



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, 2023 through December 31, 2023

*Published February 27, 2025*

Report No. 1036659



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

February 27, 2025

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, 2023 through December 31, 2023**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of South Kitsap Fire and Rescue, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated February 19, 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 audit 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 initial "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

February 19, 2025

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **South Kitsap Fire and Rescue January 1, 2023 through December 31, 2023**

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 year ended December 31, 2023, 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 year ended December 31, 2023, 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, 2023, or the changes in financial position or cash flows thereof for the year 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS Manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 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.



Pat McCarthy, State Auditor

Olympia, WA

February 19, 2025

## **FINANCIAL SECTION**

### **South Kitsap Fire and Rescue January 1, 2023 through December 31, 2023**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2023  
Notes to the Financial Statements – 2023

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

Schedule of Liabilities – 2023

**Kitsap County Fire Protection District No. 7**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2023**

		Total for All Funds (Memo Only)	001 General Fund	101 EMS Fund	201 Debt Service Fund
<b>Beginning Cash and Investments</b>					
308	Beginning Cash and Investments	18,076,611	7,685,459	417,498	23,544
388 / 588	Net Adjustments	-	(3,478)	(397,232)	-
<b>Revenues</b>					
310	Taxes	22,364,512	22,362,253	-	2,259
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	3,578,707	3,578,707	-	-
340	Charges for Goods and Services	3,007,929	3,007,929	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	983,239	711,255	872	524
Total Revenues:		29,934,387	29,660,144	872	2,783
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	27,007,660	26,998,259	3,606	11
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		27,007,660	26,998,259	3,606	11
Excess (Deficiency) Revenues over Expenditures:		2,926,727	2,661,885	(2,734)	2,772
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	41,002	38,793	-	-
Total Other Increases in Fund Resources:		41,002	38,793	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	1,745,220	1,745,220	-	-
591-593, 599	Debt Service	79,012	79,012	-	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	21,908	21,908	-	-
Total Other Decreases in Fund Resources:		1,846,140	1,846,140	-	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>1,121,589</b>	<b>854,538</b>	<b>(2,734)</b>	<b>2,772</b>
<b>Ending Cash and Investments</b>					
50821	Nonspendable	-	-	-	-
50831	Restricted	400,710	-	-	-
50841	Committed	-	-	-	-
50851	Assigned	10,260,971	-	17,532	26,315
50891	Unassigned	8,536,537	8,536,537	-	-
<b>Total Ending Cash and Investments</b>		<b>19,198,218</b>	<b>8,536,537</b>	<b>17,532</b>	<b>26,315</b>

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, 2023**

		<b>301 Capital Projects Fund</b>
<b>Beginning Cash and Investments</b>		
308	Beginning Cash and Investments	9,950,110
388 / 588	Net Adjustments	400,710
<b>Revenues</b>		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	270,588
Total Revenues:		270,588
<b>Expenditures</b>		
510	General Government	-
520	Public Safety	5,784
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		5,784
Excess (Deficiency) Revenues over Expenditures:		264,804
<b>Other Increases in Fund Resources</b>		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	2,209
Total Other Increases in Fund Resources:		2,209
<b>Other Decreases in Fund Resources</b>		
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:		-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>267,013</b>
<b>Ending Cash and Investments</b>		
50821	Nonspendable	-
50831	Restricted	400,710
50841	Committed	-
50851	Assigned	10,217,124
50891	Unassigned	-
<b>Total Ending Cash and Investments</b>		<b>10,617,834</b>

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, 2023**

##### **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 different from the ending net position classifications in GAAP.

##### A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government’s resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, 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 3 - *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 the 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, 2023, the District’s total liability for vested leave balances was \$2,069,925 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	\$ 29,158,084	\$ 28,820,976	\$ 337,108

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.

The variance in final appropriated amounts (above) and actual expenditures is mainly slow supply chain issues.

What is not shown in the table above is the January 1, 2023 beginning balance of \$7,681,981 that the district had in the general fund that was not budgeted, nor the ending balance of \$8,533,258 on December 31, 2023. The above table only illustrates what was actual revenues and expenses for year 2023.

**Note 3 – Deposits and Investments**

Investments are reported at original cost. Deposits and investments by type at December 31, 2023 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)	\$ 3,143,598		\$ 3,143,598
Kitsap County Investment Pool	\$ 16,054,619		\$ 16,054,619
<i>Totals</i>	\$ 19,198,217	\$ -	\$ 19,198,217

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 4 – Leases**

1. During the year ended 2022, the District adopted guidance for the presentation and disclosure of leases, as required by the BARS manual. This requirement resulted in the addition of a lease liability reported on the Schedule of Liabilities.

The district leases 2 copiers from Kelley Connect for \$614 per month under 5-year lease agreements that are non-cancelable.

The district leases 1 postage meter for \$63 per month under a 5-year lease agreement that is non-cancelable.

The total amount paid for leases in 2023 was \$8,305. As of December 31, 2023, the future lease payments are as follows:

<b>Year Ended December 31</b>	<b>Total</b>
2024	\$ 8,117.00
2025	\$ 8,070.00
2026	\$ 3,715.00
2027	\$ -
2028	\$ -
2033	\$ -
2038	\$ -
<b>Total</b>	<b>\$ 19,902.00</b>

**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, 2023, the plan had seven (7) LEOFF1 members, all retirees. As of December 31, 2023 the District’s total OPEB liability was \$3,458,745, as calculated using the alternative measurement method.

**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](http://www.drs.wa.gov).

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

Plan Type	Employer Contributions	Allocation Percentage	Plan Liability / Asset	NPL	NPA
PERS 1	6145.45	0.00090200%	2,282,732,000	20,590	
PERS 1 UAAL	56087.22	0.00823100%	2,282,732,000	187,892	
PERS 2/3	93224.13	0.01060300%	(4,098,683,000)		(434,583)
LEOFF 1		0.01184700%	(2,968,024,000)		(351,622)
LEOFF 2	650735.76	0.28829700%	(2,398,598,000)		(6,915,086)
VFFRPF	540	0.310000%			(61,802)

**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 (\$1.00) not to exceed a combined annual contribution of \$12,000.00.

The district's total contribution for defined contribution plans during 2023 was \$700,233.

### **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 2023 was \$1.50 per \$1,000 on an assessed valuation of \$14,523,168,172 for a total regular levy of \$21,784,752.

South Kitsap Fire and Rescue's emergency medical services (EMS) levy for the year 2023 was \$0.424803 per \$1,000 on an assessed valuation of \$14,537,173,782 for a total EMS levy of \$6,208,284.

### **Note 8 – Risk Management**

South Kitsap Fire & 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 contract for risk management, claims, and administrative services. The Pool was formed on 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, 2023, there were 518 Enduris members representing a broad array of special purpose districts throughout the state.

The Enduris program provides 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 policy. Pollution and Cyber coverage are provided on a claims-made coverage form. Crime coverage is provided on a discovery 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 apply 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/copays by coverage type.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays <sup>(1)</sup>
<b>Liability:</b>				
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 <sup>(2)</sup>	Per Occurrence Pool Aggregate	\$500,000 \$1 million	None	\$1,000 - \$100,000
Employment Practices Liability	Per Occurrence Member Aggregate	\$1 million	\$20 million \$20 million	20% Copay <sup>(3)</sup>

(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. By meeting established guidelines, the co-pay may be waived.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays <sup>(1)</sup>
<b>Property <sup>(2)</sup>:</b>				
Buildings and Contents	Per Occurrence	\$250,000	\$1 billion	\$1,000 - \$250,000
Mobile Equipment	Per Occurrence	\$250,000	\$1 billion	\$1,000 - \$250,000
Boiler and Machinery <sup>(3)</sup>	Per Occurrence	Varies	\$100 million	Varies
Business Interruption (BI)/ Extra Expense (EE) <sup>(4)</sup>	Per Occurrence	\$250,000	\$100 million (BI)/ \$50 million (EE)	\$1,000 - \$250,000
<b>Sublimit <sup>(5)</sup>:</b>				
Flood	Per Occurrence	\$250,000	\$50 million (shared by Pool members)	\$1,000 - \$250,000
Earthquake	Per Occurrence	5% of indemnity, subject to a \$250,000 minimum	\$10 million (shared by Pool members)	\$1,000 - \$250,000
Terrorism Primary	Per Occurrence Pool Aggregate	\$250,000	\$100 million per occurrence \$200 million aggregate	\$1,000 - \$250,000
Terrorism Excess	Per Occurrence APIP Per Occurrence APIP Aggregate	\$500,000	\$600 million/ Pool aggregate \$1.1 billion/ per occurrence APIP program \$1.4 billion/ APIP program aggregate	\$0
<b>Automobile Physical Damage<sup>(6)</sup></b>	Per Occurrence	\$25,000; \$100,000 for Emergency Vehicles; \$250,000 for Emergency Vehicles valued >\$750,000	\$1 billion	\$250 - \$1,000
<b>Crime Blanket <sup>(7)</sup></b>	Per Occurrence	\$50,000	\$1 million	\$1,000
<b>Named Position <sup>(8)</sup></b>	Per Occurrence	\$50,000	\$1 million	\$1,000
<b>Cyber <sup>(9)</sup></b>	Each Claim APIP Aggregate	\$100,000	\$2 million \$40 million	20% Copay
<b>Identity Fraud Expense Reimbursement <sup>(10)</sup></b>	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 a detailed property schedule. Scheduled items are covered to the extent of the cost of repair or replacement according 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 \$1 billion 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 are scheduled, 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 sub-limit 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 detailed vehicle schedule.
- (7) Crime Blanket coverage (also referred to as "Employee Dishonesty Coverage with Faithful Performance" of \$2,500 is provided to each member. Members may elect to "buy up" the level of coverage from \$5,000 to \$2 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/member's 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) Enduris purchases Identity Fraud Expense Reimbursement coverage. 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 above 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. They must give notice 60 days before renewal 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 contributing to Enduris for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

Its member participants fully fund Enduris. Members file claims with the Pool, which determines coverage and administers the claims.

The Pool is governed by a Board of Directors comprising 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 – SBITA (Lessees)**

During 2023, the district adopted guidance for the presentation and disclosure of Subscription Based Information Technology Arrangements (SBITA), as required by the BARS manual. This requirement resulted in the addition of a subscription liability reported on the Schedule of Liabilities.

The district has two SBITA agreements with Springbrook Enterprise one is additional users that is a 3-year agreement that is non-cancelable. The other is an annual agreement for financial enterprise software.

The district has a 3-year SBITA agreement with GovInvest for forecasting software that is non-cancelable.

The district has a 3-year SBITA agreement with UKG (Kronos) for staffing software that is non-cancelable.

The district has 3-year SBITA agreement with Microsoft for Microsoft Office 365 that is non-cancelable.

The total amount paid for SBITA's in 2023 was \$70,707 As of December 31, 2023, the future lease payments are as follows:

Year Ended December 31	Total
2024	\$ 68,529.00
2025	\$ 38,167.00
2026	\$ 2,337.00
2027	\$ -
2028	\$ -
2033	\$ -
2038	\$ -
<b>Total</b>	<b>\$ 109,033.00</b>

**Note 10 - Accounting Changes and Error Corrections**

During fiscal year 2023, the district identified expenditure transaction recorded twice. This error causes the 001 General Fund beginning cash balance to be restated by \$3,478 less than previously reported. The effect of that error is shown in the Error Correction Column of the table below.

During fiscal year 2023, the district identified expenditure transaction recorded twice. This error causes the 101 EMS Fund beginning cash balance to be restated by \$3,478 more than previously reported. The effect of that error is shown in the Error Correction Column of the table below.

During fiscal year 2023, the district identified revenues that had been previously reported in the 101 EMS Fund should be reclassified and moved to the 301 Capital Fund to better adhere to BARS requirements. This error causes the 101 EMS Fund beginning cash balance to be restated by \$400,710 less than previously reported. The effect of that error is shown in the Error Correction Column of the table below.

During fiscal year 2023, the district identified revenues that had been previously reported in the 101 EMS Fund should be reclassified and moved to the 301 Capital Fund to better adhere to BARS requirements. This error causes the 301 Capital Fund beginning cash balance to be restated by \$400,710 more than previously reported. The effect of that error is shown in the Error Correction Column of the table below.

Fund	12/31/2022	Error correction	12/31/2022
	Cash/Investment Balance As previously reported		Cash/Investment Balance As restated/adjusted
001 General	\$ 7,685,459.00	\$ (3,478.00)	\$ 7,681,981.00
101 EMS	\$ 417,498.00	\$ (397,232.00)	\$ 20,266.00
301 Capital	\$ 9,950,110.00	\$ 400,710.00	\$ 10,350,820.00
Total Funds	\$ 18,053,067.00		\$ 18,053,067.00

**Kitsap County Fire Protection District No. 7**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2023**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		1,702,074	367,851	-	2,069,925
264.40	OPEB (LEOFF 1) Liabilities		3,487,339	-	28,594	3,458,745
264.30	Pension Liabilities		263,095	-	54,613	208,482
263.57	Copiers	7/19/2026	27,013	-	7,362	19,651
263.57	Postage Meter	2/7/2026	1,580	-	943	637
263.57	SBITA	8/31/2026	179,740	-	70,707	109,033
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>5,660,841</b>	<b>367,851</b>	<b>162,219</b>	<b>5,866,473</b>
<b>Total Liabilities:</b>				<b>367,851</b>	<b>162,219</b>	<b>5,866,473</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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