Washington State Auditor's Office

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Financial Statements Audit Report

Public Utility District No. 1 of Kittitas County

For the period January 1, 2012 through December 31, 2013

Published July 6, 2015

Report No. 1014647

Washington State Auditor's Office

July 6, 2015

Board of Commissioners
Public Utility District No. 1 of Kittitas County
Ellensburg, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Kittitas County's financial statements.

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

Sincerely,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

TABLE OF CONTENTS

Schedule Of Audit Findings And Responses 4

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards 9

Independent Auditor's Report On Financial Statements 12

Financial Section 15

About The State Auditor's Office 45

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Public Utility District No. 1 of Kittitas County
January 1, 2012 through December 31, 2013

2012-001 The District's controls over financial statement preparation are inadequate to ensure accurate and complete financial reporting.

Background

It is the responsibility of District management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Controls must ensure that financial data is reliably authorized, processed and reported. Our audit identified a material weakness in controls that adversely affects the District's ability to produce reliable financial statements.

Government Auditing Standards prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

We identified the following weaknesses in internal controls that, when taken together, represent a material weakness:

- Staff responsible for financial statement preparation prior to 2013 did not have the technical knowledge needed to ensure the statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP). Specifically, District staff was not aware of accounting principles related to recording capital contributions.

- Staff did not perform adequate research to ensure proper accounting treatment was made for contributions in aid of construction.

Cause of Condition

Prior to 2013, the District did not commit the necessary time and resources to ensure staff understood and were trained in proper accounting procedures.

Effect of Condition

Inaccurate financial reports limit access to financial information used by District officials, the public, state and federal agencies and other interested parties. It also hinders the audit process and increases audit costs.

We identified the following material errors during our audit:

- The District reported private party down payments for new or extended service lines as a reduction of utility plant costs instead of revenue. This practice is not consistent with GAAP revenue recognition requirements. In 2013, under the direction of a new Finance Manager, the District identified the error and recorded a 2012 prior period adjustment to beginning net position and utility plan in service of $3,673,871. This adjustment represents 25 percent of the 2012 beginning net position.

Recommendation

We recommend the District provide adequate training to staff responsible for the financial reporting to ensure compliance with GAAP.

District's Response

Management of the District acknowledges its responsibility to design and implement internal controls over financial reporting that are adequate to ensure that the District's financial statements are fairly stated in all material respects. Likewise, the District acknowledges that its accounting for contributions of capital from customers, primarily relating to the construction of utility plant in accordance with the District's line extension policy, was incorrect through the District's fiscal year ended December 31, 2012.

As stated in the Effect of Condition portion of Finding 2012-001, the District hired a new Finance Manager during the District's fiscal year ended December 31, 2012. In addition, the District has contracted with an external CPA firm to assist the District in its process of closing the District's financial records each year and preparing its financial statements for submission to the Washington State Auditor. As part of improving its internal controls over financial reporting, the new Finance Manager identified the improper accounting for capital contributions from customers and together the Finance Manager and the CPA firm prepared and posted a prior period adjustment to correct the District's financial records.

The District wishes to emphasize that the improved internal controls implemented by the District identified the erroneous accounting that had been used previously, not the audit performed by the Washington State Auditor. It is noteworthy that the District's former incorrect accounting for capital contributions existed for many years and had been subjected to audit by the Washington State Auditor numerous times without comment. The District considers the absence of any comment previously by the Washington State Auditor to constitute an audit failure and believes the newly implemented internal controls over financial reporting are *adequate to ensure that the District's financial statements are fairly stated in all material respects.*

Auditor’s Remarks

As stated, it is the responsibility of District management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our responsibility is to express an opinion on these statements based on our audit. *Governmental Auditing Standards* require that we plan and perform the audit to obtain reasonable, not absolute, assurance about whether the financial statements are free of material misstatement.

Previous financial and accountability audits identified concerns over the District’s financial statement preparation process and the calculation of service line extension work orders. Our recommendations were included in letters to management. As we have acknowledged above, the District has since addressed these concerns by identifying and reporting the error through a prior period adjustment to correct the previous year’s misstatements. However, material restatements of previously issued financial statements are defined, through auditing standards, as an indication of a material weakness in controls, for which we are required to report.

We acknowledge and appreciate the District’s commitment to resolve these issues.

Applicable Laws and Regulations

RCW 43.09.200 – Local government accounting – Uniform system of accounting, states in part:

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budget Accounting and Reporting System Manual - Part 3, Accounting, Chapter 1. Accounting Principles and General Procedures, Section B. Internal Control, states in part:

> Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in

> financial statement and other reports; and resource use is consistent with laws, regulations and policies.
>
> Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

> 4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines material weaknesses and significant deficiencies in its Codification of Statements on Auditing Standards, Section 265 as follows:

> .07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
>
> Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
>
> Significant deficiency. 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.
>
> .11 Indicators of material weaknesses in internal control include . . .
>
> 1. identification of fraud, whether or not material, on the part of senior management;
>
>   - restatement of previously issued financial statements to reflect the correction of a material misstatement due to fraud or error;
>
>   - identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate

that the misstatement would not have been detected by the entity's internal control; and

- ineffective oversight of the entity's financial reporting and internal control by those charged with governance.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Public Utility District No. 1 of Kittitas County
January 1, 2012 through December 31, 2013

Board of Commissioners
Public Utility District No. 1 of Kittitas County
Ellensburg, 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 Public Utility District No. 1 of Kittitas County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 25, 2015.

As discussed in Note 12 to the financial statements, the 2011 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, during the year ended December 31, 2012, the District implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2013-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard.*

DISTRICT'S REPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 25, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Public Utility District No. 1 of Kittitas County
January 1, 2012 through December 31, 2013

Board of Commissioners
Public Utility District No. 1 of Kittitas County
Ellensburg, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Kittitas County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Kittitas County, as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 12 to the financial statements, the 2011 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, in 2012, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Jan M Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 25, 2015

FINANCIAL SECTION

Public Utility District No. 1 of Kittitas County
January 1, 2012 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013 and 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013 and 2012
Statement of Revenues, Expenses and Changes in Net Position – 2013 and 2012
Statement of Cash Flows – 2013 and 2012
Notes to Financial Statements – 2013 and 2012

Public Utility District No. 1 of Kittitas County, Washington

December 31, 2013 and 2012

Presented below is a discussion and analysis of the financial activities of the Public Utility District No. 1 of Kittitas County (the District) for the years ended December 31, 2013 and 2012. It is designed to be used in conjunction with the financial statements, notes and other supplementary information.

FINANCIAL HIGHLIGHTS

- In 2012, the District promoted the Engineering Manager and the Operations Manager to perform the duties of the General Manager as Co-Interim Managers. During 2012, the District filled all the vacancies. In January 2013, the District promoted one of the Co-Interim General Managers to General Manager and the other to function as the Assistant General Manager. The District continues to make improvements to policies and procedures; including but not limited to work order processing and close-out, inventory and asset management, technology upgrades, workforce development, safety, improved data access and reporting, updated customer service policies and fees, increased internal controls and better public records retention requirements.
- In January 2012 the District approved a rate increase of 8.15% evenly across rate classes to cover operational cost increases and the BPA rate increase of 7.5% from October 2011. Revenue in all rate classes followed this increase, while Commercial increased slightly more with the addition of new services.
- A Cost of Service Analysis (COSA) was performed by EES Consulting during 2012. This study determined that the District needed a 5.7% rate increase to meet revenue requirements of the modeled test year. An overall rate increase of 5.7% was approved for February 2013. The effective increase was approximately 8% for most commercial customers and 4.5% for most residential class customers. Residential customers represent 70% of the customers of the District. The last COSA by the District was completed in 2002.
- The District issued Electric Revenue and Refunding Bonds December 2009. In December 2012, the remaining Construction Fund balance was $6,917 and the 2002 Bonds became callable. The District has a 10-year Work Plan totaling $13,780,900 of which $4,433,900 is expected to occur in the next three years. Expenditures include long range planning studies, a new warehouse and facility improvements, metering and meter-reading automation, forklift, GIS mapping improvements and integration with the billing/accounting system and engineering/staking software upgrades. Historically, the District has funded Plant improvements by financing 50%. An Electric Revenue and Refunding Bond was issued June 2013 for $4,220,000 and a total savings of $281,900 on the refunded 2002 bonds.
- The metering improvements mentioned above represent a major step in the growth of the District. The Kittitas PUD has always been primarily a customer read system. Meaning, the customers provide the majority of the meter reads. The portion not provided by the customer, mainly irrigation and commercial accounts were read manually by the District linemen. In January 2010, the District purchased the Itron MVRS - Automatic Meter Reading System and began to purchase and change meters. By the end of 2013, 99% of the District meters had been changed to the new automatic meters. Revenues and statistical data information are expected to improve with the upgraded technology. However, revenue for 2013 is expected to be slightly

higher than normal years. The timing of meter changes resulted in approximately 20 additional billing days during 2013.

- In August of 2012, the District Electrical Plant was damaged by the Taylor Bridge Fire. This natural disaster was not covered by insurance or FEMA. The damage was over half a million dollars and paid for out of reserves. The District has filed a lawsuit to recover damages as a result of the fire.
- In May of 2013, in the wake of the Taylor Bridge Fire, the District raised the blanket risk policy of the District to 20 million.
- During 2013, the District started an assistant fund for elderly low-income customers which could be funded by District employees and/or customers. The program called Helping Hands is administered by Hope Source, a community action agency which also administers the federally funded low income energy assistance (LIHEAP) program in Kittitas County.
- In November of 2013, the District adopted a revised Line Extension Policy. The new policy reflects a philosophy that "Growth Pays for Growth" and is intended to charge the new customer the actual cost of the new construction. PUD expenses related to new construction are expected to decrease under the new policy. This may help limit or delay future rate increases for power sales. Contributions in Aid to Construction were close to $300,000 in both 2013 and 2012. Growth is expected to remain at a similar level for the near future.
- The District has achieved their equity goal of 50%. The accounting practice for recording Aid to Construction was corrected per GASB statements causing an increase in Net Utility Plant of over $3m. The District's operating revenue for the last three years have exceeded budgeted amounts. These have increased Net Position allowing the District to meet Equity Management goals.
- Department of Revenue issued a $57,300 refund May 2013. The refund covered a 5 year period of time for monthly reports filed. An increase in nonperating revenue is shown.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the District report the self-supporting, proprietary activities of the District funded primarily by the sale of electric energy, and construction of the infrastructure for delivery of the same. The District reports finances similar to private sector business enterprises. They are prepared using the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America. Under this basis of accounting, revenues are recognized in the period they are earned and expenses are recognized in the period they are incurred, regardless of the timing of related cash flows.

The Statement of Net Position includes all of the District's assets, liabilities and net assets. It provides information about the nature and amounts of investments in assets and the obligations of the District.

The Statement of Revenues, Expenses and Change in Net Position provide the operating results, non-operating revenues and expenses, as well as capital contributions.

The Statement of Cash Flows provides information about the District's cash receipts and cash disbursements during the year. This statement reports net changes in cash resulting from operations, investing and financing activities.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the information provided in the three statements described above.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The overall financial position of the District continues to improve. The total Net Position increased by $1.7m and $1.8M in 2013 and 2012, respectively. Despite the natural disaster which used reserves in 2012. The equity goal of 50% was attainable for the first time in the history of the District.

The following analysis provides a three-year comparison of key financial information:

CONDENSED COMPARATIVE FINANCIAL INFORMATION

	2013	2012	2011*
Current Assets	$ 6,456,963	$ 5,239,461	$ 3,943,501
Restricted Assets - Current	3,298,475	904,789	2,015,889
Net Utility Plant	24,987,009	24,777,691	23,749,595
Other Assets	88,980	80,647	12,630
Deferred Outflows of Resources	145,945	169,935	211,832
Total Assets	$ 34,977,372	$ 31,172,523	$ 29,933,447
Current Liabilities	$ 2,447,703	$ 1,998,440	$ 1,785,524
Noncurrent Liabilities	14,064,138	12,405,000	13,185,000
Total Liabilities	$ 16,511,841	$ 14,403,440	$ 14,970,524
Net Investment in Capital Assets	10,147,678	11,593,666	9,986,427
Restricted	3,298,475	904,789	2,015,889
Unrestricted	5,019,378	4,270,628	2,960,607
Total Net Position	$ 18,465,531	$ 16,769,083	$ 14,962,923
Sales of Electricity	$ 8,693,886	$ 8,166,368	$ 7,351,039
Other Revenues	227,330,	221,964	269,055
Total Revenues	8,921,216	8,388,332	$ 7,620,094
Power Costs	3,261,302	2,985,663	2,805,498
Other Operating expenses	3,695,445	3,318,188	3,033,271
Total Operating expenses	6,956,747	6,303,851	5,838,769
Non-operating revenues and (expenses)	(580,827)	(581,514)	(611,504)
Capital Contributions	312,806	322,465	323,176
Change in Net Position	1,696,448	1,825,432	1,492,997
Total Net Position - beginning of year	16,769,083	14,943,651	13,450,654
Total Net Position – end of year	$ 18,465,531	$ 16,769,083	$ 14,943,651

*The District's 2011 Statement of Revenues, Expenses and change in Net Position was restated for prior accounting practice of recording Contributed Capital as a reduction of assets and the impact on depreciation. Implementation had no impact on the Districts operating results or net cash flows.

ASSETS

Accounts Receivable increased in 2012 when the billing cycles for revenues were consolidated. The meter change program added additional billing days to customer accounts, increasing Accounts Receivable in 2013. Unrestricted cash (see current liabilities) and Inventory increased each year. Restricted cash decreased in 2012 with the use of the Construction Fund for Capital Improvements approved in the annual budget and then increased in 2013 with the issuance of Revenue Bonds for future Capital Improvements. Overall Current Assets have increased annually.

Net Utility Plant was restated for the Contribution in Aid to Construction less depreciation received since 2005. The accounting practice was corrected in accordance with GASB standards. Net Utility Plant increased by less than 5% in 2012 which was a similar percentage in 2011. The growth of the Electric System was limited in 2013 due to the District wide effort on the meter change program. Work order internal control processes continue to improve as shown by the Construction in progress year end balances.

Investments in associated organizations increased in 2012 for a solar project investment in prior years which continues to produce credits recorded as non-operating income.

Unamortized loan expense was reclassified March of 2012 in accordance with GASB 65.

LIABILITIES

Current Liabilities increased due to large meter purchases for the ongoing project and timing variances for electronic payments for power costs in 2012 and 2013, respectively. Unrestricted cash increased in 2013 (see assets). Principal payments on Bond indebtedness increased current liabilities in 2013. Current Liabilities remain 38% of Current Assets for both reporting years.

LONG-TERM DEBT

Long-term debt increased in 2013 with the issuance of Revenue Bonds. The Bonds were issued at a premium of $140,132. Total amount of Bonds sold in May 2013 included $2.5m of new money to the District and refunding of $1.9m. The 2002 Bonds were refunded with a savings of $281,900.

NET POSITION

Net Investment in Capital Assets and Restricted Net Position fluctuate with the issuance of Bonds, Bond payments and Capital Projects capitalized. The Change in Net Position continues to increase by over 10% each year. Unrestricted Net Position is not restricted for the purpose of debt covenants or other legal requirements and can be used to finance the day-to-day operations of the District. Unrestricted Net Position is increased and decreased by earnings. Historically, the District has subsidized new customer services thus the increase in Unrestricted Net Position are not proportional to earnings.

STATEMENT OF REVENUES AND EXPENSES

The increase in Operating Revenues reflects the rate increase of 5.7% and 8.15% in 2013 and 2012, respectively. Additional Commercial customers increased revenues annually. Residential growth has slowed considerably. Net meter customers continue to increase. The meter change program resulted in capturing additional billing days.

Power Costs are a direct reflection of Bonneville Power Administration rate structure and increases. The District purchases more than 80% of power costs from BPA.

Operating expenses were lower in 2011 as management canceled maintenance jobs when an error was found in the Construction in Progress records. Operating cost fell below budget during each reported year. The extensive meter change program limited staff maintenance projects in 2013 and 2012. Maintenance projects are scheduled in 2013 included an aggressive tree trimming program using contract crews.

Non-operating Revenue (expense) includes interest income, interest expense and miscellaneous other items. Interest expense constitutes the majority of the expense with interest income decreasing with the market rates.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to provide the District's customers, bondholders, creditors and other interested parties with a general overview of the District's finances. If you have questions about this report or need additional information, contact the District's Finance Manager at Kittitas County PUD #1, 1400 Vantage Highway, Ellensburg, Washington, 98926.

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY
STATEMENTS OF NET POSITION
December 31, 2013 and 2012

	2013	2012
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and cash equivalents (Note 3)	$ 4,898,435	$ 3,941,479
Accounts receivable, net (Note 4)	1,048,670	823,777
Materials and supplies inventory	485,282	454,411
Prepayments and other current assets	24,576	19,794
	6,456,963	5,239,461
Restricted Assets - Current:		
Restricted cash and cash equivalents (Notes 3 and 5)	3,298,475	904,789
Total current assets	9,755,438	6,144,250
Net Utility Plant (Notes 6 and 12):		
Utility plant in service	35,967,740	35,254,829
Construction in progress	210,758	31,695
Accumulated depreciation	(11,191,489)	(10,508,833)
Total net utility plant	24,987,009	24,777,691
Other Assets:		
Regulatory assets	669	975
Investments in associated organizations (Note 7)	88,311	79,672
Total other assets	88,980	80,647
Total assets	34,831,427	31,002,588
Deferred Outflows of Resources:		
Losses on reacquired debt (Note 8)	145,945	169,935
Total deferred outflows of resources	145,945	169,935
Total assets and deferred outflows of resources	$ 34,977,372	$ 31,172,523
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities:		
Accounts payable and accrued expenses	$ 1,182,508	$ 815,910
Consumer deposits	57,546	60,705
Compensated absences	149,865	195,951
Unearned revenue	145,777	145,874
Long-term debt, due within one year (Note 9)	905,000	780,000
Premium on bond issuance, to be amortized within one year (Note 9)	7,007	-
Total current liabilities	2,447,703	1,998,440
Noncurrent Liabilities:		
Long-term debt, due after one year (Note 9	13,935,000	12,405,000
Premium on bond issuance, to be amortized after one year (Note 9)	129,138	-
Total noncurrent liabilities	14,064,138	12,405,000
Total liabilities	16,511,841	14,403,440
Commitments and contingencies (Notes 10 and 11)		
Net Position (Note 12):		
Net investment in capital assets	10,147,678	11,593,666
Restricted	3,298,475	904,789
Unrestricted	5,019,378	4,270,628
Total net position	18,465,531	16,769,083
Total liabilities, deferred inflows of resources and net positioı	$ 34,977,372	$ 31,172,523

The accompanying notes are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenues:		
Sales of electricity	$ 8,693,886	$ 8,166,368
Other operating revenues	227,330	221,964
Total operating revenues	8,921,216	8,388,332
Operating Expenses:		
Cost of power	3,261,302	2,985,663
Distribution expense - operations	343,175	233,343
Distribution expense - maintenance	624,190	543,970
Consumer accounts expense	381,456	301,703
Administrative and general expense	751,132	785,920
Depreciation expense	1,105,177	992,330
Tax expense	487,628	459,127
Other deductions	2,687	1,795
Total operating expenses	6,956,747	6,303,851
Operating income	1,964,469	2,084,481
Other Income and Expense:		
Investment income	22,004	16,383
Interest expense	(675,290)	(608,733)
Other nonoperating income	72,459	10,836
Other income and expense, net	(580,827)	(581,514)
Income before capital contributions	1,383,642	1,502,967
Capital contributions (Note 12)	312,806	322,465
Change in net position (Note 12)	1,696,448	1,825,432
Net position, beginning of year (Note 12)	16,769,083	14,943,651
Net position, end of year (Note 12)	$ 18,465,531	$ 16,769,083

The accompanying notes are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Receipts from customers	$ 8,693,067	$ 8,176,198
Payments to suppliers	(4,143,747)	(3,519,024)
Payments to or on behalf of employees	(1,330,436)	(1,560,472)
Net cash provided by operating activities	3,218,884	3,096,702
Cash Flows from Capital and Related Financing Activities:		
Additions to utility plant	(1,406,717)	(2,101,578)
Proceeds from issuance of long-term debt	4,360,132	-
Principal payments on long-term debt	(2,565,000)	(790,000)
Interest payments on long-term debt	(655,287)	(598,782)
Contributions in aid of construction	312,806	322,465
Cash from nonoperating sources	72,459	10,836
Net change in investments in affiliated organizations	(8,639)	(67,042)
Net cash provided (used) by capital and related financing activities	109,754	(3,224,101)
Cash Flows from Investing Activities		
Interest and dividends received	22,004	16,383
Net cash provided by investing activities	22,004	16,383
Net increase (decrease) in cash and cash equivalents	3,350,642	(111,016)
Cash and cash equivalents, beginning of year	4,846,268	4,957,284
Cash and cash equivalents, end of year	$ 8,196,910	$ 4,846,268
Reconciliation of Cash and Cash Equivalents to the Statements of Financial Position:		
Cash and cash equivalents	$ 4,898,435	$ 3,941,479
Restricted cash and cash equivalents	3,298,475	904,789
Net cash provided by investing activities	$ 8,196,910	$ 4,846,268
Reconciliation of Operating Income to Net Cash Providec by Operating Activities:		
Operating income	$ 1,964,469	$ 2,084,481
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	1,197,399	1,073,481
Changes in:		
Accounts receivable, net	(224,893)	(211,371)
Materials and supplies inventory	(30,871)	(99,065)
Prepayments and other current assets	(4,782)	14,560
Regulatory assets	306	11,700
Accounts payable and accrued expenses	366,598	129,797
Consumer deposits	(3,159)	(763)
Compensated absences	(46,086)	5,353
Unearned revenue	(97)	88,529
Net cash provided by operating activities	$ 3,218,884	$ 3,096,702
Supplemental Disclosure of Noncash Activities		
Amortization of losses on reacquired debt	$ 23,990	$ 9,951
Amortization of premium on bond issuance	(3,987)	-

The accompanying notes are an integral part of this statement.

1. Organization

Public Utility District No. 1 of Kittitas County, Washington (the District) is a municipal corporation of the State of Washington established in 1936 to function as a public utility for the purpose of engaging in the generation, transmission, distribution and sale of electric energy. The District serves Kittitas and Yakima counties, including approximately 4,300 residents and businesses, with 721 miles of line. The District's administrative office is located in the City of Ellensburg.

The District is governed by an elected three-member Board of Commissioners (Commissioners), which is responsible for the legislative and fiscal control of the District. The Commissioners' responsibilities are to appoint the General Manager, approve the District's budgets, adopt regulations and set policies and guiding financial and operating principles for the operations included in these financial statements. The District has no component units.

2. Summary of Significant Accounting Policies

Basis of Accounting

The District follows the Federal Energy Regulatory Commission's (FERC) *Uniform System of Accounts* prescribed for Class A and Class B Electric Utilities. The accompanying financial statements of the District conform to accounting principles generally accepted in the United States of America (GAAP) applicable to a municipal utility. As a result, the District's application of accounting principles generally accepted in the United States of America differs in certain respects from such application by non-regulated enterprises. The differences relate primarily to the time at which various items enter into the determination of operating income in order to follow the principle of matching costs and revenues.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has adopted and applied all applicable GASB pronouncements including GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements*.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; GASB Statement No. 62; GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*; and GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB 53*, were all effective for the District beginning in fiscal year 2012. Implementation of these statements did not have a material impact to the District's financial results.

2. Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

GASB Statement No. 63 amended the former net assets reporting requirements by incorporating deferred inflows of resources and deferred outflows of resources into the definitions of required financial statement components and renamed *Net Assets* as *Net Position*. The District's financial statements have been modified to conform to the requirements of this statement. Implementation did not have a material impact on the District's financial results.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The primary objective of Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses. For defined benefit pension plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information about pensions are also addressed. Statement No. 68 is effective for the District beginning in fiscal year 2015. The District is currently evaluating the financial statement impact of adopting this statement.

Change in Accounting Principle

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify certain items previously reported as assets and liabilities as deferred outflows or deferred inflows of resources, or as outflows or inflows of resources. This statement also limits the use of the term deferred in financial statement presentations. This statement was effective for the District beginning in fiscal year 2013.

The District's 2012 Statement of Net Position was restated to reflect the impacts of the required retroactive implementation of Statement No. 65 (see Note 12). Costs associated with the issuance of bonds have historically been recorded as an asset and amortized to expense over the term of the related debt. Statement No. 65 no longer allows debt issuance costs to be classified as an asset and requires that they be expensed in the year incurred. In addition, losses on reacquired debt have been reclassified as deferred outflows of resources. Implementation of Statement No. 65 impacted the District's change in net position and cash flows for the year ended December 31, 2012, which have been restated to reflect the impact of the required retroactive implementation of Statement No. 65 (see Note 12).

2. Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

The District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable consist of amounts owed for goods and services and are stated at the amount that management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through an allowance for doubtful accounts. Additions to the allowance for doubtful accounts are based on management's judgment, considering historical write-offs, reviews of specific past-due accounts, collections and current credit conditions. Generally, the District considers accounts receivable past due after 30 days. Balances which remain outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to the applicable accounts receivable. Payments received on accounts receivable subsequent to being written off are recorded as a bad debt recovery. Changes in the allowance for doubtful accounts have not been material to the financial statements.

Materials and Supplies Inventory

Materials and supplies inventory, which consists primarily of items for construction and maintenance of electric plant, is recorded at the lower of weighted average cost or market. Useable materials from plant retirements are returned to inventory at current weighted average cost.

Restricted Assets

Restricted assets consist of assets that are restricted for specific uses, including debt service and other special reserve requirements in accordance with bond resolutions and related agreements.

Net Utility Plant

Utility plant is recorded at cost, which includes contracted work, direct labor and materials, and allocable overhead. Major additions and betterments with a cost of $1,000 or more are capitalized. Costs of routine repairs and maintenance that do not improve or extend the useful lives of the related assets, and the replacement and renewal of items determined to be less than units of plant, are charged to maintenance as incurred.

Overhead costs, including indirect labor, payroll burden, transportation charges and stores expense, are charged to construction and retirements monthly on a prorated basis.

2. Summary of Significant Accounting Policies, Continued

Net Utility Plant, Continued

Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets, ranging from 5 to 38 years. Composite rates are used for asset groups of utility plant, therefore no gain or loss is recorded upon retirement or disposal of utility plant unless it represents a material amount. At the time of retirement or sale of depreciable assets, the original cost is removed from utility plant and the cost plus the cost of removal, less net salvage or insurance recovery, is removed from accumulated depreciation and the remaining amount, if material, is recorded as a gain or loss. When general plant assets are retired, sold or otherwise disposed of in the ordinary course of business, their net book value is removed from utility plant and the resulting gain or loss, if any, is recognized.

Deferred Charges and Deferred Credits

The Commissioners have the authority to establish the level of rates charged for all District services. As a regulated entity, the District's financial statements are prepared in accordance with *Regulated Operations*, which require that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain expenses and credits, normally reflected in the Statement of Revenues, Expenses and Change in Net Position, are recognized when included in rates and recovered from, or refunded to, customers. The District records various regulatory assets and credits to reflect rate-making actions of the Commissioners.

Investments in Associated Organizations

Investments in associated organizations are recorded at the face value of the related patronage certificates. Other amounts included in investments are generally carried at cost, which approximates fair value.

Deferred Financing Costs

Original issue and reacquired bond premiums, discounts and expenses related to bonds are amortized over the terms of the respective bonds.

Valuation of Long-Lived Assets

Management of the District periodically reviews the net carrying value of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. These reviews consider the net realizable value of each asset to determine whether an impairment in value has occurred, and whether there is a need for any asset impairment write-down. Impaired assets are reported at the lower of cost or fair value. At December 31, 2013 and 2012, no assets were considered to be impaired.

2. Summary of Significant Accounting Policies, Continued

Compensated Absences

The District provides its employees with personal time off (PTO) in lieu of vacation and sick leave. PTO is recorded as an expense and a liability as the benefits accrue. The District's PTO policy includes an annual buy-out provision and a requirement that PTO time accrued may not exceed 900 hours for union employees and 520 hours for nonunion employees. PTO may be deferred and taken in subsequent years, however each employee must schedule and use at least five days of PTO in each calendar year during their first five years of employment and at least 10 days of PTO annually thereafter. All accumulated PTO is payable upon resignation, retirement or death.

Revenue and Cost Recognition

Beginning in fiscal year 2012, the District implemented procedures to obtain meter readings for all meters as of the end of each month. Substantially all meters were read and accounts were billed for their electricity usage through December 31, 2013 and 2012. Accordingly, management believes that any unbilled revenue would not be material to the financial statements, and therefore has not provided an accrual for unbilled accounts receivable.

Expenses are recorded when the liabilities for goods or services received are incurred.

Clearing Accounts

Overhead costs, including indirect labor, payroll burden, insurance, depreciation, transportation charges and stores expense, are charged to clearing accounts on a monthly basis. The amounts charged to the clearing accounts are cleared each month of substantially all actual expenses. Transportation and equipment charges are allocated directly to construction work orders to the extent that usage relates to construction in progress. Remaining transportation and equipment expense, along with all other amounts charged to the clearing accounts, are allocated based on equipment usage, labor charges or material issuances, depending on the nature of the charge.

Taxes

The State of Washington assesses Excise and Privilege taxes on the District.

Credit Risk

Financial instruments which potentially subject the District to concentration of credit risk consist principally of cash and cash equivalents and accounts receivable.

The District maintains its cash in bank deposit accounts at high quality financial institutions. At times, deposit account balances may exceed federally insured limits. The District has not experienced any losses from such accounts and the District's management believes it is not exposed to any significant credit risk on cash and cash equivalents.

2. Summary of Significant Accounting Policies, Continued

Credit Risk, Continued

Credit is extended to members, generally without collateral requirements, although deposits are required from certain members and formal shut-off policies and procedures are in place. Concentration of credit risk with respect to consumer receivables is limited due to the District's number of customers. However, approximately 19% and 15% of the District's electric sales were to six commercial customers during 2013 and 2012, respectively. At December 31, 2013, these commercial customers owed the District approximately $135,783 for electric service.

Reclassifications

Certain 2012 amounts in the financial statements have been reclassified to conform with the 2013 presentation. Such reclassifications have no effect on 2012 net position or operating income as previously reported.

Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management of the District to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates and affect the amounts reported in the financial statements. The District has used significant estimates in the determination of the allowance for uncollectible accounts receivable, depreciable lives of utility plant, payroll-related liabilities and regulatory assets and liabilities, if any.

Subsequent Events

The District has evaluated subsequent events through May 30, 2014, the date as of which these financial statements were available to be issued. No material subsequent events have occurred since December 31, 2013 that required recognition or disclosure in these financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits held in checking accounts and cash held by the County Treasurer. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 at December 31, 2013 or by collateral held in a multiple financial institution pool administered by the Washington Public Deposit Protection Commission (PDPC).

3. Cash and Cash Equivalents, Continued

The carrying amount of cash and cash equivalents on the District's books at December 31, 2013 was $8,196,910 (including restricted cash of $3,298,475; see Note 5) and bank balances totaled $8,152,452. The differences between the carrying amount of cash and cash equivalents on the District's books and the combined balances per the bank and the County Treasurer consisted of outstanding checks and deposits not processed by the bank as of December 31, 2013.

At times, deposits may exceed federally insured limits. The District has not experienced any losses on bank balances and believes its cash and cash equivalent are not exposed to significant credit risk.

A summary of the bank and the County Treasurer account balances at December 31, 2013 is as follows:

Portion insured by the FDIC	$ 250,000
Portion collateralized and administered by the PDPC	7,479,771
Uninsured balances	422,681
	$ 8,152,452

4. Accounts Receivable

Accounts receivable consist of the following at December 31, 2013 and 2012:

	2013	2012
Electric service	$ 1,007,126	$ 789,129
Other	73,278	65,092
	1,080,404	854,221
Less: Allowance for doubtful accounts	(31,734)	(30,444)
	$ 1,048,670	$ 823,777

5. Restricted Assets

Restricted assets consist of the following at December 31, 2013 and 2012:

	2013	2012
Unexpended construction funds	$ 2,385,501	$ 6,917
Bond sinking funds (see Note 9)	912,974	897,872
	$ 3,298,475	$ 904,789

6. Net Utility Plant

Net utility plant activity for the year ended December 31, 2013 is as follows:

	Balance December 31, 2012	Additions	Transfers	Disposals	Balance December 31, 2013
Transmission plant	$ 97,409	$ --	$ --	$ --	$ 97,409
Distribution plant	32,682,400	491,533	611,644	(212,321)	33,573,256
General plant	2,288,289	119,947	--	(302,422)	2,105,814
Accumulated depreciation	(10,508,833)	(1,197,399)	--	514,743	(11,191,489)
	24,559,265	(585,919)	611,644	--	24,584,990
Land	181,482	4,530	--	--	186,012
Intangibles	5,249	--	--	--	5,249
Construction in progress	31,695	790,707	(611,644)	--	210,758
	$ 24,777,691	$ 209,318	$ --	$ --	$ 24,987,009

Net utility plant activity for the year ended December 31, 2012 is as follows:

	Balance December 31, 2011	Additions	Transfers	Disposals	Balance December 31, 2012
Transmission plant	$ 97,409	$ --	$ --	$ --	$ 97,409
Distribution plant	30,492,875	613,685	2,713,535	(1,137,695)	32,682,400
General plant	2,306,182	40,534	--	(58,427)	2,288,289
Accumulated depreciation	(9,783,059)	(1,073,481)	--	347,707	(10,508,833)
	23,113,407	(419,262)	2,713,535	(848,415)	24,559,265
Land	180,762	--	720	--	181,482
Intangibles	5,249	--	--	--	5,249
Construction in progress	450,176	2,295,774	(2,714,255)	--	31,695
	$ 23,749,594	$ 1,876,512	$ --	$ (848,415)	$ 24,777,691

Total depreciation expense for 2013 and 2012 was $1,197,399 and $1,073,481, respectively. Depreciation on transportation and work equipment is allocated to clearing accounts, and subsequently charged to construction work orders or maintenance expense. Depreciation on transportation and work equipment that was allocated to clearing accounts, and subsequently charged to construction work orders or maintenance expense totaled $92,222 and $81,151 in 2013 and 2012, respectively.

7. Investments in Associated Organizations

Investments in associated organizations consist of the following at December 31, 2013 and 2012:

	2013	2012
Federated Rural Electric Insurance Exchange Cooperative (Federated)	$ 37,403	$ 28,764
Investment in City of Ellensburg solar energy project	50,908	50,908
	$ 88,311	$ 79,672

8. Losses on Reacquired Debt

During 2005, the District issued Series 2005 Electric Revenue and Refunding Bonds (see Note 9) to advance refund the Series 1996 and Series 1999 Electric Revenue Bonds. In connection with this transaction, the District recorded losses on reacquired debt of $243,682, which is included in deferred outflows of resources in the Statements of Net Position. This amount is being amortized over the life of the Series 2005 Electric Revenue and Refunding Bonds. During 2013 and 2012, amortization of the losses on reacquired debt was recognized in the amount of $23,990 and $9,951, respectively. The amortization of the losses has been included in interest expense in the Statements of Revenues, Expenses and Change in Net Position.

9. Long-Term Debt

At December 31, 2012, the District had $1,945,000 of Series 2002 Electric Revenue Bonds outstanding. During 2013, the District issued $4,220,000 of Series 2013 Electric Revenue and Refunding Bonds. The bonds were issued at a premium of $140,132, and bear interest at rates which vary from 2.00% to 2.15%. A portion of the proceeds from the Series 2013 Revenue and Refunding Bonds was used to retire the outstanding principal balances of the previously-issued Series 2002 Electric Revenue Bonds.

In connection with this transaction, the District incurred bond issuance costs of $64,866, which is included in interest expense in the Statements of Revenues, Expenses and Change in Net Position. In addition, the District recognized a liability of $140,132 for the premium received on the bonds. This amount is being amortized over the life of the new bonds (240 months). During 2013, amortization of the premium on the bonds was recognized in the amount of $3,987. This amount has been recorded as a reduction of interest expense in the Statements of Revenues, Expenses and Change in Net Position.

At December 31, 2013 and 2012, the District held $912,974 and $897,872, respectively, of cash restricted for bond repayment as required by the bond covenants. The District is in compliance with all significant limitations and restrictions associated with the bonds, including debt service coverage, as follows:

	2013	2012
Requirement	1.25	1.25
Actual	2.17	2.22

9. Long-Term Debt, Continued

Future debt service requirements as of December 31, 2013 are summarized as follows:

	Principal	Interest	Total
Series 2005 Electric Revenue and Refunding Bonds:			
2014	$ 435,000	$ 302,375	$ 737,375
2015	375,000	286,498	661,498
2016	360,000	272,623	632,623
2017	365,000	258,943	623,943
2018	375,000	244,708	619,708
2019 - 2023	2,070,000	981,441	3,051,441
2024 - 2028	2,540,000	491,400	3,031,400
2029	580,000	26,680	606,680
	7,100,000	2,864,668	9,964,668
Series 2009 Electric Revenue and Refunding Bonds:			
2014	190,000	155,519	345,519
2015	195,000	147,819	342,819
2016	190,000	140,119	330,119
2017	155,000	133,219	288,219
2018	165,000	126,819	291,819
2019 - 2023	925,000	522,792	1,447,792
2024 - 2028	1,155,000	285,459	1,440,459
2029 - 2030	545,000	27,625	572,625
	3,520,000	1,539,371	5,059,371
Series 2013 Electric Revenue and Refunding Bonds:			
2014	280,000	112,306	392,306
2015	285,000	106,656	391,656
2016	285,000	100,956	385,956
2017	295,000	95,156	390,156
2018	300,000	89,206	389,206
2019 - 2023	1,375,000	353,021	1,728,021
2024 - 2028	625,000	219,500	844,500
2029 - 2033	775,000	79,500	854,500
	4,220,000	1,156,301	5,376,301
Combined Totals			
2014	905,000	570,200	1,475,200
2015	855,000	540,973	1,395,973
2016	835,000	513,698	1,348,698
2017	815,000	487,318	1,302,318
2018	840,000	460,733	1,300,733
2019 - 2023	4,370,000	1,857,254	6,227,254
2024 - 2028	4,320,000	996,359	5,316,359
2029 - 2033	1,900,000	133,805	2,033,805
	$ 14,840,000	$ 5,560,340	$ 20,400,340

9. Long-Term Debt, Continued

A summary of changes in long-term obligations of the District for the year ended December 31, 2013 is as follows:

	Long-Term Obligations December 31, 2012	Long-Term Obligations Incurred	Long-Term Obligations Paid	Long-Term Obligations December 31, 2013	Due Within One Year
Series 2002 Electric Revenue Bonds	$ 1,945,000	$ --	$ (1,945,000)	$ --	$ --
Series 2005 Electric Revenue and Refunding Bonds	7,530,000	--	(430,000)	7,100,000	435,000
Series 2009 Electric Revenue and Refunding Bonds	3,710,000	--	(190,000)	3,520,000	190,000
Series 2013 Electric Revenue and Refunding Bonds	--	4,220,000	--	4,220,000	280,000
	$ 13,185,000	$ 4,220,000	$ (2,565,000)	$ 14,840,000	$ 905,000

A summary of changes in long-term obligations of the District for the year ended December 31, 2012 is as follows:

	Long-Term Obligations December 31, 2011	Long-Term Obligations Incurred	Long-Term Obligations Paid	Long-Term Obligations December 31, 2012	Due Within One Year
Series 1999B Bonds	$ 175,000	$ --	$ (175,000)	$ --	$ --
Series 2002 Electric Revenue Bonds	2,100,000	--	(155,000)	1,945,000	160,000
Series 2005 Electric Revenue and Refunding Bonds	7,805,000	--	(275,000)	7,530,000	430,000
Series 2009 Electric Revenue and Refunding Bonds	3,895,000	--	(185,000)	3,710,000	190,000
	$ 13,975,000	$ --	$ (790,000)	$ 13,185,000	$ 780,000

10. Employee Benefit Plans

Substantially all of the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), 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; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers,* and GASB No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

10. Employee Benefit Plans, Continued

All information on the website is the responsibility of the State of Washington. The District's independent auditor has not audited or examined such information, and does not express an opinion or any other form of assurance with respect thereto.

<u>Public Employees' Retirement System (PERS) Plans 1, 2 and 3</u>

Plan Description

The Legislature established PERS in 1947. Membership in the system includes elected officials; state employees; employees of the Supreme, Appeals and Superior Courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; employees of community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established by the Revised Code of Washington (RCW) and may only be amended by the State Legislature.

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes. PERS Plans 1 and 2 are defined benefit plans. PERS Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members Those who joined on or after October 1, 1977, and by either February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to PERS Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees, have the irrevocable option of choosing membership in PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in PERS Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and PERS Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

10. Employee Benefit Plans, Continued

Public Employees' Retirement System (PERS) Plans 1, 2 and 3, Continued

Plan Description, Continued

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service. PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at age 55 with 25 years of service. The monthly benefit is 2% of the average final compensation (AFC) per year of service. AFC is defined as the monthly average of the 24 consecutive highest-paid service credit months. The retirement benefit may not exceed 60% of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional cost-of-living allowance (COLA) that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of the annual adjustment, the benefit is reduced. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of the annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.) There is no cap on the years of service credit; and a COLA is granted (based on the Consumer Price Index), capped at three percent.

10. Employee Benefit Plans, Continued

Public Employees' Retirement System (PERS) Plans 1, 2 and 3, Continued

Plan Description, Continued

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

10. Employee Benefit Plans, Continued

Public Employees' Retirement System (PERS) Plans 1, 2 and 3, Continued

Plan Description, Continued

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option. PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a COLA is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

10. Employee Benefit Plans, Continued

Public Employees' Retirement System (PERS) Plans 1, 2 and 3, Continued

Plan Description, Continued

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC. Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and beneficiaries receiving benefits	85,328
Terminated Plan members entitled to, but not yet receiving benefits	31,047
Active Plan members, vested	150,706
Active Plan members, nonvested	101,191
Total	368,272

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under State statute in accordance with Chapters 41.40 and 41.45 RCW.

10. Employee Benefit Plans, Continued

Public Employees' Retirement System (PERS) Plans 1, 2 and 3, Continued

Funding Policy, Continued

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 7.25% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the District and the employees made the required contributions. The District's required and paid contributions for the years ended December 31, 2013, 2012 and 2011 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$1,692	$65,361	$16,668
2012	1,296	54,943	15,271
2011	5,131	40,783	18,443

Deferred Compensation Plans

Eligible District employees have the option to contribute to a 457 IRC Plan or 401(k) Plan, or both.

The 457 Plan permits eligible employees to defer a portion of their salary until future years. Deferred compensation is available to employees prior to termination, retirement, death, or unforeseeable emergency with tax consequences but no penalties. The two trustees for the plan are:

ICMA
777 North Capitol Street, NE
Washington, DC 20002-4240

GW Life Assurance
8515 East Orchard Road
Englewood, CO 80111

Employer and employee contributions to the 457 Plan for the years ended December 31, 2013, 2012 and 2011 were $28,250, $4,000 and zero, respectively.

10. Employee Benefit Plans, Continued

Deferred Compensation Plans, Continued

The 401(k) Plan was adopted in lieu of Social Security and is funded by contributions from the District and participating employees. The benefits available upon retirement depend on the amounts contributed by the employees and the performance of the investments chosen by the plan participant. The assets of the plan are the sole property of the plan participants and are not subject to the claims of the District's general creditors. Plan participants may obtain loans from their plan account which must be paid back during the period of their employment. Other plan benefits are not available to plan participants until termination, retirement, or death. Withdrawals from the District's contributions account may only be made after age 59 ½ and separation from service.

Contributions to the 401(k) Plan for the years ended December 31, 2013, 2012 and 2011 respectively were as follows:

	Employer	Employee
2013	$67,534	$56,691
2012	63,970	52,556
2011	67,586	52,682

11. Commitments and Contingencies

Litigation

The District is occasionally named as a defendant in lawsuits arising principally in the normal course of operations. In the opinion of management, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements and, accordingly, no provision for loss has been recorded in the financial statements.

During 2012, the District and Commissioners were named as co-defendants, along with the former General Manager, in a lawsuit filed by a former employee for $2,000,000. The lawsuit is currently in the discovery stage, and any costs of defense and awards to the plaintiff would be covered by the District's $7,000,000 liability insurance. Accordingly, no provision for loss has been recorded in the financial statements.

In August 2012, certain assets of the District, including poles, lines, transformers and meters, were destroyed in a fire that was allegedly caused by a contractor for the State of Washington Department of Transportation. A lawsuit was filed in Kittitas County Superior Court in October 2012; the District joined the lawsuit on February 26, 2013 and has claimed losses, based on the destruction of its assets, totaling approximately $552,000. The lawsuit is currently in the discovery stage.

11. Commitments and Contingencies, Continued

Risks and Uncertainties

The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include prices on the wholesale market for short-term power; interest rates; water conditions; weather and natural disaster-related disruptions; fish and other Endangered Species Act issues; Environmental Protection Agency regulations; Federal government regulations or orders concerning operations, maintenance and licensing of facilities; other governmental regulations; and the deregulation of the electric utility industry.

Risk Management

The District maintains insurance coverage against normal hazards through Federated Insurance Group (Federated). Insurance coverage purchased through Federated includes:

All-risk Blanket:	
Physical damage to property	$ 8,805,209
Public liability	2,000,000
Crime coverage	4,000,000
Commercial Umbrella:	
Occurrence limit	20,000,000
Directors, Officer, Managers:	
Limit of liability	7,000,000

Power Purchase Contracts

Bonneville Power Administration (BPA) – During 2008, the District executed a new Power Sales Agreement with Bonneville Power Administration (BPA). Under the wholesale power purchase contract, the District is committed to purchase its BPA Tier 1 electric power and energy requirements from BPA through September 2028. BPA Tier 1 charges for the Load Following Product will be passed through to the District using BPA billing determinants and including any credits or discounts such as low density discounts and irrigation rate mitigation program credits. Under the terms of the contract with BPA, the District receives BPA's lowest cost preference rate, is subject to annual "true up" adjustments at the end of each operating year, and has the right to purchase its Tier 2 power through BPA. The District recorded an accrual for "true up" adjustments totaling $29,575 at December 31, 2013.

Grant County PUD – The District has an agreement with Grant County PUD to receive .14% of the output from each of the Priest Rapids and Wanapum projects. The District has assigned the Priest Rapids and Wanapum shares to BPA for the period from October 1, 2011 through September 30, 2019. BPA will manage actual scheduled output from the District's shares and provide credits and charges for generation amounts that differ from the planned amounts.

11. Commitments and Contingencies, Continued

Power Purchase Contracts, Continued

Clallam County PUD – Effective October 1, 2011, the District entered into a contract with Clallam County PUD to sell its .25% member purchase allocation through 2028. Clallam County PUD is responsible for the annual costs associated with the allocation.

NOANET Agreement

The District withdrew from NOANET on September 27, 2005. The original agreement requires the District to remain liable for its .78% obligatory interest on the bond indebtedness that NOANET is not able to meet. The bonds are scheduled to be paid off in 2016. The District paid zero in both 2013 and 2012 associated with this obligation.

Other Contracts and Agreements

The District is a party to various other contracts and agreements in connection with its operations, including the following:

- Puget Sound Energy (PSE) – interconnection services;
- PSE and the City – mutual assistance agreements;
- Grant County PUD No. 2 – power distribution;
- U.S. Department of the Interior, Bureau of Reclamation – power transmission service;
- I-Net – usage and annual operational costs.

12. Prior Period Adjustment

The District's financial statements as of and for the year ended December 31, 2012 recorded contributions in aid of construction as a reduction of the cost of plant. In accordance with professional standards, the contributions in aid of construction should have been recorded as capital contributions. As a result, net utility plant, depreciation expense and net position were understated as of and for the year ended December 31, 2012. The effects of the misstatement require a restatement of the Net position as of and for the year ended December 31, 2011.

In addition, GASB Statement No. 65 became effective for the District during 2013 (see Note 2). Implementation of Statement No. 65 impacted the District's change in net position and cash flows for the year ended December 31, 2012.

12. Prior Period Adjustment, Continued

The effects of the misstatement require a restatement of the December 31, 2011 Net position. The implementation of Statement No. 65 and the misstatement impacted the Net position previously presented in the compiled financial statements as of and for the year ended December 31, 2012, as follows:

	As Previously Reported	As Restated
Statement of Net Position		
Assets:		
Net utility plant	$ 21,185,364	$ 24,777,691
Regulatory assets	529,828	975
Deferred Outflows of Resources:		
Losses on reacquired debt	--	169,935
Net Position:		
Net investment in capital assets	8,530,192	11,593,666
Unrestricted	4,100,693	4,270,628
Statement of Revenues, Expenses and Change in Net Position		
Operating Revenues:		
Other operating revenues	$ 225,955	$ 221,964
Operating Expenses:		
Depreciation expense	876,812	992,330
Other deductions	32,769	1,795
Other Income and Expense:		
Capital contributions	--	322,465
Change in net position	1,601,493	1,825,432
Net position, beginning of year	11,934,181	14,943,651
Net position, end of year	13,535,674	16,769,083
Statement of Cash Flows		
Cash Flows from Operating Activities:		
Receipts from customers	$ 8,151,108	$ 8,176,198
Cash Flows from Capital and Related Financing Activities		
Additions to utility plant	(1,956,745)	(2,101,578)
Contributions in aid of construction	202,719	322,465

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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