



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Kitsap County Fire Protection District No. 7

(South Kitsap Fire and Rescue)

For the period January 1, 2020 through December 31, 2021

Published February 13, 2023

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

February 13, 2023

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

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of South Kitsap Fire and Rescue, as of and for the 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 February 6, 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 style with a large, stylized initial "P".

Pat McCarthy, State Auditor

Olympia, WA

February 6, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of South 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 South 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 South 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. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance

with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 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 that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

February 6, 2023

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

FINANCIAL STATEMENTS

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Schedule of Liabilities – 2020

Kitsap County Fire Protection District No. 7
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		<u>Total for All Funds (Memo Only)</u>	<u>001 General Fund</u>	<u>101 EMS Fund</u>	<u>201 Debt Service Fund</u>
Beginning Cash and Investments					
308	Beginning Cash and Investments	14,724,204	5,792,286	7,672	3,719
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	17,200,433	17,185,279	-	15,154
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	2,840,831	2,840,831	-	-
340	Charges for Goods and Services	2,535,371	2,535,371	-	-
350	Fines and Penalties	902	902	-	-
360	Miscellaneous Revenues	119,237	79,395	2,914	38
Total Revenues:		<u>22,696,774</u>	<u>22,641,778</u>	<u>2,914</u>	<u>15,192</u>
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	21,317,090	21,310,000	42	8
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		<u>21,317,090</u>	<u>21,310,000</u>	<u>42</u>	<u>8</u>
Excess (Deficiency) Revenues over Expenditures:		1,379,684	1,331,778	2,872	15,184
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	791,546	33	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	173,720	173,720	-	-
Total Other Increases in Fund Resources:		<u>965,266</u>	<u>173,753</u>	<u>-</u>	<u>-</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	807,857	807,857	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	791,546	791,513	33	-
585	Special or Extraordinary Items	58,242	58,242	-	-
581, 582, 589	Other Uses	153,102	153,102	-	-
Total Other Decreases in Fund Resources:		<u>1,810,747</u>	<u>1,810,714</u>	<u>33</u>	<u>-</u>
Increase (Decrease) in Cash and Investments:		<u>534,203</u>	<u>(305,183)</u>	<u>2,839</u>	<u>15,184</u>
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	-
50841	Committed	-	-	-	-
50851	Assigned	9,771,303	-	10,511	18,903
50891	Unassigned	5,487,114	5,487,114	-	-
Total Ending Cash and Investments		<u>15,258,417</u>	<u>5,487,114</u>	<u>10,511</u>	<u>18,903</u>

The accompanying notes are an integral part of this statement.

Kitsap County Fire Protection District No. 7
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		301 Capital Projects Fund
Beginning Cash and Investments		
308	Beginning Cash and Investments	8,920,527
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	36,890
Total Revenues:		36,890
Expenditures		
510	General Government	-
520	Public Safety	7,040
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		7,040
Excess (Deficiency) Revenues over Expenditures:		29,850
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	791,513
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		791,513
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:		-
Increase (Decrease) in Cash and Investments:		821,363
Ending Cash and Investments		
50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	9,741,889
50891	Unassigned	-
Total Ending Cash and Investments		9,741,889

The accompanying notes are an integral part of this statement.

Kitsap County Fire Protection District No. 7
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		<u>Total for All Funds (Memo Only)</u>	<u>001 General Fund</u>	<u>101 EMS Fund</u>	<u>201 Debt Service Fund</u>
Beginning Cash and Investments					
308	Beginning Cash and Investments	13,821,318	6,246,051	8,110	104,545
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	17,523,407	16,545,476	-	977,931
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	3,225,707	3,225,175	-	532
340	Charges for Goods and Services	2,303,016	2,303,016	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	152,975	71,298	1,635	2,573
Total Revenues:		<u>23,205,105</u>	<u>22,144,965</u>	<u>1,635</u>	<u>981,036</u>
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	19,598,416	19,590,813	1,041	261
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		<u>19,598,416</u>	<u>19,590,813</u>	<u>1,041</u>	<u>261</u>
Excess (Deficiency) Revenues over Expenditures:		3,606,689	2,554,152	594	980,775
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	1,533,047	1,033	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	140,482	140,482	-	-
Total Other Increases in Fund Resources:		<u>1,673,529</u>	<u>141,515</u>	<u>-</u>	<u>-</u>
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,645,282	1,645,282	-	-
591-593, 599	Debt Service	1,081,727	127	-	1,081,600
597	Transfers-Out	1,533,047	1,386,746	1,033	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	117,279	117,279	-	-
Total Other Decreases in Fund Resources:		<u>4,377,335</u>	<u>3,149,434</u>	<u>1,033</u>	<u>1,081,600</u>
Increase (Decrease) in Cash and Investments:		<u>902,883</u>	<u>(453,767)</u>	<u>(439)</u>	<u>(100,825)</u>
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	-	-
50841	Committed	-	-	-	-
50851	Assigned	8,931,918	-	7,672	3,719
50891	Unassigned	5,792,286	5,792,286	-	-
Total Ending Cash and Investments		<u>14,724,204</u>	<u>5,792,286</u>	<u>7,672</u>	<u>3,719</u>

The accompanying notes are an integral part of this statement.

Kitsap County Fire Protection District No. 7
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

		301 Capital Projects Fund
Beginning Cash and Investments		
308	Beginning Cash and Investments	7,462,612
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	77,469
Total Revenues:		77,469
Expenditures		
510	General Government	-
520	Public Safety	6,301
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		6,301
Excess (Deficiency) Revenues over Expenditures:		71,168
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	1,532,014
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		1,532,014
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	145,268
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		145,268
Increase (Decrease) in Cash and Investments:		1,457,914
Ending Cash and Investments		
50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	8,920,527
50891	Unassigned	-
Total Ending Cash and Investments		8,920,527

The accompanying notes are an integral part of this statement.

Kitsap County Fire Protection District No. 7

DBA: South Kitsap Fire and Rescue

Notes to the Financial Statements

For the Year Ended December 31, 2021

Note 1 – Summary of Significant Accounting Policies

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

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

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements (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 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 \$4,999 and an estimated useful life in excess of one (1) year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

1. Annual Vacation Leave – The total amount of accrued vacation leave is limited to three hundred sixty-nine (369) hours for the Fire Chief, Deputy Chiefs, and Assistant Chief and is payable upon separation or retirement. The Fire Chief, Deputy Chiefs, and Assistant Chief may elect to sell back up to forty (40) hours of vacation at straight pay for hours over the maximum carry over of three hundred sixty-nine (369). The total amount of accrued vacation leave is limited to three hundred sixty (360) hours for the Human Resources Director and the Finance Director and is payable upon separation or retirement. There shall be no compensation paid for unused vacation leave beyond three hundred sixty (360) hours.

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

2. Sick Leave – At normal retirement, medical retirement, or death, the Fire Chief, Deputy Chiefs, Assistant Chief, Human Resource Director, and Finance Director shall receive one half (1/2) hour of pay for each hour of accumulated sick leave up to a maximum of one thousand forty (1,040) hours. Upon written notice of the Finance Director to retire at least twelve (12) months prior to retirement date, the Finance Director shall receive straight time pay for an additional twenty-five (25) percent of accumulated sick leave bank for a total of seventy-five (75) percent to be paid out at retirement. Should the Fire Chief, Deputy Chiefs, Assistant Chief, Human Resource Director, or Finance Director separate from the district prior to his/her retirement at the end of his/her work career, medical retirement, or death, he/she shall not be eligible for this benefit.

Non-uniform/non-suppression personnel may accumulate a maximum of 1,040 hours of sick leave. Employees who at the end of each contract year exceed maximum sick leave carryover shall receive vacation hours at the rate of 0.125 for all hours above the maximum. These vacation hours may be sold back at the regular rate of pay. Those employees who reach normal service retirement, medical retirement, expire, or are subject to a reduction in force through lay off shall receive one half (1/2) of their accumulated sick leave bank (520 maximum hours paid).

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

3. Compensatory Time – Represented employees may accrue compensatory time in lieu of receiving overtime pay. Compensatory time accrues at one and one half (1-1/2) hours for each overtime hour worked. Represented non-uniform employees may bank up to 40 straight time hours of accrued compensatory time which will be cashed out upon separation at the employee’s regular, straight-time rate of pay. Represented uniformed employees may bank up to 192 straight time hours of accrued compensatory time which will be cashed out upon separation at the employee’s regular, straight-time rate of pay. Both non-uniform employees and uniformed employees compensatory time accrued will be cashed out in October of each year at the employee’s regular rate of pay.

As of December 31, 2021, the District’s total liability for vested leave balances was \$2,458,163 as presented in the Schedule of Liabilities. Payments are recognized as expenditures when paid.

Note 2 – Budget Compliance

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

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
Total 001 General Fund	\$ 22,815,531.04	\$ 23,120,703.25	(\$ 305,172.21)

Budgeted amounts are authorized to be transferred between departments within the fund at the direction of the Fire Chief; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by South Kitsap Fire and Rescue’s legislative body.

South Kitsap Fire and Rescue made a budget adjustment in December 2021. This budget adjustment increased the budget from \$21,365,822 to \$23,126,111; an increase of \$1,760,289. From this increase, \$791,513 was transferred from the general fund (90862) to the capital projects fund (90864). The remaining \$968,776 covered unforeseen

expenses (i.e., wildland fire overtime, comp time payout due to change in policy stating payout would be done annually, land purchase, MCTs, etc.).

The variance in final appropriated amounts (above) and actual expenditures is mainly due to an increase in payroll and benefits concerning new hires and promotions along with an increase in overtime and the decision to require comp time be paid out annually instead of permitting employees carry the max hours allowed into the new year.

What is not shown in the table above is the January 1, 2021 beginning balance of \$5,792,285.81 that the district had in the general fund that was not budgeted, nor the ending balance of \$5,487,113.60 on December 31, 2021. The above table only illustrates what was actual revenues and expenses for year 2021.

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 COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

As an essential function within the state, South Kitsap Fire and Rescue continued emergency operations as established with an increased emphasis on the use of personal protective equipment (PPE). Cost impacts to the district based on increase usage of PPE is estimated at approximately \$160,000, along with approximately \$75,000 increased overtime paid out to cover shifts. Additional reimbursement was sought in first quarter of 2022 under a Public Assistance Grant through Washington State EMD to offset those expenses. As of this writing, the district has not received verification that these funds will be reimbursed.

In compliance with Governor Jay Inslee's orders and CDC recommendations, our administrative staff began the year 2021 working from home, telecommuting, or coming into the office on a regulated and rotating schedule that allowed for only one member at a time to be in the office space. On March 22, 2021, administrative staff returned to regular office hours without any public access under strict social distancing rules, medical monitoring, and increased sanitation procedures. All employees were required to wear a mask indoors regardless of vaccination status. On May 17, 2021, employees who had been vaccinated against COVID-19 were no longer required to wear face coverings in Washington State, but the district continued to require this of all personnel regardless of vaccination status as an added precaution. We completed a front-office remodel in three phases, beginning on March 24, 2021 and concluding on July 2, 2021, that included installation of a new lobby partition wall and door, a lobby door lock with remote release, and a glass passthrough window to separate the public from our employees. On July 9, 2021, we reopened our doors to the public. We posted signs on the outside doors to inform the public that masks were required for entry. On October 18, 2021, under Proclamation 21-14, all employees providing health care services were required to be fully vaccinated against COVID-19 or have a disability-related or religious accommodation to continue to engage in work for the district; the district required proof of vaccination status or medical-related disability or religious exemption. Through the end of 2021, all medical monitoring, mask-wearing, and social distancing rules continued to be in place. On March 12, 2022, Governor Inslee lifted the mask mandate and employees of the district were no longer required to wear face coverings in buildings however, employees providing health care and responding to 911 calls are still wearing proper PPE on all calls. Management continues to monitor the situation for any operational or financial effects and is ready to respond appropriately as needed. To date, the district has not experienced any direct financial impacts due to the pandemic.

The length of time these measures will continue to be in place, and the full extent of the direct or indirect 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, 2021 are as follows:

Type of Deposit or Investment	District's own deposits & investments	Deposits & investments held by the District as custodian for other local governments, individuals, or private organizations.	Total
Banks Deposits (Cash on Hand)	\$ 1,174,759.00		\$ 1,174,759.00
Kitsap County Investment Pool	\$ 14,083,657.79		\$ 14,083,657.79
<i>Totals</i>	\$ 15,258,416.79	\$ -	\$ 15,258,416.79

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

A. Investments in Kitsap County Investment Pool

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

B. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the district would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The district’s deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

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

Note 5 – Other Postemployment Benefits (OPEB) Plans

The Law Enforcement Officers Fire Fighters Plan 1 (LEOFF1) Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by South Kitsap Fire and Rescue as required by RCW 41.26. The plan pays for 100% of eligible retirees’ healthcare costs on a pay-as-you-go basis. As of December 31, 2021, the plan had five (5) LEOFF1 members, all retirees. As of December 31, 2021 the District’s total OPEB liability was \$250,159, as calculated using the alternative measurement method. For the year ended December 31, 2021, South Kitsap Fire and Rescue paid \$50,263.43 in benefits.

Note 6 – Pension Plans

A. State Sponsored Pension Plans

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

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

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available 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 98504-8380

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

South Kitsap Fire and Rescue also participates in the Volunteer Fire Fighters’ and Reserve Officers’ Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington 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:

Plan Name	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$ 10,215.86	0.001371%	\$ 16,743
PERS 1 UAAL	\$ 61,981.43	0.008321%	\$ 101,619
PERS 2/3	\$ 101,291.10	0.010693%	\$ (1,065,195)
LEOFF 1		0.011254%	\$ (385,513)
LEOFF 2	\$ 659,966.43	0.331069%	\$ (19,229,858)
VFFRPF	\$ 480.00	0.25%	\$ (54,300)

LEOFF Plan 1

South Kitsap Fire and Rescue also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

LEOFF Plan 2

South Kitsap Fire and Rescue also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

B. Defined Contribution Pension Plans

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

For each dollar paid by the Fire Chief, Deputy Chiefs, Assistant Chief, Human Resource Director, and Finance Director, the District shall contribute one dollar (\$1.00) to an amount not to exceed 6.0% of their base wage. For each dollar paid by members of Local 3817, the district shall contribute one (\$1.00) to an amount not to exceed 5.0% of Battalion Chief base wage. For each dollar paid by members of Local 2876 (Suppression), the district shall contribute one (\$1.00) to an amount not to exceed 6% of a Step 4 firefighter's base wage. For each dollar paid by members of Local 2876 (Non-Uniformed / Non-Suppression), the district shall contribute \$.50 cents not to exceed a combined annual contribution of \$12,000.00.

The district's total contribution for defined contribution plans during 2021 was \$431,577.83.

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 at the end of each month.

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

South Kitsap Fire and Rescue's regular levy for the year 2021 was \$1.270660 per \$1,000 on an assessed valuation of \$10,575,381,012 for a total regular levy of \$13,443,318.

South Kitsap Fire and Rescue's emergency medical services (EMS) levy for the year 2021 was \$0.352436 per \$1,000 on an assessed valuation of \$10,586,941,952 for a total EMS levy of \$3,735,967.

Note 8 – Risk Management

South Kitsap Fire and Rescue is a member of the Enduris Washington (Pool). Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. For the Pool's fiscal year ending August 31, 2021, there were 539 Enduris members representing a broad array of special purpose districts throughout the state.

The Enduris' program provides for various forms of joint self-insurance and reinsurance coverage for its members: Liability coverage, which includes: General Liability, Automobile Liability, Public Officials' Errors and Omissions liability, Terrorism liability and Employment Practices liability; Property coverage, which includes: Building and Contents, Mobile Equipment, Boiler and Machinery, and Business Interruption/Extra Expense; Automobile Physical Damage coverage; Cyber coverage; Crime blanket coverage; Named Position coverage; and an Identity Fraud reimbursement program. Pollution coverage is provided on a "claims made" coverage form. All other coverage is provided on an "occurrence" coverage form.

Members are responsible for a coverage deductible or co-pay on each covered loss. Each policy year members receive a Memorandum of Coverage (MOC) outlining the specific coverage, limits, and deductibles/co-pays that are applicable to them. In certain cases the Pool may allow members to elect to participate in the programs at limits, coverage, deductibles, and co-pays that are specific to their needs. Enduris is responsible for payment of all covered losses above the member retention, up to the Pool self-insured retention (SIR). Enduris acquires excess/reinsurance from unrelated insurance companies to cover losses above the Pool's SIR up to the coverage maximum limit of liability. The tables below reflect the Pool's SIR, reinsurance limits and member deductibles/co-pays by coverage type.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Liability:				
Comprehensive General Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Automobile Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Public Officials Errors and Omissions Liability	Each Wrongful Act Member Aggregate	\$1 million	\$20 million \$20 million	\$1,000 - \$100,000
Terrorism Liability ⁽²⁾	Per Occurrence Pool Aggregate	\$500,000 \$1 million	\$0 Fully funded by Pool	\$1,000 - \$100,000
Employment Practices Liability	Per Occurrence Member Aggregate	\$1 million	\$20 million \$20 million	20% Copay ⁽³⁾

(1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible

(2) Terrorism liability is fully funded by the Pool i.e. no excess/reinsurance is procured.

(3) Members pay a 20% co-pay of costs up to a maximum of \$100,000. By meeting established guidelines, the co-pay may be waived.

Property ⁽²⁾:

Buildings and Contents	Per Occurrence	\$250,000	\$800 million	\$1,000 - \$250,000
Mobile Equipment	Per Occurrence	\$250,000	\$800 million	\$1,000 - \$250,000
Boiler and Machinery ⁽³⁾	Per Occurrence	Varies	\$100 million	Varies
Business Interruption (BI)/ Extra Expense (EE) ⁽⁴⁾	Per Occurrence	\$250,000	\$100 million (BI)/ \$50 million (EE)	\$1,000 - \$250,000
Sublimit ⁽⁵⁾:				
Flood	Per Occurrence	\$250,000	\$50 million (shared by Pool members)	\$1,000 - \$250,000
Earthquake	Per Occurrence	5%; \$500,000 maximum	\$10 million (shared by Pool members)	\$1,000 - \$250,000

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Terrorism Primary	Per Occurrence Pool Aggregate	\$250,000	\$100 million/ Pool member \$200 million	\$1,000 - \$250,000
Terrorism Excess	Per Occurrence APIP Per Occurrence APIP Aggregate	\$500,000	\$600 million/Pool member \$1.2 billion/APIP \$1.4 billion/APIP	\$0
Automobile Physical Damage⁽⁶⁾	Per Occurrence	\$25,000; \$100,000 for Emergency Vehicles	\$800 million	\$250 - \$1,000
Crime Blanket⁽⁷⁾	Per Occurrence	\$50,000	\$1 million	\$1,000
Named Position⁽⁸⁾	Per Occurrence	\$50,000	\$1 million	\$1,000
Cyber⁽⁹⁾	Each Claim APIP Aggregate	\$100,000	\$2 million \$25 million	20% Copay
Identity Fraud Expense Reimbursement⁽¹⁰⁾	Member Aggregate	\$0	\$25,000	\$0

- (1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible.
- (2) Property coverage for each member is based on detailed property schedule. Scheduled items are covered to the extent of the cost of repair or replacement pursuant to the excess/reinsurance policy terms. Under the Alliant Property Insurance Program (APIP) Reinsurance carriers cover insured losses over \$250,000 to the limit of \$800 million except for certain types of sub-limited property losses such as flood, earthquake, and terrorism.
- (3) Boiler and Machinery self-insured retention for the Pool varies depending on motor horsepower.
- (4) Business Interruption/ Extra expense coverage is based on scheduled revenue generating locations/operations. A limited number of members schedule and the rest are limited to \$500,000 of coverage with a \$2.5 million Pool maximum for undeclared exposure. The waiting period (deductible) is typically 24 hours but there are exceptions specific to the type of exposure covered.
- (5) This sublimit list is simplified and is not all-inclusive. In addition, sub-limits are often shared or aggregated by all pool members and, in a few cases, are shared by all APIP members. Deductibles often vary by coverage sub-limit.
- (6) Auto Physical Damage coverage includes comprehensive, named perils and collision. Coverage for each member is based on a detail vehicle schedule.
- (7) Crime Blanket coverage (also referred to as "Employee Dishonesty Coverage with Faithful Performance" of \$2,500 is provided to each member. Member's may elect to "buy-up" the level of coverage from \$5,000 to \$1 million.
- (8) Named Position coverage is optional. Members may elect to schedule various employees, directors, and commissioners, with individual limits of between \$5,000 and \$1 million.
- (9) Cyber coverage is included under the Pool's Property program. Members are subject to a 20% co-pay per loss and the Pool's SIR is tiered between \$50,000 and \$100,000 depending on the insured/members property TIV with an 8 hour waiting period. By meeting established guidelines, the co-pay may be waived. The reinsurance maximum limit of liability is \$2 million, with various declared sub-limits.
- (10) Identity Fraud Expense Reimbursement coverage is purchased by Enduris. Member claims do not have a deductible. There is a \$25,000 limit per member.

Members make an annual contribution to fund the Pool. Since Enduris is a cooperative program, there is joint liability among the participating members. There were no claim settlements in excess of the insurance coverage in any of the last three policy years.

Upon joining the Pool, members are contractually obligated to remain in the Pool for a minimum of one year and must give notice 60 days before renewal in order to terminate participation. The Interlocal Governmental Agreement (formerly known as the Master Agreement) is automatically renewed each year unless provisions for withdrawal or termination are applied. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in process claims for the period they were a signatory to the Interlocal Governmental Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and administers the claims.

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool’s members elect the Board, and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for overseeing the business affairs of Enduris and providing policy direction to the Pool’s Executive Director.

Note 9 – Other Disclosures

As mentioned in Note 2 – Budget Compliance, an amendment was made to the 2021 budget to include \$265,842 for land purchased in anticipation of passing a bond to build two new fire stations.

Land Purchased	Cost
1492 Woods Rd SE (2021-25082-PO)	\$ 265,841.56
TOTAL	\$ 265,841.56

Due to unforeseen circumstance, the \$58,242 received in April 2020 under the HHS Stimulus Payments for Healthcare Providers under the Provider Relief Fund was returned in December 2021.

Kitsap County Fire Protection District No. 7

DBA: South Kitsap Fire and Rescue

Notes to the Financial Statements

For the Year Ended December 31, 2020

Note 1 – Summary of Significant Accounting Policies

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

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

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements (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 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 \$4,999 and an estimated useful life in excess of one (1) year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

1. Annual Vacation Leave – The total amount of accrued vacation leave is limited to three hundred sixty-nine (369) hours for the Fire Chief and Deputy Chiefs and is payable upon separation or retirement. The Fire Chief and Deputy Chiefs may elect to sell back up to forty (40) hours of vacation at straight pay for hours over the maximum carry over of three hundred sixty-nine (369). The total amount of accrued vacation leave is limited to three hundred sixty (360) hours for the Human Resources Director and is payable upon separation or retirement. There shall be no compensation paid for unused vacation leave beyond three hundred sixty (360) hours.
2. Sick Leave – Non-uniform/non-suppression employees will use leave in the year earned, except for a maximum carryover of 372 hours and is payable upon separation or retirement. Battalion Chiefs and Suppression employees will use leave in the year earned, except for a maximum carryover of 504 hours and is payable upon separation or retirement. In the event request for leave has been denied, the employee may apply to the District for a six (6) month extension.

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

Non-uniform/non-suppression personnel may accumulate a maximum of 1,040 hours of sick leave. Employees who at the end of each contract year exceed maximum sick leave carryover shall receive vacation hours at the rate of 0.125 for all hours above the maximum. These vacation hours may be sold back at the regular rate of pay. Those employees who reach normal service retirement, medical retirement, expire, or are subject to a reduction in force through lay off shall receive one half (1/2) of their accumulated sick leave bank (520 maximum hours paid).

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

3. Compensatory Time – Represented employees may accrue compensatory time in lieu of receiving overtime pay. Compensatory time accrues at one and one half (1-1/2) hours for each overtime hour worked. Represented non-uniform employees may bank up to 40 hours of accrued compensatory time which will be cashed out upon separation at the employee’s regular, straight-time rate of pay. Amounts over 40 hours will be cashed out at the end of each year at the employee’s regular rate of pay. Represented uniformed employees may bank up to 72 hours of accrued compensatory time each year. Amounts over 72 hours will be cashed out at the end of each year at the employee’s regular rate of pay. Employees may cash out accrued compensatory time in November of each year.

As of December 31, 2020, the District’s total liability for vested leave balances was \$1,857,233 as presented in the Schedule of Liabilities. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 5 - *Debt Service Requirements*.

Note 2 – Budget Compliance

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

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

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

Fund/Department	Final Appropriated Amounts	Actual Expenses	Variance
Total 001 General Fund	\$ 22,286,480.10	\$ 22,740,245.06	(\$ 453,764.96)

Budgeted amounts are authorized to be transferred between departments within the fund at the direction of the Fire Chief; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by South Kitsap Fire and Rescue’s legislative body.

South Kitsap Fire and Rescue received \$1,700,000.00 from Ground Emergency Medical Transportation (GEMT) in 2019 that was not budgeted. An amendment was made to the 2020 budget to include this money along with \$463,156.61 for 2019 GEMT Interim Settlement received in 2020. This increased the budget by \$2,163,156.61. From there, \$1,100,000.00 was budgeted for land purchases for future fire stations and \$1,063,156.61 was transferred from the general fund into the capital project fund.

The variance in final appropriated amounts (above) and actual expenditures is mainly due to a decrease in tax and ambulance collections along with a significant increase in overtime for suppression personnel which had to do with wildland deployments in 2020. These deployments took place between July – November and the district billed for reimbursement by end of December 2020. What is not shown in the table above is the January 1, 2020 beginning balance of \$6,246,050.77 that the district had in the general fund that was not budgeted, nor the ending balance of \$5,792,285.81 on December 31, 2020. The above table only illustrates what was actual revenues and expenses for year 2020.

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.

As an essential function within the state, South Kitsap Fire and Rescue continued emergency operations as established with an increased emphasis on the use of personal protective equipment (PPE). Cost impacts to the District based on increase usage of PPE is estimated at approximately \$100,000, of which \$58,242 has been received from the federal government under the CARES Act. Additional reimbursement was sought under a Public Assistance Grant through Washington State EMD to offset those expenses.

In compliance with the governor’s orders and CDC recommendations, our administrative staff was placed on administrative leave commencing March 27, 2020. In April, these members began limited work hours from home, telecommuting, or coming into the office on a regulated schedule that allowed for only one member at a time to be in the office space. On May 4th, all members returned to regular office hours without any public access under strict social distancing rules, medical monitoring, and increased sanitation procedures. Due to the increase in COVID-19 reports, our administrative staff was once again sent home November 17, 2020. This time the district was prepared, and staff were able to complete most work from home and only came into the office as needed. On March 22, 2021 administrative staff again returned to regular office hours without any public access under strict social distancing rules, medical monitoring, and increased sanitation procedures. The district is currently developing shields and other precautions with the intent to open the office to public interaction sometime in 2021.

The length of time these measures will be in place, and the full extent of the financial impact on the District is unknown at this time. The District continues to assess the financial impacts of the stay-at-home order. In 2020, we have seen a slight decrease in tax revenues. The District also saw a slight decrease on medical transports and the resulting decrease in revenue from billing.

The length of time these measures will continue to be in place, and the full extent of the financial impact on South Kitsap Fire and Rescue 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 are as follows:

Type of Deposit or Investment	District's own deposits & investments	Deposits & investments held by the District as custodian for other local governments, individuals, or private organizations.	Total
Banks Deposits (Cash on Hand)	\$ 484,557.26		\$ 484,557.26
Kitsap County Investment Pool	\$ 14,239,646.01		\$ 14,239,646.01
<i>Totals</i>	\$ 14,724,203.27	\$ -	\$ 14,724,203.27

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

A. Investments in Kitsap County Investment Pool

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

B. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The District’s deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

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

Note 5 – Other Postemployment Benefits (OPEB) Plans

The Law Enforcement Officers Fire Fighters Plan 1 (LEOFF1) Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by South Kitsap Fire and Rescue as required by RCW 41.26. The plan pays for 100% of eligible retirees’ healthcare costs on a pay-as-you-go basis. As of

December 31, 2020, the plan had five (5) LEOFF1 members, all retirees. As of December 31, 2020 the District's total OPEB liability was \$2,901,055, as calculated using the alternative measurement method. For the year ended December 31, 2020, South Kitsap Fire and Rescue paid \$51,324.79 in benefits.

Note 6 – Pension Plans

A. State Sponsored Pension Plans

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

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

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
 Communications Unit
 P.O. Box 48380
 Olympia, WA 98504-8380

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

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

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 Name	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$ 8,798.41	0.001214%	\$ 42,861
PERS 1 UAAL	\$ 49,307.50	0.006803%	\$ 240,183
PERS 2/3	\$ 81,242.53	0.008819%	\$ 112,790
LEOFF 1		0.010982%	\$ (207,396)
LEOFF 2	\$ 525,192.28	0.268476%	\$ (5,476,518)
VFFRPF	\$ 390.00	0.20%	\$ (70,752)

LEOFF Plan 1

South Kitsap Fire and Rescue also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

LEOFF Plan 2

South Kitsap Fire and Rescue also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

B. Defined Contribution Pension Plans

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

For each dollar paid by the Fire Chief, Deputy Chiefs, and Human Resource Director, the District shall contribute one dollar (\$1.00) to an amount not to exceed 6.0% of their base wage. For each dollar paid by members of Local 3817, the District shall contribute one (\$1.00) to an amount not to exceed 5.0% of Battalion Chief base wage. For each dollar paid by members of Local 2876 (Suppression), the District shall contribute one (\$1.00) to an amount not to exceed 5.5% of a Step 4 firefighter's base wage. For each dollar paid by members of Local 2876 (Non-Uniformed / Non-Suppression), the District shall contribute \$.50 cents not to exceed a combined annual contribution of \$12,000.00.

The District's total contribution for defined contribution plans during 2020 was \$353,008.05.

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 at the end of each month.

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

South Kitsap Fire and Rescue's regular levy for the year 2020 was \$1.331843 per \$1,000 on an assessed valuation of \$9,770,194,252 for a total regular levy of \$13,019,350.

South Kitsap Fire and Rescue's G.O. Bond levy for the year 2020 was \$0.101444 per \$1,000 on an assessed valuation of \$9,676,267,151 for a total G.O. Bond levy of \$981,600.

South Kitsap Fire and Rescue's emergency medical services (EMS) levy for the year 2020 was \$0.372673 per \$1,000 on an assessed valuation of \$9,782,171,012 for a total EMS levy of \$3,651,434.

Note 8 – Risk Management

South Kitsap Fire and Rescue is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2020, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

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

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$800 million per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

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

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

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

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

Enduris did not have any claim settlements that exceeded the limits in the last 3 years.

Note 9 – Other Disclosures

As mentioned in Note 2 – Budget Compliance, an amendment was made to the 2020 budget to include \$1,100,000 for land purchases in anticipation of passing a bond to build two new fire stations. A total of \$1,072,286.97 was expended on building sites and other associated expenses.

Land Purchased	Cost
6321 SE Mile Hill Dr (E2020-408635)	\$ 298,185.50
1598 Woods Rd SE (E2020-408779)	\$ 451,195.50
Bethel-Burley Rd (E2020-405364)	\$ 245,547.40
Associated Expenses (appraisals, assessments, etc.)	\$ 77,358.57
TOTAL	\$ 1,072,286.97

Kitsap County has processed the District’s payroll since its inception. In June 2020 the Board of Fire Commissioners approved Resolution 2020-07 which allowed South Kitsap Fire and Rescue to start processing payroll in-house beginning July 1, 2020.

**Kitsap County Fire Protection District No. 7
Schedule of Liabilities
For the Year Ended December 31, 2021**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences	12/31/2021	1,857,233	1,695,686	1,094,756	2,458,163
264.30	Pension Liabilities		395,833	-	277,471	118,362
264.40	OPEB (LEOFF 1) Liabilities		2,901,055	-	2,650,896	250,159
Total Revenue and Other (non G.O.) Debt/Liabilities:			5,154,121	1,695,686	4,023,123	2,826,684
Total Liabilities:			5,154,121	1,695,686	4,023,123	2,826,684

**Kitsap County Fire Protection District No. 7
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						
251.12	Voted GO Bond	12/1/2020	1,040,000	-	1,040,000	-
	Total General Obligation Debt/Liabilities:		1,040,000	-	1,040,000	-
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences	12/31/2020	1,636,242	1,442,254	1,221,263	1,857,233
264.30	Pension Liabilities		357,964	37,869	-	395,833
264.40	OPEB (LEOFF 1) Liabilities		3,138,636	-	237,581	2,901,055
	Total Revenue and Other (non G.O.) Debt/Liabilities:		5,132,842	1,480,123	1,458,844	5,154,121
	Total Liabilities:		6,172,842	1,480,123	2,498,844	5,154,121

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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