

RESOLUTION NO. 812

A RESOLUTION OF THE BOARD OF COMMISSIONERS FOR THE APPROVAL AND ADOPTION OF A FINANCIAL REPORTING AND INTERNAL CONTROL POLICY

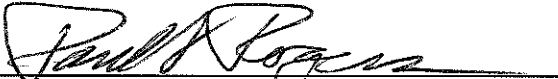
WHEREAS, Kittitas County Public Utility District No. 1 finds that it will be beneficial to establish a Financial Reporting and Internal Control Policy; and

WHEREAS, the District promotes the highest standards of accounting, auditing and financial reporting; and


WHEREAS, this Policy will maintain a comprehensive framework of internal controls and monitor the proper functions of policies and procedures.

NOW, THEREFORE, BE IT RESOLVED that the Commissioners of Kittitas County Public Utility District No. 1 approve and adopt the Financial Reporting and Internal Control Policy, as set forth in Exhibit A attached hereto.


IN WITNESS WHEREOF, the undersigned, being all the members of the Board of Commissioners of Kittitas County Public Utility District No. 1 have executed this Resolution of the Board of Commissioners on this ____ day of _____, 2014.



President, Paul Rogers



Vice President, Roger Sparks



Secretary, Shan Rowbotham

Exhibit A

FINANCIAL REPORTING AND INTERNAL CONTROL POLICY

August 2014

Table of Contents

Policy Intent..... 4

Internal Auditor 4

Internal Control..... 4

Formal Accounting Procedures..... 5

 Management Discussion and Analysis (MDA)..... 5

 Financial Statements..... 5

 Record Maintenance..... 6

 Ethics..... 6

Independent Audit..... 6

Policy Intent

Kittitas County Public Utility District No. 1 (“Utility”) promotes the highest standards of accounting, auditing, and financial reporting. Internal Controls is a process to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Ultimately, it is the responsibility of the elected officials (Board) to ensure that the managers fulfill their responsibilities in implementing and maintaining a sound and comprehensive framework of internal control.

Internal Auditor

An Internal Auditor plays a crucial role in the Districts sustainability and accountability by maintaining a comprehensive framework of internal controls and monitoring the proper function of policies and procedures. The Board shall appoint an internal Auditor who will report directly to the Board. The Internal Auditor will conduct work in accordance with professional standards, GAAP and GASB.

The Internal Auditor shall have at a minimum, a college degree and appropriate relevant experience. It is desirable that this position holds some appropriate form of professional certification such as certified public accountant, certified internal auditor or certified information systems auditor.

Internal Control

Internal control is viewed as an integral part of the policies, systems and procedures management uses to operate and oversee the District. These controls exist to provide reasonable assurance about the achievement of objectives and should be integrated into all of the Districts fundamental business processes. Implementation and monitoring of internal controls should be viewed as a continuous process.

Internal control shall be in compliance with laws, regulations, contracts and government policies. The controls shall safeguard the District’s resources against misappropriation and misuse. In meeting these objectives, the District shall have controls that accomplish the following key functions:

- Identification of requirements – Controls should ensure that requirements are identified and that employees whose actions may affect compliance are aware of applicable requirements.
- Compliance – Controls should prevent non-compliance or detect non-compliance in a timely enough manner for the District to remedy the situation.
- Safeguarding of District resources – Controls should prevent misappropriation or misuse of District resources or detect misappropriation or misuses in a timely manner and assign responsibility to individuals charged with custody of assets. Such controls should

cover all receipts and receivables, expenditures and commitments, provisions of goods or services and safekeeping of District assets at risk of misappropriation, misuse or loss.

The District's financial reporting system must be designed to detect not only material fraud or abuse, but also any questionable accounting or auditing practices that could jeopardize the integrity of the financial reporting. Internal control will allow management, in the course of performing their assigned functions, to prevent or detect misstatements on a timely basis. In meeting these objectives, the District shall have controls that accomplish the following key functions:

- Identification of financial events – controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events.
 - Only valid transactions are recorded and reported
 - All transactions occurred during the period are recorded and reported
 - Recorded and reported transactions accurately reflect legal rights and obligations
 - Transactions are recorded and reported in the account to which they apply
- Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records.

Controls and process should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

Formal Accounting Procedures

In accordance with RCW 43.09.230 the District shall file financial reports with the State Auditor. The financial reporting shall be in accordance with Washington State Budgeting, Accounting, and Reporting System (BARS) Manual. The requirements for financial reporting are in accordance with GAAP and GASB.

Management Discussion and Analysis (MDA)

As part of the Required Supplementary Information (RSI), a MDA shall be prepared as part of the financial statements. This should provide an objective and easily readable analysis of the District's financial activities. The MDA shall include comparisons of the current year to the prior year and information on budget variances, capital assets, long-term debt activity and other information that has a significant effect on the financial position of the District.

Financial Statements

All financial statements shall be prepared using the accrual basis of accounting. Financial statement shall be completed in a timely manner and submitted to the State Auditor within 150 days after the close of each fiscal year. To successfully complete this responsibility, the Internal Auditor will adhere to the following conditions:

1. Maintain an accounting system adequate to provide all of the data needed to allow for the timely preparation of financial statements for the District in conformity with GAAP.
2. Issue timely financial statements for the District in conformity with GAAP and GASB.
3. Have the financial statements independently audited.

Record Maintenance

The Internal Auditor shall make available the necessary training and tools to Management and employees to accurately code and complete all documents relating to the financial records. The Internal Auditor will review all documents for accuracy; however it is the appropriate Managers responsibility for submitting, coding and signing documents within their respective departments.

Ethics

Professional Ethics requires the Internal Auditor to exercise prudence and integrity in the management of District funds and in all financial transactions. In connection with the issuance and management of information, the Internal Auditor will not knowingly sign, subscribe to, or permit the issuance of any statement or report which contains any misstatement or which omits any materials fact.

Independent Audit

The District shall obtain an independent audit of their financial statements in accordance with State and Federal regulations. Properly performed audits play a vital role in the District by helping to preserve the integrity, financial functions and maintaining citizens' confidence in their elected officials.

The scope of the independent audit should encompass the fair presentation of the basic financial statements. The audit shall conform to GAAP, GASB, State and Federal regulations.

The procurement of the independent auditor shall be structured so the principal factor in the selection is the auditor's ability to perform a quality audit, the cost of the services shall not be the sole criterion for the selection. To avoid additional "start-up" costs, a multi-year contract shall be executed with an annual review and termination option.