RESOLUTION NO. 04-12597

A RESOLUTION ADOPTING A DISTRICT AUDIT COMMITTEE AND ESTABLISHING COMMITTEE RESPONSIBILITIES

FACTUAL BACKGROUND AND REASONS FOR ACTION

Public Utility District No. 1 of Chelan County, Washington ("District") is a public utility district established pursuant to RCW Title 54. The District is governed by a five-person Board of Commissioners. The District has an internal auditor, responsible for the statutory duties imposed by RCW 54.24.010 and other responsibilities. Further, the District is audited by the State Auditor pursuant to RCW 43.09 and retains an independent external auditor to audit the District's financial statements. Congress recently adopted the Sarbanes-Oxley Act (the "Act"). This Act is not applicable to the District as a public municipal corporation. However, the Act describes many aspects of audit oversight, accounting, reporting and governance principles that are good business practices for the District to voluntarily follow.

One of the requirements of the Act and recommendations of staff for implementation at the District is the establishment of an active Audit Committee with operational and financial expertise. The Audit Committee would assist executive management and the Board of Commissioners in fulfilling their oversight responsibilities of the District's accounting and financial reporting process and audits of the financial statements. The General Manager and staff recommend it is in the best interest of the District to establish an Audit Committee to monitor the integrity of the District's financial statements, the independence and qualifications of its external auditor, the District’s systems of internal control, and compliance with applicable laws, regulations and policies.

It is recommended that the Commission take action to implement the following measures as stated in the Audit Committee charter, attached as Exhibit A.

- Approve the Audit Committee Charter.
- Establish an Audit Committee to be comprised of: Chief Financial Officer; Assistant General Manager of Distribution; Assistant General Manager of Generation; District's General Counsel; and the President and Vice President of the Board. The Assistant General Manager of Customer and Environmental Services will serve as an alternate. The Chief Financial Officer is designated as the "financial expert" as having accounting or related financial management expertise
- Direct the Audit Committee to meet with the General Manager and the Board once a year and on an as needed basis regarding Audit Committee activities and findings.

The General Manager has reviewed staff’s recommendations and concurs in the same.
ACTION

IT IS RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON, as follows:

Section 1. The Audit Committee Charter, in the form attached hereto as Exhibit A, is hereby approved.

Section 2. The Audit Committee consisting of the Chief Financial Officer; Assistant General Manager of Distribution; the Assistant General Manager of Generation; the District’s General Counsel; President and Vice President of the Board is established. The Assistant General Manager of Customer and Environmental Services will serve as an alternate. The Chief Financial Officer is designated as the “financial expert” by having accounting or related financial management expertise.

Section 3. The Audit Committee shall meet with the General Manager and the Board once a year and on an as-needed basis regarding Audit Committee activities and findings. The District’s Internal Auditor shall be responsible for scheduling these meetings.

DATED this 13th day of September 2004.

[Signatures]

President

Vice President

Secretary

Assistant Secretary

Commissioner

SEAL

CAW
EXHIBIT A

PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY
Audit Committee Charter

1.0 PURPOSE
1.1 The audit committee ("the Committee") is created to assist executive management and the Board of Commissioners in fulfilling their oversight responsibilities of the District’s accounting and financial reporting process and audits of the financial statements by monitoring (1) the integrity of the District’s financial statements, (2) the independence and qualifications of its external auditor, (3) the District’s system of internal control regarding finance, accounting, and legal compliance that management and the Board have established, (4) the performance of the District’s internal audit process and external auditor, and (5) the District’s compliance with applicable laws, regulations and policies.
1.2 Consistent with this function, the Committee will encourage continuous improvement of, and foster adherence to, the District’s policies, procedures and practices at all levels.

2.0 COMPOSITION
2.1 The Committee will consist of the Chief Financial Officer; Assistant General Manager of Distribution; Assistant General Manager of Generation; District’s General Counsel; and the President and Vice-President of the Board of Commissioners. The Assistant General Manager of Customer and Environmental Services will serve as an alternate. The Chief Financial Officer is designated as the “financial expert” as having accounting or related financial management expertise.
2.2 The Committee will meet with the Board of Commissioners and General Manager once a year or on an exception basis as needed regarding the activities of the audit committee.

3.0 MEETINGS
3.1 The Committee shall meet at least four times annually, or more frequently as circumstance dictates. All committee members are expected to attend in person.
3.2 Minutes will be kept by a member of the Committee or a person designated by the Committee.
3.3 The Committee will invite members of management, and/or others to attend meetings and provide pertinent information, as necessary.
3.4 The District’s Internal Auditor will be responsible to coordinate the meetings.
3.5 Input from the Controller/Director of Accounting on issues related to the independent audit may be required
4.0 RESPONSIBILITIES

4.1 The Committee has authority to conduct or authorize examinations into any matters within its scope of responsibility. It has authority to (1) appoint, compensate, retain, and oversee the work of the District’s external auditor, and (2) resolve any disagreements between management and the auditors regarding financial reporting. The Committee may carry out additional functions and adopt policies and procedures as may be appropriate in light of changing business legislation, regulatory, legal or other conditions.

The Committee shall carry out the following specific responsibilities:

**Financial Statements**

a) Conduct a review of the financial statements and results of the external audit including audit findings and any significant suggestions for improvements provided to management by the external auditors.

b) Review the external auditor’s proposed audit scope and approach, fees and performance.

c) Recommend appointment of the District’s external auditors.

**Internal Audit**

d) Consider the effectiveness of the District’s internal control systems, including information technology security and control.

e) Approve annual internal audit plans, specifying the areas of operations to be reviewed with respect to potential improvements in efficiency and effectiveness.

f) Receive and review the resulting internal auditor’s assessment of the effectiveness of, or weaknesses in, internal control systems. Review the resulting reports and responses by management.

g) Ensure there are no unjustified restrictions or limitations on the internal auditor’s scope of activities or access to information.

h) Meet and discuss any matters that the Committee or internal audit staff believes should be addressed.

i) Review the results of external and State audits as their recommendations pertain to internal controls.

**Compliance**

j) Review the effectiveness of the system for monitoring compliance with laws and regulations. The results of management’s investigation and follow-up (including disciplinary action) of any instance of noncompliance should also be reviewed.

k) Advise the Board of Commissioners with respect to the District’s policies and procedures regarding compliance with applicable laws and regulations.

l) Review the findings of any examinations by the State or external auditors and any auditor observations, including investigations of misconduct and fraud.

m) Institute and oversee special investigations as needed.
**Reporting Responsibilities**

n) Annually report to the Board of Commissioners and General Manager about Committee activities, issues and related recommendations.

o) Annually review the Committee's own performance.

p) Annually review and assess the adequacy of the Committee charter.

**5.0 SAFE HARBOR**

5.1 While the Committee has the functions set forth in this charter, it is not the responsibility or fiduciary duty of the Committee to determine that the District’s financial statements are prepared accurately and completely and in accordance with generally accepted accounting principles. Additionally, it is not the Committee’s duty to assure that management, the independent auditors of the District, or the District’s legal counsel are in compliance with all applicable laws and regulations. When performing its duties, the Committee is only obligated to rely on the advice and information it receives from management, the independent auditors, legal counsel, or other experts retained by the Committee in connection with its responsibilities.