 2 was incorporated in 1948 and operates under the laws of the state of Washington applicable to Fire Districts. The District is a general purpose government and provides fire and emergency medical services

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 District 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 District's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

**GOVERNMENTAL FUND TYPES:**

**General (Current 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.

**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.

In accordance with state law the District may also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

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 \$1,000, an estimated useful life in excess of one year and not defined as a consumable item. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to 30 days and is payable upon separation or retirement at the employee's full hourly rate. Sick leave may be accumulated indefinitely. Upon separation or retirement employees do receive payment for unused sick leave at 25% of their wage for all hours accumulated. Vacation and Sick leave - accumulations greater than these may be allowed in special or unique circumstances for both Vacation and Sick leave.

Personal Time Off (PTO) leave may generally be accumulated up to 24 days and is payable upon separation or retirement. Accumulations greater than this may be allowed in special or unique circumstances.

The value of accrued compensated absences as of December 31, 2023 is \$160,167.

**Note 2 – Budget Compliance**

The District adopts annual appropriated budgets for the fund. The budget is appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:	\$3,077,683	2,951,857	\$125,826
Total General Fund	\$3,077,683	\$2,951,857	\$125,826

Budgeted amounts are authorized to be transferred between departments and object classes; 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 San Juan County Fire District #2 is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with [Chapter 43.250 RCW](#). Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at [www.tre.wa.gov](http://www.tre.wa.gov).

Investments by type at December 31, 2023 are as follows:

Type of deposit or investment	District's own deposits and investments	Deposits and investments held by the District as custodian for other local governments, individuals, or private organizations	Total
L.G.I.P	\$950,000.00	\$0.00	\$950,000.00
Bank Deposits	\$389,872.45	\$0.00	\$389,872.45
Open Period & Outstanding Items	-\$80,094.23	\$0.00	-\$80,094.23
Revolving Fund	<u>\$0.0</u>	<u>\$0.00</u>	<u>\$0.00</u>
<b>Total</b>	<b>\$1,259,778.22</b>	<b>\$0.00</b>	<b>\$1,259,778.22</b>

### **Note 4 - Property Tax**

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

Property tax revenues are recognized when cash is received by San Juan County. 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 2023 was \$0.5883604965 per \$1,000 on an assessed valuation of \$4,052,840,468 for a total regular levy of \$2,384,531.23

### **Note 5 – Short-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, 2023.

The debt service requirements for the purchase of equipment (two SUVs) are as follows:

Year	Principal	Interest	Total
2023	\$141,519.59	\$21,982.55	\$163,502.14
<b>Total</b>	<b>\$141,519.59</b>	<b>\$21,982.55</b>	<b>\$163,502.14</b>

The above mentioned Debt is a 5 year LOCAL loan with the State of Washington number 1277-1-1 for the purchase of 2 Ford Interceptor AWD HEV.

#### **Note 6 - Pension Plans**

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

Substantially all of the District's uniformed employees participate in the LEOFF 2 and all of the District's non-uniformed employees participate in the PERS 2 or 3 statewide retirement systems plans administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

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

The Department of Retirement Systems, 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](http://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](http://www.ofm.wa.gov).

At June 30, 2023 (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:

	Allocation %	Liability (Asset)
PERS 1	0.00071600%	\$ 16,344
PERS 2/3	0.00092400%	\$ (37,872)
LEOFF 2	0.02581200%	\$ (619,126)
VFFRPF	0.430000%	\$ (85,835)

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.

**B. Defined Contribution Pension Plans**

The District participates in a 457b Plan with Nationwide Ins. The 457b Plan is a 4% Match Plan. The District will match up to 4% of the employee's wages. The employee can contribute more but the combination of the two can not exceed the annual cap stated annually by Nationwide.

The contribution made as of December 31, 2023 is \$30,994.56

**Note 7 – 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.

Orcas Island Fire & Rescue has closed its doors to the public. This closure has not had a significant impact financially. Two administrative staff have transitioned to a 'work from home' status and they have been set up with VOIP phones, their office computers, and internet services. This has reduced the administrative staff present at the fire department headquarters building. Public access to the fire department headquarters has been closed unless it involves essential or emergency activity. Operationally, it has been a challenge to provide our Staff and Volunteers with the required monthly and annual training due to restrictions on group activities. As a result, we implemented virtual training via Zoom and will continue to do so until the Governor changes the declaration. Several department meetings are utilizing ZOOM or MS Teams as a platform for communications. Orcas Island Fire & Rescue's financial impact has been due to the unexpected additional expenditures for PPE, cleaning supplies, equipment, and IT services for work from home activities, training, and meetings. 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.

In January 2021, Orcas Island Fire Department was able to vaccinate the majority of our Operations, Administration and Volunteer Staff. However, we are currently still training mostly via Zoom with a few small groups of in person trainings. Our offices remain closed to the public until the Governor declares the reopening of our doors. Our two administrative staff are back to work from their offices. The financial impact to our department has reduced some.

In January 2022, Orcas Island Fire Department has started moving more towards in person training with the optional Zoom link. Our offices remain closed to the public, but we are now looking at reopening them and what that will look like. The financial impact to our department has stayed the same as the previous year.

In January 2023, Orcas Island fire Department has continued in person training with the optional Zoom link. In person Board meetings with Zoom link has been implemented. Our offices are now open to the public. The financial impact to our department has stayed the same as the previous year.

**Note 8 – Going Concern**

The financial statements have been prepared on a going concern basis, which assumes the District will be able to realize its assets and settle its liabilities in the normal course of business for the foreseeable future. In 2014 the Fire District went to the voters for a Levy Lid Lift. The lid lift was approved at \$1.05/1000. The District is limited to the 1% cap each year with property tax revenue and the annual budget for the District in 2022 is expected to exceed the tax revenue. This is expected to occur each following year. The going concern is that the budget reserves will be utilized beyond the District's ability to finance our operations by 2024 or 2025.

These conditions raise substantial doubt about the District's ability to continue operating as it has in the past. The management of the District completed a Strategic Plan in 2020 which addresses the need to seek out additional revenue sources to include going to the voters for a levy lid lift in 2023 or after. Operations will be adjusted to maintain the District's ability to provide service within our financial constraints.

**San Juan County Fire Protection District No. 2**  
**Notes to the Financial Statements**  
**January 1, 2022 through December 31, 2022**

**Note 1 - Summary of Significant Accounting Policies**

The San Juan County Fire Protection District No. 2 was incorporated in 1948 and operates under the laws of the state of Washington applicable to Fire Districts. The District is a general purpose government and provides fire and emergency medical services

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 District 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 District's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

**GOVERNMENTAL FUND TYPES:**

**General (Current 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.

**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.

In accordance with state law the District may also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.



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 \$1,000, an estimated useful life in excess of one year and not defined as a consumable item. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to 30 days and is payable upon separation or retirement at the employees full hourly rate. Sick leave may be accumulated indefinitely. Upon separation or retirement employees do receive payment for unused sick leave at 25% of their wage for all hours accumulated. Vacation and Sick leave - accumulations greater than these may be allowed in special or unique circumstances for both Vacation and Sick leave.

Personal Time Off (PTO) leave may generally be accumulated up to 24 days and is payable upon separation or retirement. Accumulations greater than this may be allowed in special or unique circumstances.

The value of accrued compensate absences as of December 31, 2022 is \$142,436.00

**Note 2 – Budget Compliance**

The District adopts annual appropriated budgets for the fund. The budget is appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:	\$3,024,013	2,949,381	\$74,632
Total General Fund	\$3,024,013	\$2,949,381	\$74,632

Budgeted amounts are authorized to be transferred between departments and object classes; 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 San Juan County Fire District #2 is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with [Chapter 43.250 RCW](#). Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at [www.tre.wa.gov](http://www.tre.wa.gov).

Investments by type at December 31, 2022 are as follows:

Type of deposit or investment	District's own deposits and investments	Deposits and investments held by the District as custodian for other local governments, individuals, or private organizations	Total
L.G.I.P	\$1,295,000.00	\$0.00	\$1,295,000.00
Bank Deposits	\$117,270.19	\$0.00	\$117,270.19
Open Period & Outstanding Items	-\$27,463.77	\$0.00	-\$27,463.77
Revolving Fund	<u>\$0.0</u>	<u>\$0.00</u>	<u>\$0.00</u>
<b>Total</b>	<b>\$1,384,806.42</b>	<b>\$0.00</b>	<b>\$1,384,806.42</b>

### **Note 4 - Property Tax**

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

Property tax revenues are recognized when cash is received by San Juan County. 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 2022 was \$0.7448903528 per \$1,000 on an assessed valuation of \$3,116,461,814 for a total regular levy of \$2,321,422.34

### **Note 5 – Short-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, 2022.

The debt service requirements for the purchase of equipment (Lifepak 15 Monitors) are as follows:

Year	Principal	Interest	Total
2022	\$62,827.33	\$0.00	\$62,827.33
<b>Total</b>	<b>\$62,827.33</b>	<b>\$0.00</b>	<b>\$62,827.33</b>

The above mentioned Debt is considered to be a 3 year lease with Flex Financial, a division of Stryker Sales Corporation for the purchase of Lifepak 15 Monitors. There were no Guarantees or Assets Pledged as Collateral for the Debt.

#### **Note 6 - Pension Plans**

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

Substantially all of the District's uniformed employees participate in the LEOFF 2 and all of the District's non-uniformed employees participate in the PERS 2 or 3 statewide retirement systems plans administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

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

The Department of Retirement Systems, 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](http://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](http://www.ofm.wa.gov).

At June 30, 2022 (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:

	Allocation %	Liability (Asset)
PERS 1	0.000668%	\$ 18,600
PERS 2/3	0.000866%	\$ (32,1189)
LEOFF 2	0.025723%	\$ (699,073)
VFFRPF	.44%	\$ (124,864.63)

## 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.

### B. Defined Contribution Pension Plans

The District participates in a 457b Plan with Nationwide Ins. The 457b Plan is a 4% Match Plan. The District will match up to 4% of the employee's wages. The employee can contribute more but the combination of the two can not exceed the annual cap stated annually by Nationwide.

The contribution made as of December 31, 2022 is \$38,737.62

### Note 7 – 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.

Orcas Island Fire & Rescue has closed its doors to the public. This closure has not had a significant impact financially. Two administrative staff have transitioned to a 'work from home' status and they have been set up with VOIP phones, their office computers, and internet services. This has reduced the administrative staff present at the fire department headquarters building. Public access to the fire department headquarters has been closed unless it involves essential or emergency activity. Operationally, it has been a challenge to provide our Staff and Volunteers with the required monthly and annual training due to restrictions on group activities. As a result, we implemented virtual training via Zoom and will continue to do so until the Governor changes the declaration. Several department meetings are utilizing ZOOM or MS Teams as a platform for communications. Orcas Island Fire & Rescue's financial impact has been due to the unexpected additional expenditures for PPE, cleaning supplies, equipment, and IT services for work from home activities, training, and meetings. 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.

In January 2021, Orcas Island Fire Department was able to vaccinate the majority of our Operations, Administration and Volunteer Staff. However, we are currently still training mostly via Zoom with a few small groups of in person trainings. Our offices remain closed to the public until the Governor declares the reopening of our doors. Our two administrative staff are back to work from their offices. The financial impact to our department has reduced some.

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#### **Note 8 – Going Concern**

The financial statements have been prepared on a going concern basis, which assumes the District will be able to realize its assets and settle its liabilities in the normal course of business for the foreseeable future. In 2014 the Fire District went to the voters for a Levy Lid Lift. The lid lift was approved at \$1.05/1000. The District is limited to the 1% cap each year with property tax revenue and the annual budget for the District in 2022 is expected to exceed the tax revenue. This is expected to occur each following year. The going concern is that the budget reserves will be utilized beyond the Districts ability to finance our operations by 2024 or 2025.

These conditions raise substantial doubt about the District's ability to continue operating as it has in the past. The management of the District completed a Strategic Plan in 2020 which addresses the need to seek out additional revenue sources to include going to the voters for a levy lid lift in 2023 or after. Operations will be adjusted to maintain the District's ability to provide service within our financial constraints.

**San Juan County Fire Protection District No. 2**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2023**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
263.96	LOCAL Loan 1227-1-1	6/1/2028	-	141,520	-	141,520
	<b>Total General Obligation Debt/Liabilities:</b>		<b>-</b>	<b>141,520</b>	<b>-</b>	<b>141,520</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		142,436	17,731	-	160,167
264.30	Pension Liabilities		18,600	-	2,256	16,344
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>161,036</b>	<b>17,731</b>	<b>2,256</b>	<b>176,511</b>
	<b>Total Liabilities:</b>		<b>161,036</b>	<b>159,251</b>	<b>2,256</b>	<b>318,031</b>

**San Juan County Fire Protection District No. 2**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2022**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences	12/31/2022	148,689	-	6,253	142,436
264.30	Pension Liabilities	12/31/2022	13,031	5,569	-	18,600
263.92	Three Year Payment Plan no Interest	4/15/2022	62,828	-	62,828	-
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>224,548</b>	<b>5,569</b>	<b>69,081</b>	<b>161,036</b>
<b>Total Liabilities:</b>			<b>224,548</b>	<b>5,569</b>	<b>69,081</b>	<b>161,036</b>

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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### Other ways to stay in touch

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